

Newsweek

February 20, 2012
U.S. Edition

The Pessimistic Billionaire; Venture capitalist Peter Thiel has made a fortune as an investor. Why is he so worried about the future?

By Niall Ferguson

Damn. Peter Thiel is smarter than I am.

It's not just that, as the founder of PayPal, president of the hedge fund Clarium Capital, managing partner of the venture-capital firm Founders Fund, and one of the early angel investors in Facebook, he's vastly and maddeningly wealthier than I am. I have met some people even richer than Thiel who turned out to be intellectually vacuous.

It's the fact that Thiel is also one of the most interesting and original thinkers in America today--something you'll already know if you've read the darkly powerful article he published in National Review last year titled "The End of the Future."

Thiel is not the only dotcom billionaire to have views on history and politics. [Google's](#) Eric Schmidt is writing what promises to be a fascinating book on the impact of the Internet on democracy. Also impressive is Yuri Milner's vision of the whole of humanity connected to form a single megabrain. But most Silicon Valley sages tend to be incorrigible optimists. And the fact that technology has made them so rich as individuals makes you wonder--just a little--when they proclaim that technology will save us all. They would say that, wouldn't they?

Thiel's pessimism is therefore unusual, as is his conservatism. He is an avowed libertarian, with a preference for Ron Paul among the Republican candidates. Yet he also retains a surprisingly strong belief in the capacity of government to promote technological advances--a belief more reminiscent of John F. Kennedy's Camelot than today's **Cato Institute**. So it was appropriate that when I interviewed him recently it was in the main hall of Harvard's Kennedy School of

Government.

Part of Thiel's message is calculated to unnerve a liberal Harvard crowd. I ask him why he thought that for the past 30 years innovation has been so narrowly concentrated in technology and finance, with miserably little progress in, say, energy. "Everything else is being regulated to death," he replies. "From a libertarian perspective, with regulation we have become a much more risk-averse society."

However, when it comes to questions about health care, nuclear power, and education, Thiel readily concedes that government has a role to play--just not the one it plays today. As he puts it: "If Einstein sent a letter to the White House today, it would get lost in the mailroom and be treated as a joke. In the late 1960s, Kennedy focused on the space program and didn't dedicate money to health care. Can you imagine the government doing that today?"

This is a key insight. World War II and the Cold War incentivized the federal government to force the pace of scientific innovation, nowhere more obviously than in the realm of nuclear technology. But as the totalitarian threat waned and then expired, government turned from research and development to health and safety. Redistribution and regulation took over and, as they did so, the sci-fi dreams of the 1960s faded into a stagflationary reality. In 1964, when I was born, Popular Science magazine could seriously ask: "Who'll Fly You at 2,000 m.p.h.?" Instead, I have lived to see the Concorde decommissioned and coal-carrying railroads reopened.

We aren't moving faster. We haven't freed ourselves from fossil fuels. Life expectancy still rises, but at a slowing rate. Only in Palo Alto--the realm of Moore's law on the recurrent doubling of computer processing power--has progress persisted. The rest of us have had to rely on leverage, aided and abetted with financial technology, to maintain the illusion of rising real incomes.

As for globalization, it just took established Western ways of making stuff and spread them to the East and South. Worse, when leverage combined with globalization to produce a massive financial crash, we fell back on Keynesian deficits plus money printing in the mistaken belief that they had saved us before. They hadn't. It was technological innovation, accelerated by government, that produced the economic miracles of the 1940s, '50s, and '60s.

To listen to Thiel is to hear an alternative economic history of the past

hundred years. It is also to hear a rather bleak prophecy about the next hundred. He and his friends will continue to innovate, no doubt; but they will focus their energies on the few relatively unregulated sectors. The rest of us will remain mired in a stagnant politicized economy of regulation and redistribution, vainly trying to divert a fraction of the innovators' billions our way.

So now you know: Peter Thiel is smarter than you, too. Damn.