http://www.pehub.com/32596/thomas-friedman-no-respect/

Thomas Friedman – Can't Get No Respect

Posted on: February 25th, 2009

by Bart Schachter

What's with the Tom Friedman bashing? In 24 short hours from prime-time glorious mention of venture capital in Sunday's New York Times op-ed pages, to opinionated humiliation at peHUB.

Easy boys, he's just a writer. He doesn't make the rules, he just reports them. Or tries to. And yes, sometimes he can be wrong, just like when we go to the movies and some teenage geek is clicking away in a basement computer trying to save Washington from imminent destruction by a rogue former Soviet Union apparatchik. You're cheering (at least I am) when he Alt-Tabs his way from a page full of atomic codes to a CIA computer whose password he breaks from a simulated DOS-on-MAC window. Yay, brother! Technology is saving the world, but gimmee a break! *Tout le monde* knows that it doesn't actually work that way, and that most laptops would be spinning their hourglass long after the mushroom cloud would cover the lower 48.

But we don't leave the theater fretting over the incongruence of it all. They are just scriptwriters in Hollywood whose closest contact with technology was the Craigslist search for a roommate when they first got to Tinseland. They created Googl*ing* not Google.

Now I'm not saying that Thomas Friedman is a chintzy science fiction writer with only remote knowledge of technology or policy. As others have noted in these pages with usual political aplomb ("I *love* Thomas Friedman…I'm a huge fan of *The World is Flat*. Also of that other book, what was is called…. *From Beirut to Damascus,* or was it Baghdad…whatever it was called, I have a copy of it at home…anyway, he's great. BUT HE'S DEAD WRONG IN EVERY CONCEIVABLE WAY. Let me tell you the top 30 reasons he's so freaking wrong!), I happen to think Friedman transforms great ideas into bite size for mass audience consumption. Along the way, his layman reporting combines an artistic license with a fluid and humorous delivery which underscores his point. This doesn't make him wrong, stupid, or intellectually flawed. It makes him good.

Take for example *Hot, Flat and Crowded*, Friedman's latest bestseller which, to the trained eye of a regular Times reader, successfully blends several dozen New York Times articles into what would formerly have been a published collection of several dozen New York Times articles but now is called a book. In one poignant moment, Friedman recounts a panel he once moderated (successfully blending a previous article which reported on this speaking incident and is now delivered in a book – a brilliant study in a creative Creative Commons license that repurposes ones prior work several times over) where he suggested that Al Gore should apologize, yes apologize, for predicting the global climate catastrophe. The apology, he goes on to wittily remark, would not be for sounding this urgent alert, but for *underestimating* the effects of the global catastrophe. A memorable parable indeed.

The point I am making is that a reader of Friedman understands the literary tools that a great writer or speaker make in order to capture an audience and effectively transmit an idea. The power of persuasion, as Napoleon is probably incorrectly credited with saying, goes to those with grand and simple ideas, not to those with complex and *accurate* ones.

So what did Friedman actually say?

"You want to spend $20 billion of taxpayer money creating jobs? Fine. Call up the top 20 venture capital firms in America, which are short of cash today because their partners — university endowments and pension funds — are tapped out, and make them this offer: The U.S. Treasury will give you each up to $1 billion to fund the best venture capital ideas that have come your way. If they go bust, we all lose. If any of them turns out to be the next Microsoft or Intel, taxpayers will give you 20 percent of the investors' upside and keep 80 percent for themselves."

What precisely is wrong with this statement? Nothing, actually. It turns out that if your policy goal is to provide jobs, especially those with a white-collar, no-shovel-needed variety, venture capital turns out to be *absolutely* the best vehicle for doing so. Sure you can hand out the money to defunct automakers and help them fund the cost of providing cheap Walgreens prescriptions to long-ago retired Detroit workers. Sure you can hand out billions to banks and subsidize the bonus expense of "talent" which might otherwise jump to Madoff Investments in order to keep making payments on their Hamptons chalet. But if you really care about building next-generation innovation in industries that will form the basis of the 21st century, there is simply no better way of dispensing the money than via venture capital. Its purpose, ladies and gentlemen, is to create jobs and innovation!

Yes, I know the arguments. There is no lack of venture capital. Well, certainly sitting on Sand Hill Road we think they are all having cake, but if you're an entrepreneur thinking about leaving Cisco to build out a new product, you need not apply. Most VC firms today have stopped evaluating new investments because their existing portfolio companies are heading the way of Atlantis. Tell those entrepreneurs that "good ideas will always get funded."

Then there is the "bailout" argument. Most VCs are making good money and wouldn't stand having government restrict their compensation with such a "bailout." But the government doesn't need to set restrictions on compensation. It's called a management fee. And most billionaire VCs didn't get there by taking fees. Now if you're taking millions of dollars out in fees while providing no returns, you don't need the government to tell you something is wrong.

There is the over-funding argument. The VC industry is suffering, as others have postulated, because there is too much money in the system, not too little. There again most agree as I have argued before, that a liquidity crisis is the source of our ailment, and not excess of capital. Back in 1999, the last year most VCs made real money, there was a lot MORE excess venture capital but the abundance of exits provided success to many and nobody was complaining. Bring back the excess capital, as long as you bring back liquidity.

