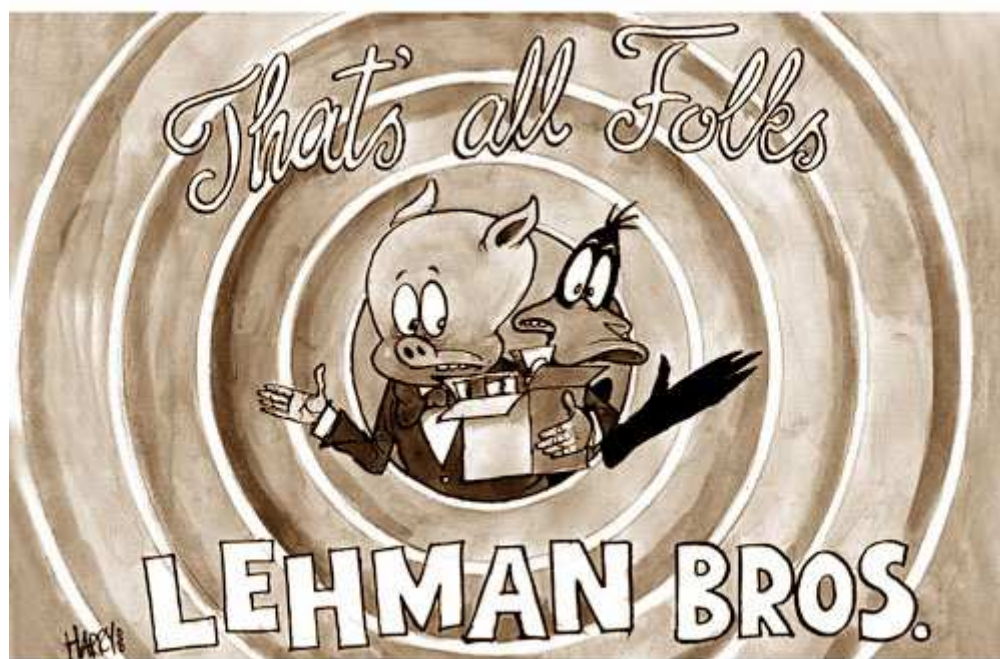


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Tech will suffer from financial meltdown

Posted by Richard Koman @ September 17, 2008 @ 8:54 AM



Sometimes you have to look around outside of your own personal sector and reflect on the world at large. If you haven't noticed, our financial infrastructure is tumbling down around our ears. The U.S. agreed yesterday to bail out AIG at the cost of \$85 billion. Just like Bear Sterns, AIG is "too big to fail." The impact on the economy of AIG's failure would be staggering. As my friend Steve Pizzo writes at News for Real:

If AIG failed, all those banks out there that replaced their regulatory capital with AIG IOUs would be in deep, deep, deep, deep, doo doo. If AIG failed the feds would be faced with the possibility — growing daily into a probability — of having to virtually nationalized a huge number of banks and S&Ls, replacing AIG's IOUs with USA IOUs. (Yugo Chavez and Fidel Castro would get a good laugh out of that.)

It's not just the financial sector. This thing will tsunami through the "real economy" — including tech. Jay Bhatti, cofounder of people search engine Spock offered some thoughts on the effect on tech. It's not pretty:

The big players like Oracle, Sun, Microsoft and SAP ... will feel an immediate impact. Financial Service firms are some of the biggest spenders of IT budgets around. I can imagine memo's coming from the top to CIOs at banks telling them to cut costs ASAP. Naturally, they will start to push back on upgrades to new software (sorry Vista), ask for greater concessions on license pricing, and in some cases, abandon plans for new technology deployments such as new hardware or new ERP applications.

Microsoft will whether the storm, he says, since businesses still need to operate but "I would not be surprised if I heard Sun report: 'We did not meet our numbers this quarter due to decreased spending and turmoil in the financial sector...'

Bhatti thinks the biggest impact will be on green tech, since those companies require serious capital, over a billion dollars in many case.

With hedge funds imploding, private equity shops dwindling, and banks going out of business, who will be left to write those billion dollar checks for a high-risk high-reward technology in Green? Not Uncle Sam!

I'm not sure I buy this. No one's been willing to bet on green until the producer tax credit gets extended. The U.S. will need to jump-start new businesses as the traditional economy stagnates. Pushing money into greentech will be an economic stimulus package. Serious government investment in greentech at Defense Dept. scale will be the economic engine that gets us out of some very bad times. An Obama Administration would respond to the challenge; I'm sure McCain would coddle the oil companies for another four years, regardless of the drain on the economy. (And high oil prices create huge negatives throughout all industry.)

Furthermore, Bhatti says, plain ol high-tech startups will be strapped for cash.

When hedge funds were popping up all over the place, they needed a new place to invest their money. One of the investments they started looking into was high tech startups. Entrepreneurs welcomed this with joy. It gave them another outlet to get funding outside of traditional VCs (just look at the private investments made in Facebook less than a year ago). However, with hedge funds now reverting back to their traditional channels and many closing shop, a lot of funding that entrepreneurs were expecting may never surface.

As a lawyer and technology writer, Richard Koman brings a unique perspective to the blog's intersection of law, government and technology. See his full profile and disclosure of his industry affiliations.



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