



CAPITALISM'S JOB? TO SOLVE PROBLEMS ✪ NICK HANAUER

is a self-proclaimed plutocrat and a proud and unapologetic capitalist. He is a Seattle-based billionaire who has founded, co-founded or funded more than 30 companies, including AQuantive, an Internet advertising company that he sold to Microsoft in 2007 for \$6.4 billion in cash. He has multiple homes, a yacht and a plane.

But unlike most One Percenters, Hanauer is seriously concerned about the growing income inequality in our society, and he is outspoken about the harsh realities such conditions have historically spawned. In a controversial TED talk and a “Memo to fellow zillionaires” published in Politico magazine, Hanauer warned that the continued growing divide between the haves and have-nots can only lead to one outcome: “I see pitchforks,” Hanauer said.

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INTERVIEW BY **JOEL KURTZMAN** PHOTOGRAPHS BY **MATTHEW GUSH**

“Unless our policies change dramatically, the middle class will disappear, and we will be back to late 18th-century France. Before the revolution,” he wrote. “So I have a message for my fellow filthy rich, for all of us who live in our gated bubble worlds: Wake up people. It won’t last.”

Hanauer has co-written two books with Eric Liu, “The Gardens of Democracy” and “The True Patriot,” and a recent *Democracy Journal* article entitled “Capitalism Redefined” with Eric Beinhocker. He believes that the most ironic aspect of the rising inequality is that it is “unnecessary and self-defeating.” One way to begin to address the issue, he pointed out, is to rethink the metaphors we use to describe and frame the economy. He recently spoke to Joel Kurtzman, editor-in-chief of Korn Ferry’s *Briefings on Talent and Leadership*, about the strengths of capitalism and how to avoid the pitchforks.

In your infamous TED talk, you argued that the world's wealthiest people, a category you fit into, need to share more of the wealth. What has been the fallout from that presentation?

› We are getting tremendous traction around the set of ideas my co-authors and I are advancing about the political economy. We are forcing people to think about the economy in more modern ways, to connect dots that they hadn't connected before and to consider cause-and-effect in new ways. We are trying to update people's views on the nature of prosperity, the origins of growth, how and why capitalism works, what it does and so forth. I feel good about the progress we're making from the tiny little perch here in Seattle, Washington. I feel good that there's interest in what we're up to. It feels like people are paying attention.

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You have a concept called "Machinebrain versus Gardenbrain." What do you mean by that?

› The mental models we carry around in our heads that explain how the world works are rooted in profound misunderstandings about how systems work. What we call "Machinebrain" is when people describe the economy entirely using the metaphor of machines. But the economy isn't mechanistic at all. It is actually an ecosystem comprised of nonlinear, complex, adaptive systems. So what that requires is a new framework, which we call "Gardenbrain," for thinking and talking about the economy. An economy isn't a machine; it's a garden. It can be fruitful if well tended, but will be overrun by noxious weeds if not. If your mental model about how the economic system works — or even what it is — is that mistaken, then you will interpret the behavior of that system in a radically incorrect way.

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How does the Gardenbrain impact the inherent tension between selflessness and selfishness?

› This dynamic is best understood and explained in Gardenbrain terms, which is to say, understanding the dynamics of this from the point of view of evolution. And evolutionary theory, which explains a lot about the world, has advanced considerably over the last 20 or 30 years. And there was this view in the 19th and early 20th century that competition essentially was the only thing that mattered and that everything on earth could be explained by selfishness. But that conception of human behavior as “Homo economicus,” this idea that people are rational calculators of their narrow self-interest, turns out to be false. That’s not what people are like, and the dynamics of evolution, particularly for social creatures, like bees and humans and ants and so on, are completely different. Within groups, competition is what matters, but *between* groups, which is most of what we do, cooperation trumps competition every time. As social creatures, we are cooperating to compete.

What does that mean exactly, cooperating to compete?

