

THE PAYPAL MAFIA AND THE MYTH OF THE MERITOCRACY

THE LAST TIME I interviewed Peter Thiel, we were onstage at the LendIt Conference in the spring of 2016. Thiel, a co-founder of PayPal, was perhaps at his high point of cultural influence. His book *Zero to One*, which posited a new way to think about innovation and build successful companies, had a long run on the *New York Times* bestseller list and was a huge hit in China and other foreign markets. The presidential election was only seven months away, but during our interview Thiel claimed he would have nothing to do with it. Just weeks later, he declared his support for Donald Trump—a move that would cost him considerable social capital among the Silicon Valley elite.

The day I spoke with him, however, Thiel was still seen by many as the philosopher-king of Silicon Valley, partly because of his founding role in PayPal (which sold to eBay in 2002 for \$1.5 billion) and his wide-ranging investments (from Facebook and Tesla to bioengineering and nuclear energy) but most recently because of his influential book. Hailed by the *Atlantic* as “a lucid and profound articulation of capitalism and success in the 21st century economy,” it had become required reading among tech entrepreneurs and other heavy hitters. On the LendIt stage, Thiel wore the standard VC uniform: well-worn

jeans, black belt, and an immaculately pressed open-collar white shirt. He was sweating. Not, I think, because of my penetrating questions, but because he is just naturally uncomfortable in front of audiences and under stage lights. Though not a particularly polished speaker—he stammers and repeats himself—he appears to think through each of his answers in the moment, instead of relying on prepared talking points. Over the first two-thirds of the interview, he made interesting and insightful points on issues such as the evolution of the Chinese economy, the state of American politics, and the future of technology.

Then I asked him about the lack of diversity among the Silicon Valley elite. Two weeks earlier, Thiel's eleven-year-old venture capital firm, Founders Fund, had made headlines for hiring its first woman partner, Cyan Banister (the wife of Scott Banister, an early PayPal board member). I asked for Thiel's take on the lack of women in the venture industry as a whole and where the responsibility lay for the disparity.

"We all have a responsibility to do more," he began. "The disparities are really big . . . There's something about tech that matters a lot. There may be a huge disparity in chess players or math professors, but that doesn't matter quite as much as the only industry that's really working in the U.S."

The critical issue, he went on, was the lack of women as founders. By his count, only two women were founders among the 150-odd "unicorn" companies, those worth over \$1 billion. "What really defines the culture in Silicon Valley is not the executives or the venture capitalists; it's the company founders. And that's probably the place where the disparity's the most extreme."

This serviceable answer got little reaction from the crowd. He acknowledged the problem, cited some data to illuminate the situation, and agreed that the issue was important.

What was his prescription for changing things?

“I don’t know what to do about that,” he admitted. Full stop.

Thiel has been an industry leader for two decades, yet he took no personal responsibility for tech’s gender disparity and apparently had no thoughts about how to fix it. The subtitle of *Zero to One* is “Notes on Startups, or How to Build the Future,” but when I reread it after the conference, looking to see how he’d addressed this critical issue of women being left out, I found that this “huge disparity” wasn’t even mentioned. In fact, he’d managed to write the entire book without once using the word “woman” or “women.” I was left suspecting that this big, important “responsibility to do more” wasn’t, in fact, much on his mind.

Thiel’s apparent lack of interest in women’s status really matters, because Thiel isn’t just influential. He is the undisputed don of a group widely known as the PayPal Mafia, a cadre of men who constitute one of the many reasons Silicon Valley became so dominated by white men of a certain age and educational background. To understand just how deeply the beliefs, decisions, and actions of this group have affected the industry, we have to go back to the mid-1990s and meet them when they were a band of brainy misfits at Stanford University.

CONTRARIANS BY NATURE

Keith Rabois, a PayPal alumnus who is now a leading venture capitalist, clearly remembers the first time he met Thiel. It was Rabois’s first day as a Stanford freshman, and Thiel, a junior, was walking through the dorms handing out copies of the *Stanford Review*, the conservative student paper he had co-founded. Thiel normally slipped the news-paper under closed dorm-room doors, but Rabois’s door was open and the pair got to chatting.

Rabois, a conservative himself, was immediately intrigued by both Thiel and the firebrand paper he was editing. Not long after, Rabois

told me, he became part of the group of unruly college students, none of them computer science majors, who had banded together to share their right-wing ideas with the rest of the generally left-leaning Stanford population. “We knew nothing about tech and talked mostly about politics,” he says; in fact, they were studying law, philosophy, and government. Rabois remembers feeling as if he and his peers at the *Stanford Review* were “outcasts” in a liberal school.

Thiel himself told me he too often felt like an “outsider” growing up. An immigrant, with his family, from Germany, he attended seven different elementary schools as a child, was raised Evangelical Christian, and found himself questioning beliefs as widely accepted as Darwin’s theory of evolution. At Stanford, refusing to conform to the prevailing views of the other students became a point of pride. “We all started most questions with an anti-conventional-wisdom bias. It almost didn’t matter what the topic was,” Rabois tells me. They were contrarians by nature.

No one should be forever judged by the certainties they had when they were undergraduates. Nevertheless, the ideas expressed by Thiel’s group at Stanford are worth reexamining because the ideas they formed in the 1990s inform the worldview they hold today. And given the PayPal Mafia’s outsized influence in Silicon Valley, this group of men’s worldview has affected our culture and changed a lot of lives.

