

**Google Cloud**

Covered California is simplifying healthcare access with Google AI

A new era of  
American innovation

Discover what's new

## Why Silicon Valley might start sweating the shutdown soon

Tech representatives and venture capitalists say the impacts won't be immediate, but their industry could be rattled if the freeze endures.



State Sen. Dave Cortese, a Democrat representing the heart of Silicon Valley in San Jose, voiced concerns for startups seeking resources from the city's local U.S. Patent and Trademark Office. | Loren Elliott/Getty Images

By **CHRISTINE MUI, JULIANN VENTURA and YASMIN KHORRAM**  
10/07/2025 09:30 AM EDT



**SAN FRANCISCO** — Silicon Valley is dreading what comes next as the federal shutdown creeps into a second week, wary of the ripple effects on companies from scrappy startups to tech behemoths if it drags on further.

While they may be more insulated than others in the economy from immediate disruption, startup founders, venture capitalists and other tech representatives are running through the scenarios that could unfold over a drawn-out standoff: missing key windows for an IPO, experiencing slowdowns in the visa process used to bring in talent from overseas and facing a pile-on of uncertainty that could shake investor confidence.

Advertisement

Sponsored content from FirstNet, Built with AT&amp;T



“It’s already an issue,” CEO of Tusk Ventures, Bradley Tusk, told POLITICO. “A startup whose model involves the federal government is already impacted.”

The shutdown has brought some relief to the sector, with about half of the government’s Big Tech [antitrust cases on pause](#). But companies, especially smaller ones with government contracts, are worried. The longer the shutdown lasts, the more doubts could emerge within an industry that has forged closer ties with President Donald Trump’s administration and whose investments have been a White House fixation.

Tusk said the timing of the shutdown hurt many startups that are in the middle of procurement processes and waiting on regulatory approval.

“Revenue expected to come in Q1 might not come in until Q3 or might never come at all,” he said, meaning such impacts may not be felt until the summer.

California state Sen. Dave Cortese, a Democrat representing the heart of Silicon Valley in San Jose, voiced concerns for startups seeking resources from the city’s local U.S. Patent and Trademark Office. The USPTO would technically have sufficient funds from its patent and trademark businesses to fully operate for a period of time, but the workforce would eventually be reduced if the business units were no longer able to sustain the office.

“If that office is closed down, then there’s going to be startups in IP development, in driving industries, that come to a screeching halt,” Cortese said in an interview.

The Silicon Valley location redirected press inquiries from POLITICO to the federal communications office. Neither the office nor a USPTO press secretary, who was on leave, could be reached.

Advertisement

AD

Two of the region’s top business associations — which both represent tech players like Amazon, Google and Meta — are also on watch.

Silicon Valley Leadership Group’s CEO, Ahmad Thomas, said for companies looking to go public, the Securities and Exchange Commission plays an important review role that is [expected to stop](#) after staff furloughs. He had

Why Silicon Valley might start sweating the shutdown soon - POLITICO called for a truce, warning before last week's deadline that a shutdown "makes it harder for businesses to plan, invest, and grow."

"If this gets to a stage where you have, as just one example, SEC staff that are impacted, and IPO decisions are likewise impacted, you can really begin to have impacts on companies in the innovation economy and technology ecosystem," Thomas told POLITICO.

At the Bay Area Council, senior vice president of tech and innovation Peter Leroe-Muñoz described the sentiment among its more than 330 member companies as "hoping for the best, but planning for a longer-term if necessary."

The council is focusing its advocacy on both administrative and elected leaders in the federal government, especially within California's congressional delegation. As the group highlights some of the risks for Silicon Valley, Leroe-Muñoz hopes artificial intelligence could be one of the rare bipartisan levers to help crack a stalemate.

He argues that the longer D.C. stretches on without a funding deal, delays will build up at agencies charged with positioning America for global leadership in the most powerful AI systems. The Trump White House released an AI [policy blueprint](#) this summer, chock full of directives across government.

"The shutdown is going to imperil many elements of the AI Action Plan," Leroe-Muñoz said in an interview, listing parts that the Office of Science and Technology Policy, the Commerce Department's National Institute of Standards and Technology and the Labor Department are responsible for.

"All of these agencies are tasked with driving progress in terms of developing AI adoption, finding efficiencies for deploying artificial intelligence on behalf of government efficiency, working towards streamlining permits for data centers, but also strengthening our power grid," he added. "These very important structural issues are left by the wayside right now."

Advertisement

AD

In an emailed statement to POLITICO, White House spokesperson Abigail Jackson did not directly address questions about specific impacts from the shutdown but blamed Democrats for "far-reaching consequences" by not approving a resolution to keep the government funded in the short term.

[Congressional Democrats are demanding](#) an extension of Affordable Care Act health care subsidies that sunset at the end of the year before they will agree to a stopgap.

Despite the Trump branding on the AI Action Plan, Leroe-Muñoz has seen several of its themes, like upskilling workers and bringing AI infrastructure online faster, draw support from both parties.

“The longer-term impacts, I think, are going to be felt further down the line when projects that are meant to accelerate AI innovation are put on ice and not picked up for quite some time thereafter,” he said.

Dean Ball, recently a Trump administration adviser who drafted the action plan, told POLITICO in San Francisco last week that a shutdown distracts lawmakers from another key priority, upon which progress on the policy depends. A deadlocked Congress put off [renewing a law](#) that provided industry with legal protections to share information about cyber threats, which expired early last Wednesday.

