State Venture Capital vs. Federal Venture Capital: A Reply to Paul Rose, *State Venture Capital*

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INTRODUCTION

In his article *State Venture Capital*, Professor Paul Rose offers a justified critique of the failings of the current state of state-run venture capital programs. More specifically, he pushes back on the current conventional wisdom driving these programs' proliferation. Many states have set about funding early-stage businesses "through the initial phases of company development."[1] Direct funding in the early stages of a company is meant to address the lack of available capital for small businesses when attempting to grow "from pre-revenue to profit generation."[2] With "[m]ore than half of the states with venture capital programs engag[ing] in direct investment,"[3] Professor Rose addressed the following "headwinds" regarding the growing system of state-run venture capital programs: corruption, rent-seeking, incentive mismatches, poor performance, geography, accountability of the programs, and potential inequities.[4]

This brief essay further expands upon Professor Rose's article by asking and then answering one simple question: do the flaws in state venture capital programs equally apply if similar programs were run at the federal level? Rose convincingly illustrates the flaws currently apparent in venture capital programs run by state governments.[5] However, it does not answer (nor does it attempt to answer) the broader question of whether the mentioned limitations to such programs are present in government-funded venture capital programs generally, or if they are more likely specific to state or local-level programs. This response will examine the seven main headwinds that Rose enumerated and compare how those headwinds may or may not also be of concern in federally run programs.

I. THE POTENTIAL FOR CORRUPTION

Rose states that state venture programs are at risk of corruption, especially as venture funds could incentivize pay-to-play schemes and other similar scenarios.[6] In essence,

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* Associate Professor, University of Kansas. I would like to thank Paul Rose for his ongoing mentorship and providing me the opportunity to respond to his article, as well as my dutiful crew of research assistants, Jack Atherton, Alec Nee, and Jack Roberts for all of their assistance on this project.

1. Paul Rose, *State Venture Capital*, 49 J. CORP. L. 101, 122 (2024).
2. *Id.* (quoting STATE SMALL BUS. CREDIT INITIATIVE, U.S. DEP'T OF THE TREAS., BEST PRACTICES FROM PARTICIPATING STATES: VENTURE CAPITAL PROGRAMS 2 (2014)).
3. *Id.* (quoting ERIC CROMWELL & DAN SCHMISSEUR, INFORMATION AND OBSERVATIONS ON STATE VENTURE CAPITAL PROGRAMS 20 (2013), https://creconline.org/wp-content/uploads/2017/08/VC-Report.pdf [https://perma.cc/2TZT-C986]).
4. *See* Rose, *supra* note 1, at 463–74 (addressing issues common to state-run venture capital programs).
5. *Id.*
6. *Id.* at 129.

financial awards to companies could be premised on the understanding (explicit or otherwise) that the recipients of such funds are expected to provide future support for the elected officials who authorized this investment.[7]

This is a genuine concern for state venture capital programs. This danger exists largely due to the relatively small nature of state governments. State venture capital funds represent a non-negligible line item on most state budgets.[8] Accordingly, elected officials, up to and including the governor, will likely be involved in making investment decisions or at the very least providing some level of oversight, whether formally or informally. Especially as funds are intended to boost specific sectors of the economy,[9] elected officials will likely want to have direct oversight in selecting appropriate candidates. Even if there is not direct oversight, programs could be tailored to attract companies from specific industries.[10] With such thin layers between elected officials and funded companies, the potential for corruption would be greatly enhanced.

On the federal level, conversely, the potential for the same types of pay-to-play schemes to which state venture programs are susceptible is greatly diminished. This is true for primarily two reasons: a greater buffer between elected officials and funded companies, and the diminished value of any potential fund recipient to a federal elected official.

As stated earlier, the relatively small nature of state government makes it particularly susceptible to corruption in this sort of funding scheme. Conversely, the sheer size of the federal government likely completely separates any federal venture fund program from elected officials.[11]

Unlike the state level, where even governors may harbor personal interests in recipients of state venture funds, any individual beneficiary of federal venture funds is unlikely to attract the direct attention of the president or other federal elected officials.

Currently, most federal funds distributed to small businesses are done so on a subject matter basis through specific subject matter programs without specific geographical restrictions beyond being located in the United States.[12] Programs are set up through

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7. *Id.* ("Most obvious is the risk that venture funds could incentivize pay-to-play schemes where investment is conditioned on the promise of reciprocal financial support for elected officials.").

