[NEWSLETTERS](https://www.theatlantic.com/newsletters/)

Why Everything in Tech Seems to Be Collapsing at Once

The industry is having a midlife crisis.

By [Derek Thompson](https://www.theatlantic.com/author/derek-thompson/)



Getty; The Atlantic

NOVEMBER 17, 2022

The tech industry seems to be in a recession. Although overall unemployment is still very low, just about every major tech company—including Amazon, Meta, Snap, Stripe, Coinbase, [Twitter](https://www.theatlantic.com/technology/archive/2022/11/elon-musk-twitter-poor-management-layoffs-advertisers/672029/), Robinhood, and Intel—has announced double-digit percentage-point layoffs in the past few months. The stock valuations for many of these companies have fallen more than 50 percent in the past year.

Watching this surge of mass layoffs in big tech companies, plus the lurid chaos unfolding at Twitter over the past few weeks *and* the spectacular ongoing implosion of crypto, the big question on my mind is: Why is it all happening at once?

The simple, and possibly simplified, answer to this question is: It’s the [interest rates](https://www.theatlantic.com/newsletters/archive/2022/10/recession-federal-reserve-inflation-interest-rates/671702/), stupid.

The period after the Great Recession was defined by a weak economy with low aggregate demand and low interest rates. This created the perfect conditions for an era of endless cash that venture capitalists, seeking high rates of return, poured into low-marginal-cost software companies. As smartphone penetration rose in the U.S. and around the world, the app revolution took off. Social-media and consumer-tech companies became some of the richest and fastest-growing in the world. Hollywood went streaming, content went digital, and the services economy became intermediated by smartphones.

Then came the surge of post-pandemic inflation. Rising interest rates have meant the end of easy money. The Millennial Consumer Subsidy—my term for VCs splitting the bill with consumers to grow their companies—has come to a close. As the cost of risk has gone up, venture funding has gone down, and companies have had to cut costs, raise prices, or both. Meanwhile the narrative in markets has flipped from growth to profits, and valuations for tech companies have crashed.

The inflation explanation is fairly technical. I’ve got another story that’s a little bit harder to prove. It goes something like this: The tech industry is experiencing a midlife crisis.

After using its metaphorical youth to experiment with social media and consumer tech through boundless investment and endless optimizations and A/B tests, many tech executives and investors today feel like they’ve essentially solved the most interesting and important problems of basic digitization. This is not just my opinion: Four years ago, the tech analyst Ben Evans[observed](http://ben-evans.com/benedictevans/2018/11/16/the-end-of-the-beginning)that software had scaled the mountain of advertising and media and connected the world, and tech was looking to climb new mountains and find new challenges. One chapter was closing, and the most prominent tech executives and investors were looking for the next story.

Executives of the largest tech firms have for years been shifting resources toward new ventures with uncertain returns. Amazon recently employed more than 10,000 people to work on its AI product, Alexa. (Jeff Bezos stepped away from the company he founded to work on rocket ships.) At Meta—the parent company of Facebook, Instagram, and WhatsApp—Reality Labs, the division working to build a metaverse, has about 15,000 employees. Apple reportedly has[3,000 people](https://uploadvr.com/apple-3000-staff-ar-vr-headset/)working on an augmented-reality headset, and[thousands more](https://www.wired.com/story/google-assistant-natural-language-sissie-hsiao/) are working on Google’s voice assistant. At the same time, the venture-capital community has been looking for its own moonshot, and many investors have found one (or, at least, have wanted people to believe that they have) in crypto. VCs have reportedly bet dozens of billions of dollars in the space, even though, for all the bluster and investment, it mostly remains a technology in search of a use case beyond betting money on tokens that cash out in dollars. Meanwhile, in what may be a *literal* midlife crisis, Elon Musk, a car and rocket executive, has installed himself at the helm of a digital delivery mechanism for news outrage with, at best, a [chaotic plan](https://www.theatlantic.com/technology/archive/2022/11/elon-musk-twitter-takeover-tweets/672040/) for resurrecting its business.

It would be unfair to suggest that all of these moves are the emotional equivalent of a 52-year-old man dyeing his hair and trading the minivan for a Corvette. Companies going big and spending lots of money on important and difficult problems with uncertain solutions is cool, in a way. But at the moment, a lot of these bets look half-baked, catastrophically expensive, or outright fraudulent.

These explanations—the macroeconomic one and the psychodynamic one—intersect. The tech industry, which had perfected the art of optimizing digital spaces for engagement and ad placement, was prepared to invest deeply in the next adventure. But it’s gotten smacked by post-pandemic inflation and rising interest rates, which has made this pivot harder to execute. The result is the current news: mass layoffs across companies that just a few years ago seemed utterly unstoppable.

One mistake that a journalist can make in observing these trends is to assume that, because the software-based tech industry seems to be struggling now, things will stay like this forever. More likely, we are in an intermission between technological epochs. We’ve mostly passed through the browser era, the social-media era, and the smartphone-app-economy era. But in the past few months, the explosion of artificial-intelligence programs suggests that something quite spectacular and possibly a little terrifying is on the horizon. Ten years from now, looking back on the 2022 tech recession, we may say that this moment was a paroxysm of scandals and layoffs between two discrete movements.

[Derek Thompson](https://www.theatlantic.com/author/derek-thompson/) is a staff writer at *The Atlantic*and the author of the [Work in Progress](https://www.theatlantic.com/newsletters/sign-up/work-in-progress/) newsletter.