“There were important parts of the AI Action Plan specifically relating to cybersecurity of critical infrastructure that are just impossible to implement now because the authorizing legislation is gone,” Ball said in an interview. “I hope they figure out the shutdown thing so they can get back to work on stuff like this.”

The loss of staffing alone could be severe. The Labor Department [planned to keep on](#) less than a quarter of its staff, and the Office of Science and Technology Policy only [expected to retain](#) nine of 23 employees. The National Science Foundation — responsible for providing researchers access to shared national computing resources under [a pilot program](#) — [proposed furloughing](#) about 75 percent of its employees. Leroe-Muñoz pointed to it as an example of how a prolonged shutdown risks putting “AI regulatory reviews, funding and deployment pilots on pause.”

Advertisement

AD

Adding to the uncertainty, Trump has [teased permanent firings](#) that go beyond historical precedent and [called the shutdown](#) an “unprecedented opportunity” ahead of a meeting with his budget director, slash-and-burn enthusiast Russ Vought.

“There have typically been norms around federal shutdowns — furloughs, back pay for federal employees, etc. — and there’s uncertainty around whether that will continue,” said Thomas. “That uncertainty has real economic impacts.”

Michael Olmstead, the chief revenue officer of the Silicon Valley startup accelerator Plug and Play, said while the company hasn’t felt any immediate consequences, he’s “sure there will be some ripple effects.”

“I could foresee our business being impacted as we enter into new states that are receiving federal funding to build innovation ecosystems,” Olmstead told POLITICO. “Thinking about that in terms of what can happen if it’s a prolonged shutdown could be worrisome.”

Francisco Sabaté, who advises Chief AI and previously worked as a tech policy aide for Oakland Mayor Barbara Lee when she was in the House, brought up the prospect of potential delays in immigration visa processing. That could affect employees and companies already grappling with Trump’s new \$100,000 H-1B fee, which left [many in the tech industry anxious](#).

U.S. Citizenship and Immigration Services will continue to handle applications since it draws funding from user fees, yet H-1B visas usually require extra processing from a Labor department office that has closed.

“What is that going to mean for H-1B, green cards, work permits? That’s going to hurt talent mobility in an industry reliant on high-skilled labor,” said Sabaté, who also currently works at data aggregation company Legis1.

Tech companies dependent on FCC spectrum licenses could also be stalled, Sabaté said. Over 80 percent of FCC staff are being told to stay home, unlike in past years. With its funding lapsed, the agency will no longer respond to consumer complaints, enforce consumer protection measures, process communications licenses and equipment authorization or manage wireless spectrum, according to plans posted this month.

Advertisement

AD

Several tech founders and advisers said they fear venture capital funding could also be hit.

Sabaté warned that “venture capitalists can get jittery when federal R&D and regulatory certainty stalls,” and if the shutdown is prolonged, it could cause startup valuations to depress, slowing fundraising.

Tech stocks largely [shrugged off](#) the government shutdown during its first week, hitting a record high before erasing some gains on Friday.

“Probably around early springtime next year is when you’ll see more dramatic effects on investments,” said one AI company founder, who was granted anonymity to speak candidly about a sensitive political topic. “This government shutdown feels a little bit different than last time, with more on the line, because of how politically active tech has been with the administration.”

Kanyi Maqubela, managing partner at Kindred Ventures, said he's closely watching several sectors amid the ongoing political turbulence: health tech, legal tech and the Department of Defense. The Pentagon said that new contracts can't be executed, with few exceptions, in its [contingency plan](#).

"This is a measure of uncertainty," Maqubela said. "Uncertainty with tariffs at the end of Q1 really threatened to shake the markets. Uncertainty with the government may cause a similar effect."

"It's unsteady times," said Murat Bicer, general partner at venture capital firm CRV. "On the flip side, wherever there's an obstacle for one founder, an opportunity exists for others. If SBA loans and federal funding are halted, fintech startups that offer capital or short-term financing might see a boon."

FILED UNDER: CALIFORNIA

## California Playbook

Inside the Golden State political arena



EMAIL

Your Email

---

EMPLOYER

Employer

---

\* All fields must be completed to subscribe

SIGN UP

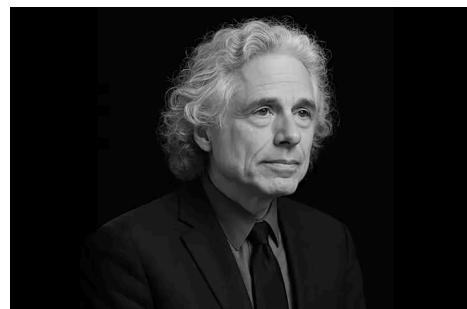
By signing up, you acknowledge and agree to our [Privacy Policy](#) and [Terms of Service](#). You may unsubscribe at any time by following the directions at the bottom of the email or by contacting us here. This site is protected by reCAPTCHA and the Google [Privacy Policy](#) and [Terms of Service](#) apply.

## SPONSORED CONTENT



### Why Gen X is the real loser generation

The Economist



### Harvard Professor Steven Pinker Recommends: 7 Books He Would Reread...

Cognitive scientist Steven Pinker shares the books that prove the world is getting better...

Blinkist: Celebrity Reading List



### Why Is Everyone Quitting Gmail?

Proton Mail