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# 'Pervasive' Recession Won't Repeat Dot-Com Bust, Experts Say

By Betsy Schiffman 03.17.08 | 7:00 PM

As the mortgage-backed securities market implodes, taking long-standing banks like Bear Stearns with it, investors are wondering whether we're in for a repeat of the dot-com implosion of 2000. The answer, say some economists, is no -- and while the outlook for the overall economy is grim, the tech sector may not take a direct hit this time.

"The bust in 2000 was isolated in the dot-com and IT sector," says Brent Goldfarb, an assistant professor of management and entrepreneurship at the University of Maryland Robert H. Smith School of Business. "It didn't reverberate as strongly throughout the economy, in say, the manufacturing or service economy. This time, there's a real credit crunch and it's pervasive."

In the spring of 2000, the writing was on the wall: A recession was coming and it was going to be bloody. Dot-coms were going bust, the stock market essentially collapsed (the Dow Jones Industrial Average dropped nearly 6 percent, or 627.78 points on April 13, 2000), and the market for initial public offerings evaporated.

It doesn't sound all that different from current economic woes, but the key difference is that the last market downturn was neatly contained in the tech industry. As a result, the overall market returned to its previous levels within months of April 2000, and by 2004, even the IPO market had rebounded. This time around, because of the desperate credit crisis among banks, an economic downturn could be more widespread and debilitating.

Theoretically, JPMorgan Chase's [emergency bailout of Bear Stearns](#) for a measly \$2 per share (a fraction of the stock's valuation in February), could serve as harbinger of gruesome things to come in Silicon Valley. Presumably, as banks tighten their belts, funding for tech startups could dwindle.

"The tech industry may still be an area of growth and investment, but the trouble is that a lot of good businesses may not have access to capital to get their businesses off the ground," says Scott Watkins, an economist and consultant for Anderson Economic Group, an economic and financial consultancy.

If that's true, though, Silicon Valley startups haven't felt the effects yet. Myles Weissleder, a longtime net entrepreneur who weathered the last economic storm, says that if anything, the Bay Area feels insulated from a recession.

"I don't think people here are feeling what the folks are feeling elsewhere in the country," says Weissleder. "Locally, we have a resilient economy. There are a million and one entrepreneurs, and I haven't heard from [one] who has had a hard time securing capital. Zivity, a user-generated porn site, just secured \$7 million. I would venture to say that a company that's posting nudies on the internet doesn't need \$7 million to do that. I'm not sure if it's dumb money, or if it's a sign that people are still investing, but I'm seeing a lot of young companies get funding."

Goldfarb agrees that the Silicon Valley economy has some padding. He argues that if the tech industry takes a hit, it will be because consumers are curbing their spending, and not for a lack of venture capital.

"[The last market downturn] was a reaction to new information about the viability of internet business models," Goldfarb says. "We have a very separate crisis here which isn't directly related to the tech sector. If I'm a venture capitalist, and I'm looking at a green or biotech company, I'd invest in it now. The current crunch may be gone in three or four quarters."