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**Holiday Gloom in Silicon Valley
Left Margin
By Carl Bloice
BlackCommentator.com Editorial Board**

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A couple of days before Thanksgiving one of my downstairs neighbors matter of factly told me he had lost his job. He'd been abruptly laid off by a local information technology startup company. "They let go so many people I don't know how they are going to get the work done," he said. My first thoughts were about him, a young guy with energy and an apparently active social life. How would he get by? How did it feel to find oneself unemployed right at the start of the holidays? He only recently moved into the building and I wondered if he'll be able to stay. It brought back to my mind the days of the dot-com collapse. There were lots of techies in the neighborhood then and for a while there it seemed the biggest business around was U-Haul; the trucks arrived in the evening and by the time I got up they were gone having taken the recently jobless back to their home towns to the east, probably in many cases to their parents' nests. One morning I went out to work and found someone had thrown their internet stock options into the back of my pickup. I got to thinking: was something like that happening again.

Then I thought back to last September in the midst of the Presidential election campaign when it became clear the nation's economy was in distress and some big financial institutions and manufacturing companies were only limping along. That's when Newt Gingrich went to Silicon Valley and pronounced the area "America's Economic Future." Three days in the high tech area just south of here had demonstrated "the stunning difference between a pro-growth and pro-decay policy," he wrote.

"While Washington and Wall Street were in a panic, the venture capitalists, entrepreneurs and creators of new technologies, new solutions and new wealth in Silicon Valley were too busy inventing the future to worry about Secretary Paulson," wrote the former Speaker of the House of Representatives.

Recall, this is the conservative guy who once tried to get the country to enter a

"contract" with him and his Republican Party.

"While Silicon Valley has been creating new wealth, new technology and new products, the city of Detroit has been decaying. In 1950, Detroit had 1,800,000 people and the highest per capita income in the United States. Today Detroit is below 900,000 people (the first major American city to drop below a million) and ranks 62nd in per capita income," wrote Gingrich. "Half the housing stock in Detroit is unneeded. Imagine what that does to the value of the rest of the housing supply." On the other hand, "Silicon Valley is a product of a combination of science, technology, entrepreneurship, venture capital and very educated people. Detroit is the product of two generations of bad politicians, bad bureaucracy, high taxes and crime. We are at a crossroads between Silicon Valley and Detroit."

A bailout of the auto industry "would move us one step further toward Detroit and a failed future."

The arrogance - and the many subtexts - of that statement are stunning. It as if there were no people involved. As if it weren't obvious that what was happening in Detroit wasn't, in part, a catastrophe for a major portion of the African American industrial working class.

And, furthermore, if the people working in the information technology industry thought they were inventing the future when it comes to employment it appeared they were in for a surprise.

Of course, the jobs of the future lay to a large extent in advanced technology and with an educated, technically savvy workforce. But there has always been the mystique that somehow the owners, managers and workers in the industry were one big happy family, offering secure employment to brainy people, and they could set their own hours and bring their pet snakes to work. And, yes, they became stakeholders with their options.

"The specter of massive layoffs has been looming over Yahoo since, well, since shortly after the company laid off 1,000 workers in January," writes John Murrell in a post on *Good Morning Silicon Valley*, "so the only real suspense has been of the bad horror movie variety -- waiting to see who gets it and how. Now the creepy music is getting louder, setting up a scene Tuesday in which CEO Jerry Yang [Yahoo] is expected to chop through a door during the third quarter earnings announcement and begin the bloodletting. The body count, according to sources, is expected to be as high or higher this time, perhaps 10 percent of the company's 14,300 employees."

"Aside from layoffs, the Wall Street Journal's sources say, some managers are being asked to find 15 percent in operating budget savings. Beyond all that, the *Journal* says, management consultants are still looking at other 'structural changes,'" continued Murrell October 20. 'And if Yahoo isn't careful,' says the *Silicon Alley Insider*, 'there are a couple of ways it could make the bad situation worse by not cutting deeply enough and by not implementing the layoffs until just before Christmas, leaving an already demoralized workforce hanging. Grim times, and it's cold comfort that Yahoo has plenty of company in its misery. The layoff tracker at [TechCrunch](#) already runs from Adbrite to Zivity and is growing."

TechCrunch now reports there have been over 58,000 layoffs in the technology sector since the end of August.

"Since the credit crisis began gripping the financial world, Silicon Valley has watched

from the sidelines, secure in the faith that it was insulated from the coming storm," wrote Brad Stone and Claire Cain Miller in the *New York Times* October 2. "That faith is now being seriously undermined. High-tech entrepreneurs, investors and executives now believe the question is when, not if, the financial chaos will hurt the country's cradle of innovation."

The *Times* report went on, "... nonstop economic gloom in other parts of the economy seems to have frayed the nerves of even the Valley's most sublimely confident. Discussions of the economic crisis dominate conversations. Technology blogs offer prescriptions for riding out the crisis and intense debates over what percentage of start-ups are destined to fail."

"Entrepreneurs and investors in Silicon Valley are still shell-shocked from the dot-com collapse, and the latest economic crisis is bringing back memories of the wave of failed start-ups," the *New York Times* reported November 3, "This time, they have vowed to act quickly to avoid making the same mistakes again. Soon after it became clear that the economy was entering a prolonged downturn, venture capitalists began warning start-ups to cut back and layoffs followed soon after."

If you have to lay people off, "let them go all at once," so as not to create a "culture of everyone waiting for the ball to drop," Jason Calacannis, chief executive of Mahalo.com," told a "crisis roundtable" sponsored by *VentureBeat*. That seems to be the mantra. Near the end of October, *The Economist* magazine advised: "Deep cuts like these may be painful in the short term, but they are better both for profits and morale than repeated rounds of small layoffs. In 2001 many firms trimmed too little too late."

As it turns out high tech is very much part of the overall "real economy" and when things turn sour the billionaires on top walk away secure and workers get laid off – just like in Detroit. The work gets done; it's outsourced. The technical workers don't even have a union to speak for them.

One of the ironies of this situation is to be found in the degree to which the fate of Silicon Valley is tied to that of Wall Street and Detroit. One of the principal reasons for the downturn out here is the extent to which local technology production is tied to the financial services industry. As companies like General Motors find their situation more and more precarious, they are slashing their tech budgets.

I talked with a high tech worker friend last week. His company is in trouble and the people around him are worried about their futures. "For a programmer, someone like me, who entered the field in the '90s the outlook is pretty grim," he said. He has no idea where Gingrich could have picked up his fanciful notion.

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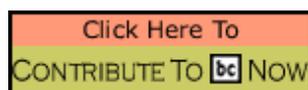
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BlackCommentator.com Editorial Board member Carl Bloice is a writer in San Francisco, a member of the [National Coordinating Committee of the Committees of Correspondence for Democracy and Socialism](#) and formerly worked for a healthcare union. Click [here](#) to contact Mr. Bloice.

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