Tech startups can apply for US relief funds—but should they?

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Should startups take money from the government? Silicon Valley is puzzling over the answer right now.

Some venture capitalists seem more than happy to say, yes, please take that sweet government money. "If the U.S. government didn't want to support VC-backed businesses, they easily could have excluded them and they knowingly did not," writes venture capitalist Mark Suster.

The pool of cash we're talking about is the Small Business Administration's Paycheck Protection Program, part of Congress's coronavirus bailout effort. Small businesses of all stripes are now rushing to apply for the program's $349 billion in available loan money (and possibly another $250 billion if an expansion goes through). The so-called PPP loans turn into grants if companies keep their employees in their jobs.

At first it seemed like venture-backed startups, along with companies funded by private equity firms, didn't have much of a shot at getting government funding. But after a few tweaks in the requirements, the situation is now more ambiguous for venture-backed companies. The government is no longer requiring that minority investors risk criminal consequences if the startup misappropriates the funds-a breakthrough, even though startups will still have to make complicated disclosures about their investors. (Private equity-backed companies at this moment seem mostly out of luck.)

But just because tech companies can, doesn't mean they should. One legal and ethical wrinkle is baked into the language of the bill: As part of the application process, companies are asked to certify that "current economic uncertainty makes this loan request necessary to support the ongoing operations of the applicant."

What's necessary? There's so much uncertainty in the world of startups. Most venture-backed companies are just trying to make it to their next financing round. If runway is running short, it might be tempting to take a government loan along the way to your Series B.

Indeed, some people think their companies should qualify like everyone else. Startup founder George Arison tweeted that the government shut the economy down and it "feels like eligible businesses should be treated equally."

If the goal of the loan program is to keep people employed, there is a logic to funding startups. Employees are usually one of tech companies' biggest costs, so cash-strapped startups lay off their employees to try to stay afloat like everyone else. Those layoffs are happening.

And in general, these scrappy upstarts are more sympathetic than, say, Boeing Co., whose planes were crashing before the coronavirus slammed its stock. (Venture capitalist Chamath Palihapitiya made the case against bailing out shareholders in big corporations.)

But most startups, which raised near-record levels of funding last year, don't need the money in the way that local restaurants or repair shops need the money. And many laid off tech employees will find themselves better off than dishwashers or mechanics who lose their jobs. Indeed, some founders have concluded that the funds wouldn't be necessary for their companies' near-term survival, and that they therefore shouldn't apply.

The problem, of course, is that the loan program is finite. Those restaurants and barbershops, without any access to VCs or other forms of capital, could lose out because a startup put in an application first.

If the system works well, a business like Nopa-the San Francisco restaurant favored by tech types for its perfect $20 grilled cheeseburger-would get the bailout over the startup offering to do its delivery. Startups fail fast, pivot and come back, but beet hummus is irreplaceable.

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