

The Cartels of Silicon Valley

by [Dean Baker](#)



Mark Ames published an [article](#) that should forever destroy any connection between the Silicon Valley tech billionaires and libertarian worldviews. The article reports on a court case that alleges that Apple, Google, and other Silicon Valley powerhouses actively conspired to keep their workers' wages down. According to documents filed in the case, these companies agreed not to compete for each others' workers dating at least as far back as 2005. Workers in the industry have filed a class action suit that could lead to the payment of billions of dollars in lost wages.

This case is striking at many levels, the most obvious being the effective theft of large amounts of money by some of the richest people on the planet from their employees. This is pernicious, but not altogether surprising. After all, the boss stealing from the workers is as dog bites man as it gets. Few would be surprised that rich people were willing to break the law to get even richer.

The real news here is *how* the Silicon Valley barons allegedly broke the law. The charge is that they actively colluded to stifle market forces. They collectively acted to prevent their workers from receiving the market-clearing wage. This means not only that they broke the law, and that they acted to undermine the market, but that they really don't think about the market the way libertarians claim to think about the market.

The classic libertarian view of the market is that we have a huge number of people in the market actively competing to buy and sell goods and services. They acknowledge the obvious — some actors are much bigger than others — but there is so much competition that no individual or company can really hope to have much impact on market outcomes.

This point is central to their argument that the government should not interfere with corporate practices. For example, if we think our local cable company is charging too much for cable access, our libertarian friends will insist that the phone company, satellite television or other competitors will step in to keep prices in line. They would tell the same story if the issue were regulating the airlines, banks, health insurance, or any other sector where there is reason to believe that competition might be limited.

They would tell the same story on the labor side. If we are concerned that workers are getting low wages then the answer is to improve their skills through education and training rather than raise the minimum wage. If workers were worth more than the minimum wage, then the market would already be paying them more than the minimum wage.

They have the same story when it comes to requiring family leave, sick days, or other benefits. Libertarians would say that if workers value these benefits they would negotiate for them and be willing to trade off wages. There is no reason for the government to get involved.

This story about the wonders of the free market is simple in its appeal and it has the great implication that nothing should be done to keep the rich from getting ever richer. However the Silicon Valley non-compete agreements show that this is not how the tech billionaires believe the market really works. This is just a story they peddle to children and gullible reporters.

If they really believed the market had a deep sea of competitors in which no individual actor could count for much, then their non-compete agreements would serve no purpose. If Google, Apple, Intel and the other biggies agreed not to hire each others' workers, it really wouldn't affect their pay since there would always be new upstarts ready to jump in and hire away underpaid engineers.

The fact the Silicon Valley honchos took the time to negotiate and presumably enforce these non-compete agreements was because they did not think that there were enough competitors to hire away their workers. They believed that they had enough weight on the buy-side of the market for software engineers that if they agreed to not to compete for workers, they could keep their wages down.

It shouldn't be surprising that the Silicon Valley billionaires really are not libertarians. After all, much of their fortunes rest on patents and copyrights, both of which are government granted monopolies: the opposite of a free market.

But for some reason, seeing the tech whiz-kids forming a cartel to keep down their workers' wages seems an even more direct violation of any belief in libertarian principles. This is the same sort of cartel behavior that we associate with the cigar-chomping [robber barons of the late 19th century](#). It turns out that the biggest difference between the tech billionaires of the Internet Age and the high rollers of the railroad age is the cigars.

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Inside the Secret Life of Google's Tech VC and His \$10 Million Anal Sex Infidelity

Michael Goguen has departed Sequoia Capital after facing sex abuse allegations.

[Lizette Chapman @lizette_chapman](#)



Michael Goguen in 2012.

Photographer: Lido Vizzutti/Flathead Beacon

Michael Goguen liked his privacy.

In the world of startups, full of bombast and self-promotion, the soft-spoken venture partner at Sequoia Capital specialized in quieter, more technical areas: He vetted networking, infrastructure, and security technologies for the firm before he departed abruptly last week. He spent millions of dollars to build a secluded, 32,000-square-foot getaway in Whitefish, Mont., complete with a racquetball court, underground shooting range, karate room, and 12-sided swimming pool. He kept a low social media profile, too: a bare bones LinkedIn profile, no blog, no Twitter account, and no Snapchat profile.

He also had a secret. But it turns out privacy had a price, and Goguen was not willing to pay the full amount. On March 8, Amber Laurel Baptiste sued Goguen for breach of contract, saying he owes her \$30 million in addition to the \$10 million he gave her in 2014. She also alleges that over the past 13 years, he sexually abused her and made her his sex slave after promising to rescue her from the human traffickers that brought her to the U.S.

Goguen, 52, says the relationship was consensual. In a graphic countersuit filed March 14, he provides what he says is e-mail and text message evidence showing she was a willing participant who became increasingly vengeful when he wouldn't make a greater commitment to her. The \$40 million contract, both agree, was to stop Baptiste, 36, from going forward with a personal injury lawsuit that would have alleged he caused her bodily harm during sex. Goguen calls it extortion.

Sequoia Capital, where he had been a partner for 20 years, quickly severed all ties with Goguen and

scrubbed him from their firm's site. (Goguen's lawyer, Diane Doolittle, says that it was a mutual decision to part ways.) It's now seeking replacements for him on the boards of 11 companies, including Cumulus Networks and R2 Semiconductor. In a statement, the firm said, "We didn't learn about these claims until March 10th, after they were filed in court. We understand that these allegations of serious improprieties are unproven and unrelated to Sequoia. Nevertheless, we decided that Mike's departure was the appropriate course of action."