In the early 1990s, many universities were working to create a more multicultural curriculum, and Stanford began by instituting a new program called Cultures, Ideas, and Values. It required students to read a more diverse set of authors, including more women and minorities, rather than just canonical works such as Plato, Shakespeare, and the Bible. There was also a push to create more diversity among students and faculty. Thiel and his colleagues at the *Stanford Review* saw these efforts as deeply misguided, writing that this was an attempt by professors to impose their personal anti-Western and anti-patriarchal beliefs on the student body. Universities should be blind to gender and race, they argued. Whites and Asians should not lose

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academic posts to candidates from more underrepresented groups. Only measurable achievement and academic merit should matter.

They also questioned the value of diversity and the idea that universities, companies, and governments function better when a broad range of people participate. “We were pretty critical of affirmative action. We forecast how it was going to play out, saying it’s going to really, really penalize Asians, and that’s exactly what happened,” Rabois told me, referencing a recent lawsuit against Harvard University that alleges Asian Americans are discriminated against in the admissions process.

The *Stanford Review* also targeted feminism. David Sacks, a *Stanford Review* columnist, who would become the early COO at PayPal while Thiel was CEO, authored several pieces in a twelve-page issue devoted entirely to criticizing the new awareness about date rape and sexual assault. The word “RAPE” in bold letters takes up half of the front page, and the issue includes a piece on “How to avoid sexual assault charges,” complete with ways to thwart the “feminazis,” punctuated by a modified swastika. In one editorial, Sacks wrote: “If you’re male and heterosexual at Stanford, you have sex and then you get screwed.”

One Stanford friend who disagreed with Thiel about diversity is former PayPal executive vice president Reid Hoffman, who says his relationship with Thiel was forged on their willingness to debate opposing points of view. “Thiel had heard there was this pinko Commie, and I had heard there was this right-wing Attila the Hun,” Hoffman told me of their first meeting. “On politics, I don’t think there’s anything we agree on.” When their debates turned to diversity, Hoffman says he told Thiel, “Look, I don’t disagree with you, there is a certain amount of political correctness on the left . . . but the issue [of diversity] is real.”

But Hoffman was the exception. Most of Thiel’s group—though prescient about the overcompensation that could potentially be caused by colleges’ political correctness—were libertarian firebrands

who promoted their views like a brigade of militant free-speech avengers. If one of their purposes was to rile the mostly liberal student body, they succeeded. To prove just how committed he was to the First Amendment, Rabois once yelled “Faggot! Hope you die of AIDS!” outside the home of a Stanford administrator (who had reportedly kicked a student out of university housing after months of anti-gay harassment, including using the word “faggot” behind closed doors). Rabois took responsibility for the remarks at the time, writing, “The intention was for the speech to be outrageous enough to provoke a thought of ‘Wow, if he can say that, I guess I can say a little more than I thought.’” Maha Ibrahim, who also went on to become a venture capitalist, was majoring in economics at Stanford during this period and recalls the pronouncements of the *Stanford Review* with a shudder. “It was just bad. I felt it was just this isolated voice that was so extreme that it was horrible and incredibly unfortunate,” she told me. The liberal backlash was so great that Rabois, who by this time had graduated and gone on to the university’s law school, left Stanford and finished his JD at Harvard.

As for Thiel, after graduation he went on to earn a law degree at Stanford, then clerked for a U.S. circuit court judge, worked as a securities lawyer, and wrote speeches for the former secretary of education William Bennett. In 1995, Thiel and Sacks took the ideas they had developed at the *Review* and expanded them into a book, *The Diversity Myth: “Multiculturalism” and the Politics of Intolerance at Stanford*. “Multiculturalism,” they wrote, “caused Stanford to resemble less a great university than a Third World country, with corrupt ideologues and unhappy underlings.” Revisiting their critique of feminism and calls for gender diversity, they wrote, “The passionate hatred of men, the utopian demands for an elimination of all gender differences, the (totally inconsistent) demands for a uniquely female perspective, and the belief in widespread gender discrimination are the core of the new gender studies curriculum.” They even defended Rabois’s “faggot” remark, likening the campus backlash to the Salem witch trials.

Both Thiel and Rabois came out as gay years later. And in 2011, Thiel told the *New Yorker* he wishes he'd never written about the Rabois incident. Rabois told me, "It was a stupid thing to say, but I'm not the only person who did something stupid in college."

Thiel and Sacks have also publicly walked back some of the book's other arguments, such as their assertion that date rapes were often no more than "seductions that are later regretted." Thiel commented on that for the first time when his donation to Donald Trump's presidential campaign (just a week after that *Access Hollywood* tape revealed Trump boasting about kissing and grabbing women without permission) called attention to the views Thiel had earlier espoused. "More than two decades ago, I co-wrote a book with several insensitive, crudely argued statements," he told *Forbes* in 2016. "I wish I'd never written those things. I'm sorry for it. Rape in all forms is a crime."

In late 2017, however, *Stanford Politics* (another student publication) published a lengthy article in which undergraduate staff members of the *Stanford Review* said that Thiel still meets with them on a regular basis, and hosted an afterparty at his home to commemorate the *Stanford Review*'s thirtieth anniversary. There, one former SR editor said Thiel claimed he apologized only to appease the media, saying, "Sometimes you have to tell them what they want to hear." A spokesperson told me that Thiel stands by his original statement to *Forbes*.

