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Government venture capital research: fake science and bad public policy


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ABSTRACT

We review statistical methods used to estimate the impact of crowding out of private venture capital (VC) by government VC. We review three types of failures that have plagued the VC literature and resulted in policy implications that are precisely the opposite of what the data actually indicate. The first failure involves the mistaken use of measures that give rise to country rankings where the best VC markets in the world are countries in the U.K. The second failure is the use of measures that date the creation of VC funds for the nonrandom selection of VC funds. We show that the inference that VC funds give rise to crowding out is very false. The third failure is that VC funds exhibits no evidence of crowding out.

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suggestions for future research and raise some new questions that could guide policymakers in the future.

Q KEYWORDS:

Government venture capital

crowding out

science and public policy

Fake science

Harmful econometrics

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Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

1. <https://www.crunchbase.com/organization/innovation-investment-fund>.
2. By analogy, it is akin to making an absurd argument that socialism does not crowd out capitalism by only looking at data that postdate the introduction of socialism and observing little variability in and scant levels of capitalism.
3. Some inferences might be properly drawn with data that only postdate the program on topics other than domestic crowding out, but those topics are not among the issues raised in



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