Funding the Future

DeepSeek is shaking up US capitalism

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The DeepSeek AI model challenges US capitalism at its very core – suggesting its whole model of creating value for a few by extracting maximum revenues from people as a result of the abuse of monopoly power might have to end.

https://www.youtube.com/watch?v=wMxXqDNu9_w?si=--8n1io6JW9jjasf

This is the audio version:

https://www.podbean.com/player-v2/?i=3z65j-17d875f-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

DeepSeek is a Chinese AI company, and it is shattering the model of American capitalism, even as I speak.

The whole of the American economy is now wedded to big tech. Without big tech, there would be very little growth in the US economy. Without big tech, there will be almost no growth at all in US stock markets. With big tech, there is both. And the myth that the American economy is in good shape is largely based upon the idea that the stock market is at record highs, and that's all down to the value of the hype around AI. Artificial intelligence, in other words.

And yet, what we've seen is that a newcomer into the market called DeepSeek. A

Chinese company, developed with a tiny amount of money, has produced a model of AI that appears to be better than that has been put forward by ChatGPT, which is the leading model of AI available from US tech companies to people around the world at present. DeepSeek seems to be able to answer questions as well as ChatGPT, and as well as Microsoft's version of AI, and the other various sources that you can find on the web.

It's done it in the most extraordinary way. It has not used the high-tech chips that have been produced by the American company, NVIDIA.

It has not used nearly as much energy to produce its answers as it appears is required to power those NVIDIA chips.

And it has produced it on the basis of large language models, which are much cheaper to generate and produce than those which are being put into place by the likes of OpenAI, who are the owners of ChatGPT.

There is something profoundly disruptive about what DeepSeek is doing as a result. This literally shatters American capitalism at its very core. Let me explain why.

American capitalism is based upon three fundamental ideas. The first is that whatever it invents must be protected from all forms of competition to the greatest degree possible so that the wealth generated by any invention is concentrated in the hands of the fewest possible number of people to benefit them most of all.

You can see the model. It has produced the Tech Bros, as they are called - the massively wealthy people who own the largest tech companies in the USA.

It has also, of course, given returns to those people who they have let invest in their companies. But that wealth is still concentrated amongst a tiny proportion of people in the US.

These companies are all about the concentration of power in the hands of a few in the USA.

They've achieved this through the second characteristic of US capitalism, which is to be as anti-competitive as it is possible to be.

The most important person in many U.S. companies is not an engineer or a salesperson or an inventor. No, it's the patent lawyer, the person who is employed to put in the path of potential competitors the maximum number of impediments that the law can provide to ensure that they cannot copy any element of the business model of the company and therefore pose an effective challenge to it.

These lawyers who protect patents and copyrights to ensure that rents can be charged to the consumers of these companies way in excess of the real value of the products that the company makes because it isn't exposed to proper competition are the fundamental basis on which American capitalism is now built. It is deeply anti-competitive.

This then leads to the third characteristic of US capitalism at present, which is it is grossly inefficient. If you can protect yourself from competition to make vast amounts of money for a few people and to extract extortionate value from consumers, you have no incentive to minimise your costs because why would you need to do so?

You have money coming literally out of your ear holes, and therefore, you might as well spend it. You might as well have that comfort zone of having large numbers of people work for you even if they aren't really required.

You'll still declare an enormous profit.

You will feel like the king of the castle.

You will see the rewards that those grateful employees send your way.

And you will feel good about it if you are the boss of one of these companies.

There is no incentive to be lean, mean, and efficient as a consequence. And that is supposedly what market capitalism should deliver. But in the case of the USA, it absolutely does not.

DeepSeek has shattered all those myths. Not only has it been put together very cheaply, but it has adopted a totally different approach to the market. It has actually made its source software open source. In other words, anybody can access it and use it. This is the absolute opposite of the American model.

Instead of putting legal impediments around somebody who wants to use their software, DeepSeek said, “Have it, use it.” It will still be charging for access to the big language model that it owns and the big answers that people will ask of it, but it's going to do so at a much lower price than US companies are doing for similar inquiries. And it can, of course, afford to do so because it's using much less energy on lower tech.

This virtually shatters the whole investment strategy that has dominated the thinking in the run-up to Trump's election. That has been built around the idea that billions - hundreds of billions - will be invested in AI and that will generate the growth which will keep Trump in office. Well, suppose it won't.

Of course, one has to have a sneaking suspicion that this might also be very carefully timed by the Chinese government to destabilise Trump in the face of potential tariff wars. And I have that sneaking suspicion, so I will put it on the table and say it's there. But DeepSeek does, however, work. I've seen models that have been produced by it, and they are undoubtedly good. In that case, whether or not this is a strategy by the

Chinese government, DeepSeek is capable of disrupting serious parts of the US AI market and might even prevent the US getting the worldwide monopoly of this type of activity, which it has in the case of Microsoft and Google and Twitter and so on. Those monopolistic trends. may not be capable of reproduction in AI if DeepSeek and its own Chinese competitors can produce something very different to that which OpenAI, Microsoft, Google, and others were promising at enormous expense.

I have no idea where this is going. I genuinely cannot predict, and I don't think anybody else can.

And this might, of course, also all be a storm in a teacup. That is a possibility.

But let's presume it isn't. Let's presume this is real. If it is, the whole basis on which the Trump appeal to the US market was built is undermined.

But something even deeper than that is true. If American economic power, which is based around AI and its potential, is shattered, Trump's ability to create an isolationist USA, backed up by tariff barriers, is also removed.

DeepSeek is something much more significant than an AI model, whether or not it is good in that role. DeepSeek is challenging US capitalism to its very core. And it's challenging the philosophy of the American right to its very core. And whether or not the Chinese government timed this to undermine those ideologies right now, in the first week or so of Trump's administration, does not matter. Because it's doing it anyway, and this could be very big.