Sacks, for his part, told *Recode*'s Kara Swisher of *The Diversity Myth*, "This is college journalism written over 20 years ago. It does not represent who I am or what I believe today." When I asked Sacks about the book myself in 2016, he pointed to women on the executive teams at the companies he's run to prove how much he cares about their advancement. "I do believe in diversity, and I've always sought to create the best teams possible," he told me.

But twenty years ago, when *The Diversity Myth* first came out, Thiel and Sacks had little need to defend or denounce the book, because no one took much notice of it. At the time, Thiel was just an-

other conservative up-and-comer, a minor player in the traditional power structures of politics in Washington and finance in New York. That was about to change.

PAYPAL: WHEN "MERITOCRACY" MEANS "PEOPLE LIKE US"

One day in 1998, Thiel was guest lecturing about currency trading at Stanford when a young Ukrainian engineer named Max Levchin sneaked in to, as he told me, "sleep and get some air-conditioning." Instead, he wound up listening. At the end of class, Levchin introduced himself to Thiel and mentioned that he wanted to start a company. He had already started four that had failed, but he wasn't about to give up. The next day, the two men had breakfast and hatched the idea for PayPal over a Hobee's "Red, White, and Blue" smoothie. Suddenly a former securities lawyer with no technical background was the unlikely co-founder of what would become a billion-dollar start-up. And the group that would become the PayPal Mafia began to form.

Sacks became PayPal's COO in 1999. In early 2000, PayPal (then called Confinity) merged with a competing payments company called X.com, run by a then-obscure entrepreneur named Elon Musk. Rabois became Thiel's right-hand man. PayPal's founders, investors, and early employees went on to become a tight-knit and very wealthy group. To this day, Rabois believes PayPal is a "perfect validation of merit" and of Silicon Valley as a meritocracy. "None of us had any connection to anyone important in Silicon Valley," he told me. "We went from complete misfits to the establishment in five years. We were literally nobodies. People wouldn't talk to us. Everybody thought we were weird. One tech publication ran a story called 'Earth to PayPal.' Everybody thought we were insane." The early PayPal team would go on to found some of the biggest companies in Silicon Valley, including Tesla, SpaceX, LinkedIn, YouTube, and Yelp. Thiel funded and joined the board of Facebook. Establishment achieved.

HIRING ONLY PEOPLE LIKE US

So who were these “nobodies” without industry connections, and whom—and how—did they hire? While Rabois believes they were devoted to the idea of merit—of hiring only the best—that is simply not what happened.

Thiel and Levchin, in fact, have been remarkably up-front about whom they wanted to employ: people who were a lot like them. Years later, in *Zero to One*, Thiel would explain their reasoning. Because start-ups have limited resources, he wrote, “they must work quickly and efficiently in order to survive, and that’s easier to do when everyone shares an understanding of the world. The early PayPal team worked well together because we were all the same kind of nerd.” Except for the office manager, who was female, those first employees were all men and all of similar age and educational background.

Thiel admits in the book that when starting PayPal, he didn’t sort through résumés looking for the most talented people. Mostly, he just brought in the buddies he’d worked with at the *Stanford Review*. Levchin, for his part, hired friends and old associates from his time in the computer science department of the University of Illinois at Urbana-Champaign. In fact, Levchin tells me PayPal’s first fifteen engineers were “basically lifted” straight from a computer graphics group he ran on campus. “There was never any time wasted on how do you do this sort of thing. We had exactly the same approaches to everything,” Levchin says. He points out that these engineers came from a range of ethnic backgrounds but allows that none of them were women, “because we didn’t know any.”

The idea that these men just happened to be personally connected to the most talented people available is simply ridiculous. Even Rabois acknowledges that “it was almost impossible to get a job [at PayPal] without a connection to the company . . . We were very network-driven in hiring. And they were weird networks.” The members of the PayPal Mafia explicitly believed, and some still do, that hiring an ideologi-

cally diverse group of people early would slow the company down, when all they wanted to do was move faster. “I don’t think you can have first principles debates in a start-up in the beginning,” Rabois told me. “In the beginning, it’s better to have people who are more similar ideologically than different. Once you have alignment, then I think you can have a wide swath of people, views, and perspectives.”

Amy Klement was one of the earliest women at PayPal—not because Thiel or the others hired her, but because she was working at Elon Musk’s X.com when it merged with PayPal in 2000. Klement told me, “[PayPal] was a high-intensity, driving culture” full of impassioned debate. Socializing took the form of chess tournaments rather than fratty parties. Employees worked eighteen-hour days, seven days a week, as they worked to build a secure online payments system that could rival the global banking industry. “There were tense discussions, at times anger and slamming doors,” Klement said.

But despite their own admission that they were hiring from people they knew personally, Klement confirms that Thiel and other executives often talk about how PayPal was a meritocracy. “We used the word ‘meritocracy’ a lot, and I do feel like we were very conscious of who was really performing,” she said. Klement, one of the few women at the company, became a product manager reporting to David Sacks. “David had a strong point of view on what the product should look like, but I also feel like I would share my points of view and we would work through things.”

As the early PayPal staff rose to prominence, Thiel in particular became famous for his strong views. “I think there is this way in which human beings can act in sheeplike, lemminglike, herdlike ways,” Thiel once told me in a Bloomberg Television interview. “And I think that’s a disturbing truth about human nature that we should try to, try to resist as much as we can . . . I think there is probably something about the general homogenization of our society where people are brought up in increasingly similar ways that probably does limit the amount of creativity one can have.”