› In a well-run business enterprise, people are cooperating in order to compete against other enterprises. The United States ideally is cooperating to compete against China or Russia or whomever it is we define as our competitor. An N.F.L. team cooperates to compete. Crucially, the coaches of N.F.L. teams never say in the team meetings, “Hey, it’s a free country. Do whatever you want” to the players. They never say, “Hey, if you want to practice, practice. If you don’t want to practice, don’t practice.” You can’t win a Super Bowl that way. Players do compete within the team to a certain degree to get to be first-string, to get more playing time. But ultimately, what you see in every domain and every circumstance is the group that succeeds in cooperating the best almost always prevails. And this is why, in modern human society, the premium shouldn’t be on short-term competition but on creating highly integrated cooperative groups, working towards a shared objective, which is what a great company is. Show me a great company; I will show you a bunch of people working 90 hours a week together towards a common objective.

Where is the evolutionary bias? Since both forces are present, is it weighted more toward the competition or the cooperation?

› Cooperation. If you have six individuals competing against one another, the only thing that matters is competition. But if you have six groups of a million people competing, the only thing that matters is cooperation, because if you’ve got a million people competing against one another, you’ve got chaos. And so, because the modern world is becoming more interdependent, because companies aren’t 10 guys anymore, they’re 10,000 or 100,000, there is this massive

premium on your ability to harness people's willingness to cooperate. This is the great conundrum of modern civic life, that it's way easier to get a group of 10 people to cooperate than it is to get a group of 340 million people to cooperate. This is the advantage that the small company has against a giant company.

How does that manifest? Is that in decision making? Is it in speed, agility?

› All of those things. And the ability to do things that other people are unwilling or unable to do, such as competing in new ways, deploying new products, deploying disruptive strategies and pricing. The hardest thing in the world for a large organization to do is compete with itself. This is the advantage that a small group of people cooperating to do something have.

You talk about the network model. Can you explain?

› We live in a networked world, and what we now understand, again with scientific certainty, is that behavior, like diseases, is contagious. If you want to live in a polite society, be polite because politeness is contagious. Opening doors for people is contagious. Letting people into traffic is contagious. A claim that we make about citizenship in our book is that society becomes how you behave. And that way of thinking about citizenship is a very durable, robust and useful sort of mental model. If you want to live in a hardworking society, work hard. If you want to work in a civil society, be civil. Your behavior shapes the behavior of those around you, and their behavior will shape the behavior of those around them.

Given that, how do you define wealth?

› The neoclassic economic paradigm does a horrible job defining these things for the world, and the G.D.P. is the ultimate benchmark of both prosperity and growth, despite the fact that the people who invented it always thought that it was a poor measure of either of those things. GDP is a goofy measure because it allows for the possibility, in fact the reality, that it can go up every year, year after year, in a country like the United States of America, but the lived experience in the wages of the typical family will either be flat or go down. That the median family will actually do worse, but the G.D.P. numbers will go up. It allows for the moral economic insanity of calling products that cure cancer the same as products that create it, if the dollars associated with those things are the same. Somebody can come into your house, steal all your stuff, harm you and your wife, and G.D.P. goes up because now you've got to repair your house and you're in therapy for the next three years. G.D.P. as a measure is woefully inadequate.

It doesn't take into account the externalities.

› Right, exactly. And as the great Yogi Berra said, "If you don't know where you're going, you will end up someplace else." The truth is that the measure of an economy must be the way in which it improves

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the lived experience of the typical participant in it. The point of the economy is the accumulation of solutions to human problems. And the difference between output (which is what G.D.P. measures) and outcomes (which is the improvement of the typical person’s lived experience) is the degree to which the economy is making people happier. If you do the latter, you can seriously look at the differences between economies. Because now you can measure the rate of change, and you can say how effective your economy is at improving the lived experience of the typical family. You can say how efficient your economy is, relative to other economies with which you compete, at increasing the rate at which we improve the lived experience.

That would certainly be a different game.

› You would be in a different regime. If you conceptualize prosperity as essentially the sum of the economy’s solutions to human problems and the way in which it improves lived experience, then you can quite easily see that growth has nothing to do with tax cuts or an increase in aggregate demand and supply. Growth really is the rate of change. Growth is the rate by which we increase the number of solutions to human problems, and this reveals capitalism for what it truly is—not a system that creates value by efficiently allocating existing resources, but as an evolutionary algorithmic system that effectively creates new solutions to human problems.

That is certainly a different way to think of capitalism.

