

Valley losing federal 'mega-investments' race

Speakers cite gap in clean tech funding between Valley and regions like Huntsville

by **Chris Kenrick, Palo Alto Online Staff**, Uploaded: Tuesday, February 16, 2010, 12:50 AM

Silicon Valley is losing the race for huge federal investments that will jumpstart the industries of the future, a panel of Valley leaders said Friday.

As the Obama administration makes "a series of mega-investments in the future," Silicon Valley trails regions such as Huntsville, Ala., in procuring funds, CEO Emmett Carson of the Silicon Valley Community Foundation told more than 1,000 attendees at a 2010 "State of the Valley" conference Friday in San Jose.

The conference was convened by the Community Foundation and Joint Venture: Silicon Valley Network, a non-profit "analysis and action" group.

Carson and others outlined a regional funding gap in clean technologies.

He said the Valley is getting none of the \$2 billion federal funds now being disbursed for research in vehicle batteries and only \$4 million of a \$184-million federal investment in energy storage.

Silicon Valley got none of the \$3.5 billion going to smart-grid technology, and just \$38 million of the \$16 billion going to energy efficiency and renewable energy, he said.

Warning against complacency, he likened the region to the Indianapolis Colts' overconfidence leading up to the Super Bowl game Feb. 7 before the Colts were trounced by the "underdog" New Orleans Saints.

"We're not the Saints we're the favored people," he said. "If we think the game is ours we're going to have that outcome and it will be Huntsville celebrating."

Attendees heard a range of expert analyses of the [2010 Silicon Valley Index](#), an annual measurement the region's wealth and health.

Joint Venture CEO Russell Hancock announced he will create a new position to run "special ops" for procurement of federal investment for Silicon Valley.

"The person will travel to Washington, D.C., a lot and mobilize the entire region to advocate and cheerlead for the federal funds we require," Hancock said.

The special-ops person will report to a steering committee representing Joint Venture, Stanford University, the Silicon Valley Leadership Group and the Bay Area Council, he said.

There is a Silicon Valley mythology that could feed overconfidence: That entrepreneurs created it all by themselves, Managing Director Gary Pinkus of McKinsey & Co. said.

But the reality is that early companies such as Fairchild Semiconductor secured 80 percent of their original contracts from the Defense Department, he said.

Technology payoff can be long-term, said venture capitalist John Gage, former chief researcher and vice-president for the Science Office of Sun Microsystems.

Valley pioneers such as Intel's Gordon Moore and Andy Grove benefited from federal scientific research investment made as far back as the 1940s, and Sun benefited from investments made in Stanford and the University of California by the Defense Advanced Research Projects Agency

research investment made as far back as the 1940s, and Sun benefited from investments made in Stanford and the University of California by the Defense Advanced Research Projects Agency (DARPA).

Other countries have learned to do this as well, Gage said. Only two of the world's top 10 companies in solar, wind and battery power are in the United States. The rest are in places such as Germany and China, he said.

"Today we not only look to Berkeley and Stanford, but to IIT (India Institute of Technology) for the source of so many technology innovations," he said.

Today's equivalent of DARPA is ARPA-E, the U.S. Department of Energy's Advanced Research Projects Agency Energy, Gage said. Silicon Valley should focus on trying to shape the direction of investment there, he said.

"Clean technology" has the potential to generate 4 million jobs by 2030, CEO Barry Cinnamon of the Los Gatos-based Akeena Solar said. Though cleantech manufacturing is likely to go to lower-cost overseas locations, cleantech development and installation will provide good jobs here, Cinnamon said.

McKinsey's Pinkus said business and congressional representatives could do more to secure federal investment in California noting it is currently a "net outflow" state in terms of taxes sent to Washington vs. federal funds returning

Even worse, "California is arguably a terrible state to do business in relative to other states. We have high taxes and high regulations that we're going to have to fix in the context of Sacramento," he said.

But despite the problems Pinkus said the state still has many factors working in its favor.

"We're still the eighth-largest economy in the world, though it might not be going quite in the right direction.

"While 90 percent of our economy is in services, we still hold the highest level of manufacturing employment in the country, ahead of number two, Texas.

"And we've got a unique set of assets. Our public university system is still arguably the best in the country, perhaps the world. We have the core of the venture-capital industry here. We have a solid industrial base.

"We've got a well-deserved reputation for innovation, creativity, managerial capability and climate."

Pinkus said people are starting to talk about the possibility of "backshoring" some jobs that have left the United States for distant offshore locations.

"What if you could combine low-cost manufacturing with high-intellect, high IP (intellectual property) jobs and bring them closer together have the higher jobs in California and the low-cost jobs be in Mexico, which is much closer than China, India or Brazil.

"It would ensure a tighter interface between the ideas and the production of ideas. It could even be in Nevada or in the Central Valley," he said.

Staff Writer Chris Kenrick can be e-mailed at ckenrick@paweekly.com.

URL: http://www.paloaltoonline.com/news/show_story.php?id=15737