Obviously, Thiel didn't consider himself one of those doomed lemmings. But how does one find other nonlemmings? Just look for unusual behavior. In his book, Thiel notes with pride that "of the six people who started PayPal, four had built bombs in high school." In our interview, he told me, "There is something that's always quite extreme about the personalities that go into starting a company . . . Having some extreme personalities, I think, is a somewhat good thing."

The beliefs of the PayPal founders—that individual merit is the most valuable metric of human potential and that creativity is deadened by groupthink—have deeply influenced the postcrash tech industry and are consistent with the ideas promoted by Thiel's cohort at Stanford. There are many counterarguments to this thinking, but I'll focus on one of its glaring flaws: Peter Thiel, who champions unbridled individuality, is in fact describing a groupthink of his own. From his Stanford days onward, Thiel has largely surrounded himself with Ivy League, antiestablishment contrarians whose opinions are similar to his own. The *Review* editors might not have been the most popular group at Stanford, but they were a group nonetheless. They took their particular brand of groupthink to PayPal and their subsequent companies, propagating it through Silicon Valley—with consequences far beyond the PayPal walls.

That's why, when Thiel and his cadre advise companies to focus on individual merit in their hiring, we need to look very closely at how they define the term. What are the metrics they use for determining people's "merit"? And why does this particular type of meritocracy seem to reward jobs and stock options only to a razor-thin demographic?

Thiel expresses no regret about the narrow criteria he used in staffing PayPal. "I ended up recruiting a lot of people I'd become friends with at Stanford," he told me; Levchin did the same, hiring from his own alma mater. The co-founders' example was then repeated, Thiel says, by those hiring at the lower levels. "Let's get people like us" became ingrained as company culture. "It was always, you know, is this somebody that we'd want to work with and could become friends with

'over a long time?' Thiel said. "That was a question we always had in the background."

Levchin, however, admitted to me that his early approach was flawed, recalling a specific moment "where I consciously realized, 'Wait, we are doing something wrong.'" One day his girlfriend (who later became his wife) told him, "If you don't hire a woman now, you will never hire a woman. I would look around the office and say, 'I am not going to be the first woman here.'" By then, hiring had slowed because Levchin was running out of University of Illinois recruits to vacuum up, and he was perplexed about what to do. "We don't know anyone else. We've already hired everyone who looks like us in our little social circle. We realized there was a plateau moment where we had to fix that problem," Levchin recounts. That's when PayPal started to cast a wider net and hired a female head of engineering, Jane Manning.

Manning had all the necessary technical skills, but, more important, she enjoyed Ping-Pong. "I was completely smitten with her," Levchin says. "She came into the interview and said, 'Let's play Ping-Pong,' and I said, 'Hey, that's awesome, she is instantly fitting in.'" But just a few weeks later, Manning left for a job at Google.

Reflecting on her time at PayPal, Manning told me, "The problem was a cultural one, not necessarily a lack of women, but if there were more women, the culture might have been better. There was a certain overconfidence among the engineers. I wanted a little more process that could have protected us from mistakes, something that I think women can be more sympathetic to. I do think there can be a sort of macho all-male environment of 'We don't make mistakes.'" For example, Manning had to fight to get the team to use a bug-tracking system (and one engineer programmed it to play "The Hamster Dance Song" whenever it loaded). The team, conversely, felt they could keep track of whatever they needed to in their heads. On top of this, Manning never quite hit it off with Thiel. "I was uncomfortable with Thiel's political views," Manning told me. "I remember learning that he had

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met a lot of other early PayPal employees at the *Stanford Review* and really had a moment of feeling that these were not my people.”

PayPal did manage to hire more women as the company scaled and acquired women like Amy Klement in the merger with X.com, but the team at the top, the one that would go down in history, was all male. As they cashed out of PayPal and dispersed to start new companies and join or create venture funds, they would wield extreme power and influence in Silicon Valley. Many of the companies they went on to found or be associated with became the most successful and highly valued companies of the decade. Anyone who had boarded the PayPal rocket ship early seemed to have a ticket to unprecedented opportunities and automatic success. Every one of them became very rich. Not one of them was a woman.

A photograph of the PayPal Mafia on the cover of *Fortune* magazine in 2007 pictures the men posing as gamblers with cigars, drinks, and a deck of cards. “It just makes me cringe that there’s not one female in that photo,” says Amy Klement. “It drives me crazy because there were some really successful women at PayPal.” While they might not have been founders, these women, she says, were written out of history.

Did the mythical status the PayPal Mafia acquired perpetuate the idea that successful start-ups were founded by groups of male friends? Was PayPal somehow responsible for this notion that women couldn’t or just didn’t found companies? “They absolutely created a template because having watched what the PayPal Mafia did and how incredibly successful they were. . . . Why wouldn’t you imitate them?” Roger McNamee, co-founder of the tech private equity firms Silver Lake and Elevation Partners, told me. When it comes to the idea of hiring your friends or “people like us,” McNamee adds, “they didn’t just perpetuate it; they turned it into a fine art. They legitimized it . . . These guys were born into the right part of the gene pool, they wind up at the right company at the right moment in time, they all leave together and [go on] to work together. I give them full credit for it, but calling it a meritocracy is laughable.”

