Peak Valley

The Bay Area’s primacy as a technology hub is on the wane. Don’t celebrate

LIKE Florence in the Renaissance. That is a common description of what it is like to live in Silicon Valley. America’s technology capital has an outsized influence on the world’s economy, stockmarkets and culture. This small portion of land running from San Jose to San Francisco is home to three of the world’s five most valuable companies. Giants such as Apple, Facebook, Google and Netflix all claim Silicon Valley as their birthplace and home, as do trailblazers such as Airbnb, Tesla and Uber. The Bay Area has the 9th-largest economy in the world, ranking above Switzerland and Saudi Arabia.

The Valley is not just a place. It is also an idea. Ever since Bill Hewlett and David Packard set up in a garage nearly 80 years ago, it has been a byword for innovation and ingenuity. It has been at the centre of several cycles of Schumpeterian destruction and regeneration, in silicon chips, personal computers, software and internet services. Some of its inventions have been ludicrous: internet-connected teapots, or an app that sold people coins to use at laundromats. But others are world-beaters: microprocessor chips, databases and smartphones all trace their lineage to the Valley.

Its combination of engineering expertise, thriving business networks, deep pools of capital, strong universities and a risk-taking culture have made the Valley impossible to clone, despite many attempts to do so. There is no credible rival for its position as the world’s pre-eminent innovation hub. But there are signs that the Valley’s influence is peaking (see Briefing). If that were simply a symptom of much greater innovation elsewhere, it would be cause for cheer. The truth is unhappy.

Silicon Plateau

First, the evidence that something is changing. Last year more Americans left the county of San Francisco than arrived. According to a recent survey, 46% of respondents say they plan to leave the Bay Area in the next few years, up from 34% in 2016. So many startups are branching out into new places that the trend has a name, “Off Silicon Valleying”.

Peter Thiel, perhaps the Valley’s most high-profile venture capitalist, is among those upping sticks. Those who stay have broader horizons: in 2013 Silicon Valley investors put half their money into startups outside the Bay Area; now it is closer to two-thirds.

The reasons for this shift are manifold, but chief among them is the sheer expense of the Valley. The cost of living is among the highest in the world. One founder reckons young startups pay at least four times more to operate in the Bay Area than in most other American cities. New technologies, from quantum computing to synthetic biology, offer lower margins than internet services, making it more important for startups in these emerging fields to husband their cash. All this is before taking into account the nastier features of Bay Area life: clogged traffic, discarded syringes and shocking inequality.

Other cities are rising in relative importance as a result. The Kauffman Foundation, a non-profit group that tracks entrepreneurship, now ranks the Miami–Fort Lauderdale area first for startup activity in America, based on the density of startups and new entrepreneurs. Mr Thiel is moving to Los Angeles, which has a vibrant tech scene. Phoenix and Pittsburgh have become hubs for autonomous vehicles; New York for media startups; London for fintech; Shenzhen for hardware. None of these places can match the Valley on its own; between them, they point to a world in which innovation is more distributed.

If great ideas can bubble up in more places, that has to be welcome. There are some reasons to think the playing-field for innovation is indeed being levelled up. Capital is becoming more widely available to bright sparks everywhere: tech investors increasingly trawl the world, not just California, for hot ideas. There is less reason than ever for a single region to be the epicentre of technology. Thanks to the tools that the Valley’s own firms have produced, from smartphones to video calls to messaging apps, teams can work effectively from different offices and places. A more even distribution of wealth may be one result, greater diversity of thought another. The Valley does many things remarkably well, but it comes dangerously close to being a monoculture of white male nerds. Companies founded by women received just 2% of the funding doled out by venture capitalists last year.

Shadows of the colossi

The problem is that the wider playing-field for innovation is also being levelled down. One issue is the dominance of the tech giants. Startups, particularly those in the consumer-internet business, increasingly struggle to attract capital in the shadow of Alphabet, Apple, Facebook et al. In 2017 the number of first financing rounds in America was down by around 22% from 2012. Alphabet and Facebook pay their employees so generously that startups can struggle to attract talent (the median salary at Facebook is $240,000). When the chances of startup success are even less certain and the payoffs not so very different from a steady job at one of the giants, dynamism suffers—and not just in the Valley. It is a similar story in China, where Alibaba, Baidu and Tencent are responsible for close to half of all domestic venture-capital investment, giving the giants a big say in the future of potential rivals.

The second way in which innovation is being levelled down is by increasingly unfriendly policies in the West. Rising anti-immigrant sentiment and tighter visa regimes of the sort introduced by President Donald Trump have economy-wide effects: foreign entrepreneurs create around 25% of new companies in America. Silicon Valley first bloomed, in large part, because of government largesse. But state spending on public universities throughout America and Europe has fallen since the financial crisis of 2007-08. Funding for basic research is inadequate—America’s federal-government spending on R&D was 0.6% of GDP in 2015, a third of what it was in 1964—and heading in the wrong direction.

If Silicon Valley’s relative decline heralded the rise of a global web of thriving, rival tech hubs, that would be worth celebrating. Unfortunately, the Valley’s peak looks more like a warning that innovation everywhere is becoming harder. ■