› It is the genius of capitalism. Using the unmatched social technology for creating prosperity and improving human societies, it commonly rewards people for solving other people’s problems. And America’s “secret sauce” is the dynamism of our markets and the diversity of our population, because the rate at which you solve problems is proportional to the number of problem-solvers you have operating in a robust and diverse way. The growth in an economy is linked fundamentally to two things: the number of diverse, able inventors, innovators, entrepreneurs, that are driving these new solutions, and equally the number of citizens who provide adequate demand to fuel that innovation.

And now you have a theory of growth that is both robust, and by the way is super useful because people can understand it. Policy makers can actually understand it. The other thing that is significant about this way of seeing prosperity [is] the moral implications.

How so?

› Because we live in an economy which is either amoral or extra-moral; where the dominant ethic is that there is a difference between doing something which is right for the economy and right morally. I don’t want to define that too tightly, but I’d say that most people acknowledge that there are things we do in the economy that make no sense in the church. When we work for a company that makes products that give people diabetes, that that should give us pause. Or when we give people in the military payday loans (even though they really want them), that should give us pause. If you accept the G.D.P. view of the world, then all economic activity is equivalent, and the more of it there is, the more prosperity and growth there is, and therefore everything is righteous.

That seems to have become the mantra of the one percent.

› I think that we've persuaded ourselves that all market activity is good activity, and the more the merrier.

We celebrate that kind of wealth.

› Exactly. It's a choice about what we will do to affect other people's lives for good or ill. The implications of that are unbelievably profound, because if you live in a world where the culture accepts the idea that the point of the economy isn't to enrich the few but to dynamically improve the lived experience of its citizens, then what you find instantly is that the moral world and economic world merge. And it should not surprise us that the oldest religious and moral lessons were secretly economic lessons.

But if you define wealth as solving problems for society and then go a little wider, you start to get into more ambiguous territory, don't you?

› Absolutely, absolutely. You're forcing people to ask questions that are hard to resolve about the meaning of life, the purpose of the economy, the difference between devoting your life to financial engineering versus electrical engineering, the difference between going to work for a company aiming to produce the tastiest tomato on earth or a company that makes high-sugar, high-caffeine energy drinks. These are moral questions. Here's my point: An economic system that pretends that those moral questions don't exist or shouldn't be asked is bullshit. Moving from outputs and outcomes, moving from objective measures to normative measures, is messy and it will make certain kinds of people crazy, but I think really these are the kinds of questions that, as a society, we need to wrestle with.

On a very practical basis, when you start monkeying around with what ultimately is wealth as we define it today, you end up with revolutions, you end up with bloodshed. People don't like that.

› We're going to challenge some of those ideas. And I would agree with you. I would like to think that we won't need to go through a bloody revolution to get people to think in a more robust way about the meaning of the economy, but I do think that there's a way to challenge the culture in a really important way.

You kind of did that in your TED talk. You talked about the pitchforks. You said that people will rebel.

› Yes, they will. At some point they will, and at that point it will be very difficult to predict, and when it happens, it will be very, very unpleasant. And I actually don't really hold out a lot of hope that we can make a society that is less unequal, but I do hope that we can make a society where inequality stops growing. Some inequality is essential. Rising inequality is a death spiral.

Assume your next book really catches on and you're elected president. And you know what these problems are. What are some of those things that you would do?

› The most important thing to do isn't to focus on policy. I know everybody wants to go to policy. I disagree. The world is shaped by ideas, and in particular, the world is shaped by the explanations we use to describe how the world works. If you explain prosperity in one way, the policies that you enact to have more of it will be one thing. If you explain prosperity in a completely different way, you will end up with different policies. And the fight this country needs to have, the fight that I want to have and I hope to help lead, is a fight over the explanation that we use for where prosperity comes from, how you create it. Does it trickle down from the top? Does prosperity come from making rich people richer? Or is it doled from the middle out? Is prosperity a function of exclusion or inclusion? Does prosperity come from focusing your policy attention on rich people and business executives, or the middle class? And that's the fight. The fight is [to] get people to recognize that prosperity and growth is a function of inclusion, that jobs are a consequence of a feedback loop between middle-class consumers and businesses, that a policy focused on the middle class is the thing that generates growth, that a thriving middle class is the *source* of growth in capitalist economies, not a *consequence* of growth. 🚩

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