THE PAYPAL OCTOPUS

The ultimate reach of the men in that *Fortune* cover photo is astonishing. After the sale to eBay, the PayPal Mafia unfurled like an octopus and deployed its tentacles all over Silicon Valley. Members were forever bonded by what they'd shared. As Thiel told me in our interview, "There's something about the set of us, the set of my friends from PayPal, where this was just an intense experience. And I think that those bonds can probably never quite be matched in their intensity." And as those men dispersed, their relationships became the currency in which they traded. They joined one another's companies, funded one another's ventures, defended one another's controversial public statements, and more.

For Founders Fund, Thiel partnered with two less prominent PayPal co-founders, Ken Howery and Luke Nosek. The partners at Founders Fund invested in their old PayPal buddy Elon Musk's space venture, SpaceX (Musk also co-founded Tesla). Founders Fund, along with Max Levchin and Keith Rabois, invested in the workplace chat company Yammer, which was founded by former PayPal-er David Sacks. Yammer was ultimately sold to Microsoft for \$1.2 billion.

The list of "begats" goes on. Sacks went on to become COO of the fast-growing HR software start-up Zenefits. When the founder of Zenefits, Parker Conrad, was kicked out amid accusations of cheating state compliance regulations and creating a bro-y culture that led to "sex in the stairwells," according to an internal memo, Sacks was promoted to CEO. Sacks promptly brought in Peter Thiel as a board member. Even though the valuation of Zenefits was slashed amid the cheating scandal, it still reached \$2 billion. (Sacks has since left Zenefits.) And this is just a partial list.

The PayPal Mafia became so dominant that in 2017 Adam Pisoni—an entrepreneur who never worked at PayPal but was recruited by Sacks to be his Yammer co-founder—cited what he called the Mafia's "dynastic privilege" as "one of the major contributors to the lack of

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diversity” in Silicon Valley. “I am a product of the ‘PayPal Mafia dynasty,’ ” Pisoni wrote in a *Medium* post. “I co-founded Yammer with one of the original PayPal mafia members. Yammer had an easier time raising capital because of our PayPal connection.” Yammer, like PayPal, had an all-white, all-male founding team, which hired mostly white men from their networks early, who all in turn benefited greatly from Sacks’s Mafia ties. Pisoni continues that it was then easier to raise funds for his next start-up because of his Yammer connection, thus perpetuating the dominance of a selection of white men. Or as Roger McNamee sums it up, “Show me something the PayPal Mafia is not involved in.”

Reid Hoffman also acknowledges how much he benefited simply by knowing Thiel. “Because Peter and I were classmates, that ended up being a huge inflection point in my career,” Hoffman says. Having co-founded the professional social-networking site LinkedIn (which was funded by the prominent venture capitalist Michael Moritz, who had originally been on PayPal’s board), Hoffman has spent a lot of time thinking about how networks can impact diversity outcomes, for better and for worse. “When you’re hiring the first twenty people on the team, you don’t go, ‘Who’s the most different from the other nineteen people that we have?’ That’s not useful,” Hoffman explains. “Should it all be white men of a similar socioeconomic class? Well, no, that’s more likely to run you off a cliff.” The most important thing, Hoffman believes, is that all team members, whoever they are and wherever they come from, cohere quickly on the company mission.

Hoffman eventually sold LinkedIn to Microsoft for \$26.2 billion. When I ask him if networking is part of Silicon Valley’s gender problem, he says if he could do it all over again, he would go back to his college days at Stanford and network even more, not less, and especially with women, because he’s seen the incredible benefit of a single friendship.

Klement agrees that dynastic privilege in tech is a problem. “I think it’s gotten worse, where people are hiring from their networks and their friends,” she says. “The money flows easily around [the PayPal

Mafia] and hiring flows easily around that group, but I think that's how labor markets work. The elite are connected with the elite . . . It's very logical you're going to invest in people you know and trust more than you're going to invest in people you don't know. We should enable ways to break through and enable others to get in."

Unfortunately, networks like the one created at PayPal are hard to get in once they are established. You have to be one of the gang, a known quantity—much like the real Mafia. The power that these groups wield and the business momentum they create are hard to overstate.

Jeremy Stoppelman and Russel Simmons (both in the *Fortune* photo) started Yelp, which went public with a \$1.43 billion market cap. Max Levchin funded Yelp and later joined as chairman. Chad Hurley, Steve Chen, and Jawed Karim came up with YouTube, which sold to Google for \$1.65 billion just a year after its founding.

In this particular “meritocracy,” whom you know is critical. Michael Moritz of Sequoia, who funded LinkedIn and PayPal, also recruited PayPal CFO Roelof Botha to join Sequoia as a partner after PayPal was sold. One of Botha’s first investments was YouTube. Because he had just returned from his honeymoon with several digital videos and no way to share them, he was primed to see great potential in YouTube’s fledgling site. Luckily, the founders were three of his old PayPal friends. Botha also funded Xoom, the international payment company started by early PayPal investor Kevin Hartz. Xoom sold to, wait for it, PayPal for \$890 million in 2015.

