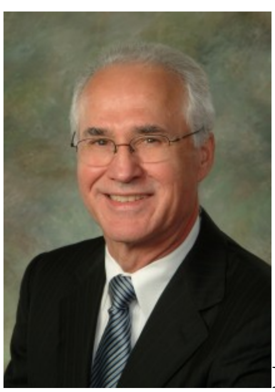
What Silicon Valley thinks of the bailout — or doesn't

By VentureBeat staff | September 30th, 2008


After the federal bailout plan went down in defeat yesterday, we wanted to know what Silicon Valley and the technology community thinks about bailout options. We called up numerous entrepreneurs, venture capitalists and other experts whose opinions we value and asked them if there were any alternatives they'd like to see Washington consider.

If Silicon Valley's known for anything, it's innovative thinking, right? We were hoping for some big ideas. At least we'd hoped for an opinion or two on whether the country really needs to be in such a rush to push this bailout through or if there's time for some real debate. But what we got, for the most part, were a lot of "no comment"s. Is that because people are afraid to voice their thoughts on the subject, or because they simply haven't figured out where they stand yet?

Companies such as HP, Adobe, Nvidia, Advanced Micro Devices, Intel, Applied Materials, and IBM offered no comment. Microsoft general counsel Brad Smith sent us a canned response in support of the bailout that shows at least one company has its mind made up, even though Microsoft CEO Steve Ballmer didn't sound all that concerned about the economy less than a week ago. The response ended: "… and we urge Congress to act swiftly."


From the other brave few souls who responded, we heard a mix of desperate support for the bailout, skepticism and almost complete nonchalance. Mark Jensen (pictured left), partner and national director of venture capital services, Deloitte & Touche sees no way out except the bailout. "I think it's inevitable this will pass," said Jensen. "Should we call it a bailout? It's unfortunate that it has gotten that name. The notion is that Main Street is going to bail out Wall Street. I don't think that is what we're talking about doing. To the extent that anyone has broken the law or been unethical, they

should pay the consequences. But the price of not doing something is really what we ought to focus on."

And he added:

It's not in vogue to trust leaders. But Ben Bernanke, the head of the Federal Reserve, is the expert in the country on the causes of the Great Depression and how to avoid them. To the extent he gets behind something, it would be worth paying attention to it.

Mark Heesen, president of the National Venture Capital Association and Gabe Zichermann, chief executive of rmbr, a New York-based startup both expressed skepticism that Washington's on the right track with its bailout plans. Heesen seems to support the bailout in general but doubts it will pass without stricter executive compensation limits:

In this whole affair, we see politicians putting politics above policy and an administration that has been radio silent. They have not done a good job of explaining to the American people why action is important. If the markets go up as they are today, people will say there is no need for a bailout. That's not realistic. …As for the bill itself, many members looked at the executive compensation restrictions and didn't like them. When a VC-backed company fails, the entrepreneur does not expect to be rewarded. When it succeeds, the reward should allow the entrepreneur to move on to the next venture. The idea you get rewarded for failure just doesn't make sense.

And Zichermann is the only one who said he wants to see an alternative:

*There is only one "bailout" that can work. The government should become an activist shareholder in all the banks it invests in, working *in the interests* of the people to maximize returns and serve the national interest. Any other kind of money going to these institutions is a subsidy for the super rich, who get to take billions off the table then return to the trough when they bankrupt their companies, looking for more. See a [solution (gasp!) arrived at elsewhere.]*

And, asked Zichermann:

…has anyone noticed that the government has been orchestrating the sale of major banks for pennies on the dollar to the three remaining institutions? Is this the end of competition in financial services? The U.S. is about to have fewer major banks than most small European countries! The delay is bad, of course. Markets hate this variability. I also hate the "will they/won't they?" It's better to be clear that the government is going to let some banks/institutions fail and save others than to leave this whole thing open.

If Zichermann is at one extreme in his concern over the bailout, then Keith Richman, CEO of Break Media, is at the other extreme. He sees the current crisis as simply a great pool of opportunity for the tech startup community:

In an environment when budgets are being closely scrutinized, marketers will increasingly turn towards the internet where interactivity and brand affinity can be measured more directly. As a result, the financial crisis represents a real opportunity for online publishers to grab market share from other media. … Overall, we believe that any changes will be positive for online publishers given interactive media is inherently more measureable and ROI [return on investment] focused than other mediums.

Gary Little, partner at Morgenthaler Ventures is just as enthusiastic about the opportunities:

Washington and New York are 3,000 miles away. Here in Silicon Valley, we're focused on finding and growing the best startups in both up and down cycles. If you look at our 40-year history, some of our best startups were actually discovered and built in a downturn. NexTag is a perfect example. After the Internet bubble burst in 2001, NexTag reinvented itself to become the leading comparison shopping site for products and services. If you've got the cash, this is actually a good time to be in the VC business. Fewer "me too/copy cat" companies are formed in a downturn and high unemployment means loyal and dedicated employees.

But Jensen and Heesen don't see any such riches ahead. Said Jensen:

What really will impact tech is the lack of an investment banking community that is focused on taking companies public. We go through cycles. The investment banking sector could always bring the industry back again. We used to have firms such as Montgomery Securities, Robertson Stephens, and Hambrecht & Quist. They were tech-focused investment banks. Now they're gone. The investment banks that are left are damaged as well. The National Venture Capital Association announced last week a task force to study the lack of IPOs and what needs to be done to bring it back.

And Heesen:

The current state of the economy impacts in a huge way consumer spending. That will impact tech spending and that will have an effect on venture-backed tech companies. There are other issues that affect VC-funded companies. The venture industry has now gone through three quarters of the year with only six venture-backed IPOs. We said this was a crisis three months ago. The capiital markets are extremely problematic. That has only worsened with the latest economic news. There are fewer investment banks out there to take companies public. About 95 percent of our companies are going to see exits only by being acquired. But the typical acquirers like Google, Cisco, and big pharmaceutical companies will not buy as many of our companies because of the economic situation.