The "let's scale this back to 20 firms" approach – which interestingly enough Friedman did pick up from his VC friends in Aspen – seems to be the recurring message here. Venture Capitalist, it would seem, like Detroit automakers, think reducing or eliminating competition is the best way to win. Hmm…

Now I don’t want to leave you thinking there are no faults in Friedman’s prose and that I am an unrequited apologist for Mr. Iraq War. Take for example this statement in the same Sunday piece:

“Some of our best companies, such as Intel, were started in recessions, when necessity makes innovators even more inventive and risk-takers even more daring”

A quick check at Wikipedia would show Herr Friedman that Intel was started in 1968, a booming year almost exactly midway between the 1960-61 recession and the 1973-1974 oil-induced crisis. The “data” here is in fact, preposterously incorrect. But even if it were true, the great-companies-get-started-in-recessions narrative is an inspiring but statistically incorrect one. The fact that Facebook started during a recession does *not* increase its probability of success at all. Most other companies started at the same time have failed. But it makes a great story.

So go on Mr. Friedman, tell another good story. Some of us are still listening.

ShareThis | Sphere | 2 Comments

2 Responses to “Thomas Friedman – Can’t Get No Respect”

1. *Thomas Friedman* Says:
   February 25th, 2009 at 10:43 am

   Dear Mr. Schachter, We have never met, but I have never, ever, read someone describing what I do and how I do it, better than you have just done. Thank you. I saw all this ridiculous bashing and said to myself: what in the world is wrong with these people? I was just using the VC community as a front for the notion that if we are going to give away $20 billion dollars, let us funnel it as efficiently as we can to the most innovative people in our economy. As a shorthand for that, I suggested doing it through the VC community, as the most efficient conduit. Hard to believe that people involved in this would be so hostile to it. Makes no sense. Anyway, thanks for your really, really thoughtful commentary. Best wishes, Tom
   P.S. Send me an address so I can send you an autographed book!

2. *Steve* Says:
   February 25th, 2009 at 12:22 pm

   “Back in 1999, the last year most VCs made real money, there was a lot MORE excess venture capital but the abundance of exits provided success to many and nobody was complaining. Bring back the excess capital, as long as you bring back liquidity”

Gee, do you think one reason there is no liquidity now is because VC's pawned a ton of dogs off on the public markets? This is an astonishingly self-centered view of venture capital. Keep a company alive long enough to get some sucker in the public markets to buy it before it blows up. Get used to it, the public markets are still smarting from getting screwed and ain't going back to 1999…..

Who's Advising Tom Friedman? I Have a Guess

Posted on: February 23rd, 2009 Kleiner Perkins

A lot of people have been expressing their surprise and disappointment in the recent writings of Thomas Friedman, the New York Times columnist who has, inarguably, become one of the nation's most influential journalists over the past decade.

As many readers know by now, Friedman recently wrote that the smartest way to spend $20 billion in taxpayer dollars would be to "call up the top 20 venture capital firms in America, which are short of cash today because their partners — university endowments and pension funds — are tapped out, and make them this offer: The U.S. Treasury will give you each up to $1 billion to fund the best venture capital ideas that have come your way. If they go bust, we all lose. If any of them turns out to be the next Microsoft or Intel, taxpayers will give you 20 percent of the investors' upside and keep 80 percent for themselves."

Friedman has been roundly criticized for that proposal by the people who know the industry best — including the VCs who populate it and the reporters whose job it is to cover it. Indeed, there's been no shortage of observers quick to point out that top venture firms hardly need $1 billion from the government — and that most wouldn't want to deal with the scrutiny that such monies would invariably entail anyway. (VCs, especially the country's "top" VCs, many of whom are billionaires, aren't particularly well-known for their austere lifestyles.)

What hasn't come up in these conversations, however, is who, exactly, is advising Friedman. Possibly, he's expressing entirely independent thought. But it's curious to me that no one has mentioned his close friend, the uber-VC John Doerr of Kleiner Perkins Caufield & Byers, who, among other things,

- Takes an annual cross-country ski trip with Friedman every New Year's Day,
- Has interviewed him as a guest host on Charlie Rose, and
- Recommends Friedman's best-selling books at every opportunity.

Why would John Doerr think $20 billion dollars from Uncle Sam is a good idea for his firm and its competitive peers? Consider that many of KP's follow-on investors are in serious doo-doo right now. And potential sources of capital, especially the kind that could once afford to contemplate the large cleantech projects that KP has taken to backing, looks to shrink further.

Just yesterday, the *New York Times* ran a story with Harvard's Jane Mendillo, who has seen the university's endowment shrink by roughly $8 billion, to $29 billion, since she took over the endowment in July. Mendillo has already had to layoff a quarter of her staff. There's little question that behind the scenes, to raise cash, she's also trying to finagle Harvard's way out of many other commitments, including to venture, private equity, and hedge funds.

Which leads me to another point; a lot of people have said of Friedman's columns that he's dead wrong, that the best venture firms have zero capital concerns. But that's not necessarily true, given that uncertain times we're in and that exit opportunities have become so astonishingly few and far between.

Kleiner is already taking action, raising annex funds for its 11th and 12th funds and continuing fundraising for its once-closed Green Growth Fund and its $700 million Fund XIII.

Apparently, the firm is having little problem securing new commitments; as of a couple of weeks ago, documents showed that the firm was nearly three-quarters of the way toward its overall target of $1.25 billion. But with every institution from Harvard to the finance department of Dubai hard hit by the global financial crisis, I doubt Doerr is taking anything for granted at this point.

In fact, I'd guess a $20 billion injection from the government to the "top 20 venture capital firms" is a proposal that Doerr could get behind, if he hasn't already. After all, KP wants its companies to thrive and it can't support them on its own — not if it wants to diversify its risk and maintain a balanced portfolio.

Yes, taxpayer dollars would likely come with some uncomfortable strings attached, but if a firm like Kleiner could strengthen its companies while also potentially providing returns for American taxpayers, would it really say no?