Meanwhile, Youniversity Ventures (now Y Ventures), a fund started by Hartz along with Keith Rabois and Jawed Karim, made an early investment in Palantir, another company co-founded by Peter Thiel. Rabois also worked for Hoffman at LinkedIn and became COO of Square, funded by Sequoia’s Botha. He left Square in the midst of sexual harassment allegations involving a male employee (which he denied) and became a general partner at Khosla Ventures. Between

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his stints at LinkedIn and Square, Rabois also became executive vice president of the social app company Slide, started by Max Levchin and backed by Thiel's Founders Fund. It was at Slide that Levchin learned the hard way that having a male-dominated team like PayPal's wasn't always a recipe for success.

MAX LEVCHIN'S DIVERSITY AWAKENING

Tres, a Mexican bar and restaurant, is located on Townsend Street, in San Francisco's tech-heavy SoMa district, and the staff of Slide assembled there regularly for happy hour. "There was definitely plenty of alcohol," Levchin admits. "If the boys want to go out and do happy hour, who am I to tell them they can't blow off steam?" The introverted Levchin is not one to pound beers at a bar, but many of his employees more than picked up the slack.

Jason Rubenstein joined Slide as a software engineer in 2008, a point when the company was going gangbusters because of the popularity of its social apps and games on Facebook. Employees were pulling long hours, each day trying to beat the numbers they had posted the day before. Every team had a mini refrigerator stocked with beer, Rubenstein remembers. But the occasional beer often turned into groups of people starting to drink at 3:00 p.m., and many of them were drinking to get drunk. According to Rubenstein, one night an engineer got drunk, pushed code at 3:00 a.m., and took down Slide's entire website.

The few female engineers started to feel uncomfortable. "At some point, the alcohol culture led to grabby hands at parties, that sort of thing," Rubenstein recalls. "If someone says no and it keeps happening, that's a problem." A woman who worked at the company told me that Slide felt like a frat house, with an undercurrent of sexism and rumored hookups.

Given that many Silicon Valley start-ups are founded and staffed by young men straight out of college, drinking at the office is common. There's beer on tap at most big tech companies, including Google, Facebook, and Twitter, and you'll often find beer in the refrigerator at small start-ups, to juice those late nights of coding with your buddies. Rubenstein calls Slide's alcohol problem and "ambient sexism" symptoms of "a culture of immature individuals." In these kinds of environments, Rubenstein says, "there are all sorts of comments like 'Gee, that's gay,' or 'Gee, do you have a vagina?' which I've heard far too many times to count."

Looking back, Levchin wouldn't exactly characterize Slide's culture as Brotopia. "I think Slide originally had what I'd call the occasional moral-vacuum culture," he told me. "Different people chose very different interpretations of what was appropriate, or even barely acceptable." His mistake, he admits, was not investing enough time and effort in guiding the culture from the beginning. "That error manifested itself in occasional clashes," he said, and led to some "plain inappropriate behavior" as well as destructive office politics including backstabbing and a general lack of candor.

When he realized his company was destroying itself from within, he took aggressive action. He removed or pushed out the bros on staff ("there were definitely a few," he admits). He apologized to individuals who got "caught in the cross fires," gave some "we're all in this together" speeches to the team, and attempted to reset the culture to get Slide on the right track.

Despite these efforts, the company itself did not succeed, at least by Silicon Valley's lofty standards. Slide cycled through multiple business models and products until Levchin sold it to Google for \$182 million in 2010, after raising \$78 million from investors and being valued at \$500 million in its final funding round. "I could have done so much better. I built a culture that I didn't particularly take pride in being a part of," Levchin told me. He went on to found not only Affirm but another

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company called Glow, which helps couples combat infertility, and he banned happy hour, in hopes of avoiding his past mistakes.

"Early on, I was very draconian. I said we will not have happy hour; it's a recipe for bro culture," Levchin says. He has eased up slightly on that edict but has also established a core set of values, provided unconscious-bias training, reached out to female coding groups to recruit more women, and set up beneficial work-family policies. "In many ways, I've become much more women and employee friendly," Levchin says.

"Max has an inherent sense of fairness; his fairness compass is superstrong," says Christina Miller, a lawyer who works at Affirm. "Equality is very important to him." Miller attests that, at Affirm, Levchin has built a much more serious, as well as inclusive, culture, one that works very hard to empower women. She also says she has never heard Levchin use the word "meritocracy," not even once. "That's not to say we've never had any HR issues, but most of them haven't revolved around alcohol at all. It's mostly the arrogance of Silicon Valley that's a bigger challenge." By that, she means, in an industry that prizes technical talent, some engineers have a tendency to act entitled.

To build a healthy culture, Levchin, who has been known to wash his own dishes at Affirm, relies on his two decades of company-building experience. "At PayPal, I would argue all of us were so young and running quickly," Levchin says, while at Slide he made far too many "poor cultural choices." "With benefit of hindsight, Affirm is very different," he says.

Thiel has made no such mea culpas. Indeed, in *Zero to One*, he embraces the term "PayPal Mafia," a moniker that is deeply fraught with connotations of misogyny, male dominance, and the brutal exclusion of anyone outside the group. *Zero to One* has now been read by hundreds of thousands of people worldwide, including many would-be entrepreneurs, all hoping to create their own billionaire mafia.

A CRITIQUE OF MERITOCRACY

Believing that they hired on merit from the start, the PayPal Mafia has evangelized that Silicon Valley epitomizes meritocracy. “If meritocracy exists anywhere on earth, it is in Silicon Valley,” David Sacks told the *New York Times* in 2014. This echoes Rabois’s belief that PayPal’s hiring practices were a “perfect validation of merit.” I’ve enjoyed many a debate with Rabois and Sacks on my TV show, *Bloomberg Technology*. And in that spirit, I’d like to closely critique their statements.