8. *See* STATE SMALL BUSINESS CREDIT INITIATIVE: FACT SHEET JUNE 2023, U.S. DEP'T OF THE TREAS. (May 13, 2024, 3:23 PM) https://home.treasury.gov/system/files/256/State-Small-Business-Credit-Initiative-SSBCI-Fact-Sheet.pdf (stating that multiple states have received varying, but relatively large, amounts of funding for direct equity capital programs from the U.S. Federal Government. *Id.* This is including but not limited to Florida, receiving $100M; Illinois receiving approximately $114.8M; Connecticut receiving approximately $89.4M; and Missouri receiving approximately $94.8M).

9. *Id.*

10. *See e.g.*, Paul Rose, *State Venture Capital*, 49 J. Corp. L. 101, 120 (2024) (citing *What We Do: Strategic Programs & Incentives for Economic Growth*, NEV. GOVERNOR'S OFF. ECON. DEV., https://goed.nv.gov/programs/ [https://perma.cc/U8WE-Z6AK] (describing the goals of Nevada's various development funds)).

11. *How Many People Work for the Federal Government?*, USAFACTS (Nov. 15, 2023), https://usafacts.org/articles/how-many-people-work-for-the-federal-government/ ("As of September 2023, there were 2.95 million employees in the U.S. federal workforce." This accounts for 1.9% of all U.S. workers, with ~41,000 employees in the U.S. Department of Commerce and ~8,000 in the Small Business Administration.)

12. For example, the Small Business Administration ("SBA") does not directly invest into small businesses but will allow for small business investment companies ("SBIC") to invest in companies that meet certain requirements of the SBA. Once the SBIC has chosen a company to invest in that meets those requirements, the SBIC will contribute their own capital, and the SBA will lend up to 2x the privately raised funds. *See Investment*

discrete bureaucratic arms of the government under federal departments.[13] Those who review and decide on recipients of funds are typically many layers removed from their own department secretaries, let alone any elected official who would engage in any sort of pay-to-play scheme with the companies.[14]

For example, the U.S. Small Business Administration ("SBA") can provide equity investments to small businesses.[15] These equity investments are not directly given to the small business from the SBA, but instead privately owned businesses known as Small Business Investment Companies will raise private funds to invest in a small business, and the SBA will lend "up to 2x of privately raised funds."[16] So instead of a small business going directly to the SBA for funding, the business must first find a SBIC willing to invest, which can then be aided by a matched investment from the SBA. The SBA only has three universal requirements for companies seeking investments,[17] meaning choosing a company to invest in is largely up to the SBIC.

Additionally, one of the key reasons why the potential for corruption is so ripe at the state level is that the import of any individual company to a political official up for re-election is much greater than any corresponding such value at the federal level. In citing the corruption risk present in the Texas Emerging Technology Fund (ETF), Rose noted that over a two year stretch the program doled out over $200 million in total awards with the largest going for $44,000,000.[18]

At the state level, venture payouts of this size are quite large and could certainly create a scenario ripe for political corruption. Whereas on the state level, a $44,000,000 investment may engender loyalty that may be beneficial for an election, the same is likely not true at the federal level. With the presidential election the only true federal-level election, the likelihood that the support of any company soliciting federal venture funds would make an appreciable difference in the presidential election is extremely slim.[19]

It is not to say, of course, that federal venture funds could not also be susceptible to corruption. However, the concerns for such corruption would likely look much different than would the potential for corruption at the state venture fund level.

Capital, U.S. SMALL BUSINESS ADMINISTRATION (March 29, 2024), https://docs.google.com/document/d/106Q9VLTv7xVXG38vfP4rcrZ_jaXChEKSGtOg31ra2xk/edit; *see also Fund Your Business*, U.S. SMALL BUSINESS ADMINISTRATION (May 14, 2024), https://www.sba.gov/business-guide/plan-your-business/fund-your-business.

13. *E.g.*, *Investment Capital*, U.S. SMALL BUSINESS ADMINISTRATION (March 29, 2024), https://docs.google.com/document/d/106Q9VLTv7xVXG38vfP4rcrZ_jaXChEKSGtOg31ra2xk/edit.

14. *Id.* Other than the universal requirements the SBA imposes on the companies and SBIC can invest in (the business must be: U.S. based; a "small business" under the SBA definition; and an approved industry), the decision to invest in a small business is up to the SBIC, not the head of the SBA.

15. *See supra* note 12.

16. *Id*.

17. *Id.*

18. Rose, *supra* note 10, at 129.

19. Statistical Summary of 24-Month Campaign Activity of the 2019-2020 Election Cycle, FEC.GOV, https://www.fec.gov/updates/statistical-summary-24-month-campaign-activity-2019-2020-election-cycle/ (last visited Jun 4, 2024) (indicating that more money was spent on the 2020 presidential election than on all the 2020 senate races combined).