Goguen did not respond to a request to comment for this article, but in a post on LinkedIn on Saturday, he wrote: "My departure allows me to focus with full force on clearing my name and vigorously pursuing justice."

Growing up in Bedford, Mass., Goguen loved going on hunting trips with his dad in the mountains of Maine despite temperatures that sometimes dropped to minus 10 degrees, according to an interview he gave to the *Whitefish Pilot* in 2012. The lanky teenager with a winning smile was attracted to highly technical engineering challenges and opted to pursue a degree in electrical engineering from Cornell University in 1986 before going on to earn his master's in the same field from Stanford University. He didn't go to business school or specialize in the high-octane networking that many other venture capitalist have perfected to build careers.

After Stanford, Goguen worked for a string of companies, including minicomputer maker Digital Equipment Corporation, which was acquired by Compaq and later merged with Hewlett-Packard. He also held positions at networking equipment company SynOptics Networking and Bay Networks—both also now defunct.

In 1996, when Goguen was 32, he joined Sequoia. One of the most respected venture firms in the world, Sequoia made a name for itself by backing Cisco, Apple, Google, and PayPal. The firm, which employs no female investing partners in the U.S., faced outrage on Twitter when, in December, Chairman Mike Moritz told Bloomberg TV that the firm wouldn't lower its standards to hire a woman partner (he later amended his statement).

The partners are tight. They meet every Monday for sometimes as long as 12 hours, and they decide all matters as a group, unlike many firms where more senior partners have the final say. Although each partner has a focus, they are slow to take credit for delivering the outside returns that make venture capital famous.

"Fame relates to a different personal need which I don't think is very dominant around here," Goguen told the *Daily Deal* in 2000. "Sequoia operates as a tightly integrated team as opposed to a loose collection of stars." In his time at Sequoia, Goguen was a part of several major deals, including FireEye's initial public offering and the acquisition of Virident Systems for \$685 million.

The firm parted ways swiftly and completely, says a person familiar with the matter, because Goguen showed "poor judgment" in signing the contract and then keeping it a secret from the others. Secrecy from other partners is a decidedly un-Sequoia value.

In 1999, Goguen divorced his first wife Lynne Izicki, with whom he had two children. Goguen met Baptiste at Baby Dolls Saloon, a Dallas strip club where she was working, in 2002. They began spending time together, according to both Baptiste's suit and Goguen's countersuit.

Goguen married again. That marriage, to Melinda Rose, lasted a few years, and after it was over, Goguen remarried again. His third wife, Jordana Crisel Woodland, is an actress and entrepreneur who is the chief executive officer of lingerie company Naked Princess Worldwide. The pair, who have since divorced, have three children together.

While juggling three wives, five kids, and at least a dozen board seats over 13 years, Goguen maintained a relationship with Baptiste. In his countersuit, Goguen says they got together only a few times a year, mostly at the behest of Baptiste; she says he begged to see her.

Goguen struggled to remain private. In her lawsuit, Baptiste alleges that during their relationship, Goguen used the name "Mark Smith" to conceal his identity. She also claims that in 2010 he requested Baptiste form two companies—Je Ne Se Que Enterprises LLC and charitable organization Every Girl Counts—so he could wire money directly to her without his wife knowing.

According to Baptiste's civil suit and his countersuit, Goguen agreed to pay Baptiste to keep quiet and go away. Both agree that after a \$10 million installment, Goguen didn't want to hand over any more money. "Enough is enough," Goguen said in his countersuit.

About a decade ago, Goguen built a private retreat on a hill in rural Montana overlooking Whitefish Lake and the Flathead Valley some 20 minutes from Glacier National Park. He named the place Two Bear Ranch and constructed a New England-style covered bridge over the railroad running along the lake to link his house with the beach. "It's like a castle," one worker on the house, Paul Krause, told the *Missoula Independent* in 2004, as locals traded rumors about who the mystery owner was.

Whitefish is a small mountain town, and it didn't take residents long to get to know Goguen. Even among such celebrities as NFL quarterback Drew Bledsoe, actor Jim Nabors (aka Gomer Pyle), and singer Justin Bieber, who are frequent visitors, Goguen stood out. Over the years, he gave tens of millions to local charities, supporting public trails, a fitness center, a music school, skateboard park, food bank, and a saloon in the heart of downtown.

"He's a great asset for the Whitefish community," then-governor Brian Schweitzer told the *Flathead Beacon*, a Montana newspaper, in 2012, after Goguen donated more than \$10 million to a state land trust and spent about the same amount to create a high-end helicopter search-and-rescue program for the community. "I'm proud that I know him as a friend, and I'm proud that I know him as a neighbor." Schweitzer did not respond to a request to comment for this article.

Jordan White, a longtime backcountry coroner who now runs Two Bear Air, said on Tuesday that the

helicopter donation was unprecedented. "It changed the course of our community and our state," he said.

Goguen has also been a big political donor, giving more than \$250,000 into the super-PAC backing John Kasich's presidential bid and another \$90,000 to other Republican campaigns. On Tuesday, the super-PAC, New Day for America, told *Yahoo News* the money would be donated to charity.

Goguen, White said, is just a "normal guy" who "dresses the same and drives the same car" as anyone else in town. In Whitefish, Goguen said in 2012, "It's easy to forget the external stresses or problems you're wrestling with in day-to-day life."

(A previous version of this story was corrected in the ninth paragraph to show that Sequoia Capital has no female investment partners in the U.S.)