The group from the *Stanford Review* claim to have been outsiders, at college and in the tech industry, and they wear that status as a badge of honor. That they became so successful in Silicon Valley in spite of sticking to their contrarian guns is proof, they contend, that they must have done so through merit. But these were young men who started out at one of the world’s most prestigious universities. Claiming to be outsiders, in any meaningful sense, is a stretch. Maybe their bombast in the *Review* excluded them from certain clubs and parties, but they were insiders in a way Horatio Alger was not, with the platform of a student publication (albeit a less than popular one) and, more important, access to all the powerful and moneyed connections that elite universities provide.

“I will say I laughed often,” Klement says. “When we were talking about the success of PayPal, the theme I would hear from the men was ‘We were really smart. We worked really hard,’ and the theme I heard from women was ‘God, we were lucky.’” Both claims are no doubt true, but it’s well documented that luck played a crucial role in the company’s success. In 2000, PayPal closed a \$100 million funding round as the dot-com bubble was bursting. “You look at all the other companies that tried and failed, all the other companies that didn’t close their Series B funding right before the market crashed . . .” Klement’s voice trails off. What if the crash had occurred a week earlier, before PayPal had that money in its coffers? The answer comes

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straight from Sacks, who once wrote that if they hadn't closed that round when they did, the company "would have died."

But the men of the PayPal Mafia succeeded often, with many other subsequent companies. Doesn't that suggest that they earned it through merit?

The concept of meritocracy dates back to the writings of the philosopher Confucius in ancient China. In the second century B.C., the Han dynasty implemented the first known meritocracy (though they didn't call it by that name), promoting government officials based on their performance on civil service exams. As Confucian texts were translated during the Enlightenment, the idea spread to Europe and the United States.

But we didn't have a term for "meritocracy" until the twentieth century, when the British sociologist and politician Michael Young wrote a book in 1958 warning of how dangerous the world's relatively new method of establishing status might be. In his novel *The Rise of the Meritocracy*, Young portrayed a dystopian Britain in which status based on birth and lineage was replaced by status based on education and achievement. Young wasn't advocating for a return to the old system, but he did see grave dangers in the new embrace of meritocracy, eerily predicting that in this new world, status would still be accessible only to a select few: those who had access to elite education. As a result, meritocracy would produce a new social stratification and a sense of moral exceptionalism.

Though Young's book was meant as a cautionary satire, the idea of meritocracy took off, all negative connotations forgotten, as the term for a new equality of opportunity. By the year 2000, at the time of the dot-com boom, the British prime minister, Tony Blair, could be heard extolling the virtues of a "meritocratic" society.

That's when Young penned an op-ed for the *Guardian* in which he confessed he was "sadly disappointed" by his book's effect. "It is good sense to appoint individual people to jobs on their merit," he wrote.

"It is the opposite when those who are judged to have merit of a particular kind harden into a new social class without room in it for others . . . If meritocrats believe, as more and more of them are encouraged to, that their advancement comes from their own merits, they can feel they deserve whatever they can get. They can be insufferably smug, much more so than the people who knew they had achieved advancement not on their own merit but because they were, as somebody's son or daughter, the beneficiaries of nepotism. The newcomers can actually believe they have morality on their side. As a result, general inequality has been becoming more grievous with every year that passes."

"A new social class without room in it for others"? Young wasn't specifically describing the tech industry, but he nailed it. That the winners in Silicon Valley deserve all the prizes they have won is an argument that one hears, both explicitly and subtextually, across Silicon Valley.

Of the many tech billionaires I've met, all have seemed to be very smart, creative thinkers and hard workers. Sometimes exceptionally so. But they've also been lucky. In some cases, more lucky than good. And in many cases, no more good than many others who were less privileged and less lucky.

If Silicon Valley were truly a meritocracy, and opportunities were indeed rewarded according to one's true skill and ability to do the job, that would be great for all workers, men and women. But the reality is, as the PayPal Mafia exemplifies, Silicon Valley is not a meritocracy. More fundamentally, meritocracy is impossible to achieve, because, as Young says, a meritocracy is always based on an imperfect definition of merit and often narrowly defined to favor training, connections, and education primarily available to the wealthy.

Take Stanford. Because Stanford is filled with students with top high-school GPAs and SAT scores, administrators can pat themselves on the back and say, "We only admit the best students. We're a meritocracy." The students are encouraged to think similarly. But is it just a coincidence that the median annual family income of a Stanford

student is \$167,500 while the national median is roughly one-third that? Did those high-achieving students naturally get high SAT scores, or did they benefit from their parents' paying for tutors and sending them to private schools? Privilege accumulates as you advance in life. If the college you attend is the basis of your future employment networks, then it is impossible to say that your employment success is solely based on merit.

The idea of meritocracy is problematic in other ways. Research shows when companies adopt a "merit"-based compensation system, they can actually become *more* gender biased, awarding promotions and extra money to men over equally performing women. When you are convinced your organization is a meritocracy, the theory goes, you can often forget to do the hard work of rooting out gender and racial biases.