II. THE POTENTIAL FOR RENT SEEKING

In contrast to the reduced risk of corruption that federal programs appear to have over state programs, the potential for rent-seeking appears comparably significant across both spheres.

Potential for rent-seeking exists when a private actor is able to manipulate a public policy or program in order to obtain an outsized financial benefit.[20] As Rose illustrated with the example of Certified Capital Company (CAPCO) programs, private companies are able to benefit from investing in these government programs in large part because incentives were misaligned.[21] In a classic illustration of the agency dilemma, rather than pursuing investments in small, venture-stage firms, fund managers prioritized "safe, low-risk investment."[22] This ensured the managers of their management fees, while not angering the insurance companies as their primary benefit was not from a potential return on their investment, but from taking advantage of tax credits and interests.

Unlike with issues of corruption where the potential seems to diminish with the move from the state to the federal level, federal venture programs would likely not be any less susceptible to rent-seeking than would state-level programs. In fact, the same layers of bureaucracy that insulate federal venture programs from the potential for corruption actually work to increase the susceptibility to rent seeking.

As stated above, in state venture fund programs it is quite likely that high-up individuals in the state government would have a vested interest in trying to ensure the success of a funds program. This oversight would likely enable them to relatively quickly identify rent-seeking scenarios and properly adjust the program.

In federal venture fund programs, conversely, being buried in bureaucracy would likely inhibit any such schemes from being readily noticed. Once a program is up and running, those who have a job managing the fund have minimal incentive to try and bring to light information that could lead to the elimination of the fund. Also, adjustments within large organizations are often difficult and time-consuming. Accordingly, such a rent-seeking scheme would exist for long periods without it ever being brought to the attention of someone in a position (and with the proper incentives) to make adjustments.

Additionally, whereas access to state-level programs is typically limited to local companies, federal programs are accessible to companies nationwide. This opens the possibility that a greater number of companies looking to engage in rent-seeking programs could access the benefits of a single fund, whereas the impact may be much more limited at the state level.

III. INCENTIVE MISMATCHES

This headwind to state venture funds is an interesting one, as it simultaneously poses a potential problem to government investment while also highlighting one of the primary reasons for its value. Traditional venture capital has essentially one goal and one goal only:

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20. *Id.* at 130.
21. *Id.* at 130–31.
22. *Id.* at 130.

to make money.[23] To expand a bit further, its goal is to make a lot of money in a relatively short time frame.[24] They do this by losing money fast on lots of companies in order to strike it rich on a small handful of investments.[25]

Unsurprisingly, government officials have a much more robust set of goals and incentives than the typical venture capitalist. While we often think about venture capitalism as operating on short timeframes, politicians work on even shorter ones. A typical venture capitalist fund will be created with an operating life of around ten years in mind.[26] The goal is to have a brilliant return on investment over that timeframe.

Government officials, however, tend to work on election cycle timeframes. These cycles tend to be in two-to-four-year increments,[27] much shorter than the ten years that venture capitalists often are allotted for success. Governments, as opposed to traditional venture capitalists, are motivated by factors such as economic development, furthering strategic government initiatives, etc.[28] It makes little sense for state venture capital funds to operate under the same framework as private venture capital funds when the incentives are so wholly different.

This incentive mismatch doesn't completely change when transitioning from state venture capital funds to federal venture capital funds. Federal agencies engaging in venture capitalism will also have a host of incentives and goals beyond simply making money. Federal funds, however, do differ from state funds in one important way: the importance of election cycles.

As discussed above, federal venture capital programs tend to be much better insulated from electoral politics than at the state level. Program failures and successes are less visible, and so there tends to be less demand for instant returns. Accordingly, while the overall incentives are still out of step with that of private venture capitalism, federal venture capital is better able to work in lockstep with the timing of private funds. While this aspect is certainly a headwind that deserves further exploration the impact is likely not nearly as pronounced as it would be at the state venture capital level.

IV. Poor Performance

As Rose rightly notes, historically state venture funds have not performed well. One of the primary reasons for this poor performance relates directly to the incentive

23. Bob Zider, *How Venture Capital Works*, HARVARD BUS. REV, https://hbr.org/1998/11/how-venture-capital-works (last visited June 2, 2024).

24. *Id.* ("The fund makes investments over the course of the first two or three years, and any investment is active for up to five years. The fund harvests the returns over the last two to three years.").

25. *Id.* ("Given the portfolio approach and the deal structure VCs use, however, only 10% to 20% of the companies funded need to be real winners to achieve the targeted return rate of 25% to 30%. In fact, VC reputations are often built on one or two good investments.").

26. Understanding Venture Fund Time Horizons, GRIDLINE (Feb. 22, 2023), (https://gridline.co/understanding-venture-fund-time-horizons/#:~:text=Venture%20funds%20typically%20aim%20to,event%2C%20or%20a%20SPAC%20merger ("Venture funds typically aim to return capital to investors within 10 years, although disbursements can begin as early as year five or six").

27. *Election Cycle and Aggregation*, FED. ELECTION COMM'N (last visited June 2, 2024, 6:36PM), https://www.fec.gov/help-candidates-and-committees/filing-reports/election-cycle-aggregation/.

28. *Government at a Glance 2013: Government Investment Spending*, OECD (2013), https://doi.org/10.1787/gov_glance-2013-23-en.

mismatches as listed above. Private venture capital is focused on a sole objective: making as much money as possible for its investors.[29] As state venture capital has additional non-monetary objectives, such as job growth, geographical economy development, industry development, etc.[30] it would make sense that from a purely monetary standpoint, such funds would perform poorer when using traditional metrics of success and being compared to private funds.

As noted, this poor performance tends to arrive as a result of being geographically focused.[31] States will invest funds to try and prop up or develop specific regions or cities.[32] The targeted geographies are typically ones that are not currently performing well economically. If this were not the case, it would make less sense for the states to invest in these areas as there would likely already be sufficient private investment. Investment into less-profitable industries and in disadvantageous locations will almost inevitably bring about poor performance, or at least poorer performance than its private investment counterparts.

The one success that Rose did mention, however, came out of a federal venture program, grants from Small Business Innovation Research. Other results also seem to suggest that federal programs do not necessarily suffer from the same poor performance woes as do state venture programs. For example, while not strictly a venture fund program, part of the American Recovery and Reinvestment act of 2009 allocated considerable funds in the form of loans to innovative clean energy companies through the Department of Energy.[33] Initially this program was seen as a failure due in large part to the widely publicized (and costly) failure of Solyndra. Despite this, and other, high-profile failures, in the long run the program ended up running a profit across the aggregate of its funded companies.[34]

Why might federal funds be more likely to succeed than state funds? As mentioned elsewhere in this article, federal venture programs do not suffer from many of the same limitations as do state programs. The federal government's comparative size advantage over state governments, and the resources that come with that advantage, allows it additional flexibility in terms of location and industry. Whereas state programs require quick turnarounds, federal programs can be more patient. Whereas state programs are limited to state geographies, federal programs can invest anywhere nationwide that would make the most sense. Whereas state programs receive intense scrutiny from the highest levels of state government, federal programs are better insulated from the interference of politicians. In short, it is unsurprising that federal programs would see better performance than state programs as they do not have to deal with nearly the same level of headwinds.

29. Zider, *supra* note 23.

30. *Best Practices from Participating States: Venture Capital Programs*, U.S. DEP'T OF THE TREAS. (Apr. 2014), https://home.treasury.gov/system/files/256/SSBCI-VC-Program-Best-Practices-4-24-2014-FINAL.pdf.

31. *Id.*

32. *Id.*

33. American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).

34. Stephen Edelstein, SOLYNDRA WHO? THE ENERGY DEPARTMENT'S LOAN PROGRAM IS NOW PROFITABLE. THE CHRISTIAN SCIENCE MONITOR (2016), https://www.csmonitor.com/Business/In-Gear/2016/1017/Solyndra-who-The-Energy-Department-s-loan-program-is-now-profitable (last visited Jun 4, 2024).

V. THE INEVITABILITY OF GEOGRAPHY

Perhaps geography is the greatest areas where federal venture funds find an advantage over state venture funds. As studies show, the success of VC funds is very closely tied to location.[35] There are many reasons for this, which are beyond the scope of this response paper, but in short, VC-backed companies are most likely to thrive in specific ecosystems with robust support systems built up. Unsurprisingly, these locations include Silicon Valley, New York City, Boston, Seattle, etc.[36]

Conversely, VC-backed startups that are not located in these locations have a much steeper path to success. This is specifically one of the reasons why states engage in venture funding in the first place. State governments, in general, desire to boost their own local economies. State and local officials work hard to try and grow local businesses, retain successful businesses, and to try and lure companies to relocate to their location.[37]

As venture capital-backed companies are often more successful and have a higher growth ceiling than do non-venture capital-backed companies, it is natural that elected officials would put a premium on having successful venture-backed companies in their backyard. However, given the reality that private venture capital funds are mostly limited to a few locations, state governments will create state venture funds to try and boost their own local companies.[38] This is to promote local growth while also disincentivizing those companies from moving elsewhere. As Rose notes, venture capital-backed companies outside of the major VC powerhouse localities tend to struggle greatly despite the good intentions of the local government promoters.[39] As much as a state such as, say, Oklahoma may wish to promote venture-backed companies within its state borders, the reality is that the natural infrastructure to support the needs of such a company is unlikely to exist anywhere within the state.[40]