Journalist Megan Garber put it like this in the *Atlantic*: "'Meritocracy' takes as its core assumption, essentially, an equality that does not exist in America. It is romantic rather than realistic . . . We want to believe that talent will triumph, and that hard work will be the tool of that success. Which is to say: We want to believe that opportunity is evenly distributed. But, of course, that great escalator is far faster for some than it is for others. It is harder for some to get to in the first place." As a concept, she adds, meritocracy can speak to the "best of who we are" but also "serve as a justification for the worst."

Many people in Silicon Valley are greatly invested in the "self-made great man" story. But it is a story always told in retrospect, with little acknowledgment of all the factors that actually contribute to success. Personal connections, timing, and access to funding from influential backers can all make or break a start-up. The social ties that come from attending a school such as Stanford or Harvard can provide an enormous head start (one that I too have benefited from). The fact that Silicon Valley is a highly competitive place in which only a handful of companies in each market sector achieve great wealth does not mean that outcomes are based strictly on merit. At no stage of the game are all players on a level field.

If Silicon Valley were a truly level field, we'd have to imagine that a smart person such as Peter Thiel could have had the same impact even if he had not gone to Stanford and if he had been female instead of male, or if he was black instead of white. Of course, we'll never know. We can be pretty sure of one thing, though: alternative Peter Thiel would have had little chance of getting hired at PayPal.

THIEL GOES TO THE WHITE HOUSE

Though some of his views have changed since his *Stanford Review* days, Silicon Valley's philosopher-king is still a firebrand. In 2009, for instance, he wrote an essay in the online ideas journal *Cato Unbound* in which he declared, "I no longer believe that freedom and democracy are compatible."

His political views are clear. "The 1920s," he wrote in that essay, "were the last decade in American history during which one could be genuinely optimistic about politics. Since 1920, the vast increase in welfare beneficiaries and the extension of the [voting] franchise to women—two constituencies that are notoriously tough for libertarians—have rendered the notion of 'capitalist democracy' into an oxymoron."

Let's pause for a second. The man who is one of the main architects of the culture of Silicon Valley in the last twenty years thinks giving women the right to vote has harmed democracy.

With the dream of a capitalist democracy unattainable, Thiel saw a means to escape. The new frontiers were cyberspace, outer space, and "seasteading." In cyberspace, he wrote, you could create communities outside the bounds of the nation-state, and the frontiers of outer space were likewise unlimited, although we needed to be realistic about the time horizon, saying it wouldn't happen before the second half of the twenty-first century. He was perhaps most excited about "seasteading," a word he coined to describe the creation of

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floating ocean communities dedicated to innovation and freedom and existing outside the laws of nation-states.

Thiel can imagine new communities floating on the ocean or in outer space, but when asked about how to get more women into tech jobs, he says simply, “I don’t know what to do about it.” Given his belief that women voters are “tough for libertarians” like himself, he may not be particularly interested in the issue in the first place.

By 2016, Thiel was largely downplaying his excitement over seasteading, but he had found another horse to bet on: Donald Trump. His support for the then candidate, first with a \$1.25 million contribution to Trump super PACs and the presidential campaign itself and then with a speech at the Republican National Convention, lost him many friends in Silicon Valley. In the speech, he revealed that he was gay (though the gossip site *Valleywag* had reported it years earlier), making him the first person ever to come out at the RNC, but his words also minimized the importance of sexual identity.

“When I was a kid, the great debate was about how to defeat the Soviet Union. And we won,” Thiel proclaimed from the RNC podium. Then, in a punch line referring to the recent controversy over transgender rights, he continued, “Now we are told that the great debate is about who gets to use which bathroom. This is a distraction from our real problems. Who cares?”

In thousands of public posts and industry blogs, Thiel was vilified. When there were public calls for him to be taken off the board at Facebook, Mark Zuckerberg himself came to Thiel’s defense. “We care deeply about diversity,” Zuckerberg posted on Facebook. “That’s easy to say when it means standing up for ideas you agree with. It’s a lot harder when it means standing up for the rights of people with different viewpoints to say what they care about. That’s even more important. We can’t create a culture that says it cares about diversity and then excludes almost half the country because they back a political candidate.”

It’s ironic that Zuckerberg would defend Thiel, the author of *The Diversity Myth*, on the grounds of “diversity.” Speaking to college stu-

dents via a Facebook feed, Zuckerberg went as far as to offer up Thiel as an example of how the company creates a diverse, inclusive environment. “I think you need to have all kinds of diversity if you want to make progress together as a society,” Zuckerberg said. Amen to that. But billionaire Trump supporters aren’t the only ones who need a diversity champion.

When Trump won the election, to the shock and horror of liberal Americans, that is, most of Silicon Valley, Thiel became the main bridge between the technology industry and a president who was a Twitter fanatic yet declared he sends emails “almost never” and was skeptical of the “whole, you know, age of computer.” Most of the tech elite despised Thiel for his role in electing Trump. Yet his contrarian bet on an unlikely political candidate now gave Thiel more power than ever, even among the people who say they hated him.

Not long after the polls closed, Thiel brokered a meeting between the president-elect and tech leaders, including Facebook’s COO, Sheryl Sandberg, Alphabet executive chairman Eric Schmidt, and Amazon CEO Jeff Bezos, all of whom had openly supported Hillary Clinton. These tech lords had little choice but to pay fealty (to Trump, and Thiel). Now the contrarian “misfit,” who once called the value of diversity a myth, was whispering into the ear of the man holding the most powerful office in the world.