In contrast, federal state venture programs do not suffer from this same limitation. The federal government, when creating a venture capital program, by and large would be apathetic about the location of the company being funded, so long as it was in the United States. Such programs are more focused on specific industry growth rather than on geographical development.[41] Thus, companies backed by federal venture funds could set up shop in one of the aforementioned locations most likely to help bring about its success. Whereas the inevitability of geography proves to be a hindrance to state venture programs the apathy of geography at the federal level makes it unlikely that such a program would suffer the same limitation.

35. *See generally*, Henry Chen et al., *Buy Local? The Geography of Venture Capital*, 67 J. URBAN ECON. 90–102 (2009).

36. *Id.*

37. Rose, *supra* note 1, at 105.

38. *Supra* note 30.

39. Rose, *supra* note 1, at 129.

40. Maxwell Wessel, *Don't Build Your Startup Outside of Silicon Valley*, HARVARD BUS. REV., 2013.

41. *See, e.g. About NIST MEP*, NAT'L INST. OF STANDARDS & TECH., https://www.nist.gov/mep/about-nist-mep. The Hollings Manufacturing Extension Partnership is a public-private partnership funded in large part by the federal government which focuses on the support and development of manufacturing companies nationwide.

VI. LACK OF ACCOUNTABILITY

One of the natural advantages of private venture capital funds is that they tend to be small, lean, and not bogged down with bureaucratic red tape.[42] Given the speed at which projects often move in the startup world, this lean is necessary to meet the needs of the companies they are investing in and be competitive when multiple funds are looking to invest in a single company.[43]

Governments, on the other hand, tend to be the exact opposite of this. Governmental institutions tend to move slowly, with many different approvals, rules, and regulations which must be complied with to get anything done. Accordingly, it may seem that governments and venture capital funding are antithetical to one another.

To address this issue, some state governments will create quasi-governmental entities to act as the investment vehicles for to distribute state venture funds. At first glance this seems to make sense, as it can utilize the backing of government funds while cutting down on red tape. As Rose points out, this is exactly the format that JobsOhio takes.[44]

However, this lack of bureaucracy also leads to a lack of oversight and accountability. In Ohio, when a state auditor attempted to request records from one such quasi-government fund, the state legislature went so far as to pass legislation affirmatively stating that the fund in question was private and therefore not subject to the state auditor's oversight. Ostensibly, this move was taken by the state legislature to ensure that private partners did not pull out of the then-current funding arrangement to avoid opening themselves up to state audits.[45]

Whereas the Ohio state legislature's response may be on the more extreme end as far as affirmatively limiting oversight, it shows the potential for programs such as these to have accountability that is necessary when taxpayer funds are being spent to be removed.

While we have a clear picture of how this headwind could play out at the state level, it is difficult to see the same results playing out at the federal level. Where the Ohio state legislature stepped in to protect its program from oversight,[46] it is extremely unlikely that the federal legislature would do the same to protect a federal venture capital program from investigation.

Instead, the real risk of lack of accountability in federal venture capital programs likely comes in the sheer size of the federal government.[47] With the funds for any such

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42. Yoram Landskroner & Jacob Paroush, *Venture Capital: Structure and Incentives*, 4 INT'L REV. OF ECON. & FIN. 317, 318 (2002).

43. Paul Gompers, *How Venture Capitalists Make Decisions*, HARV. BUS. REV. (June 04, 2024), https://hbr.org/2021/03/how-venture-capitalists-make-decisions.

44. William G. Batchelder, *10 Years Later, JobsOhio Continues to Move at the Speed of Business*, JOBSOHIO (Feb. 26, 2021), https://www.jobsohio.com/blog/10-years-later-jobsohio-continues-to-move-at-the-speed-of-business [https://perma.cc/3BNE-7CNL].

45. Dylan Scott, *The Strange Case of JobsOhio and Public Auditing of Private Firms*, GOVERNING (June 07, 2013), https://www.governing.com/archive/gov-ohio-officials-battle-over-auditing-of-economic-development-money.html [https://perma.cc/EDB8-XDVT].

46. *Id.*

47. *How Many People Work for the Federal Government?*, USAFACTS (Nov. 15, 2023), https://usafacts.org/articles/how-many-people-work-for-the-federal-government/ (stating that as of September 2023, there were 2.95 million employees in the US federal workforce).

program being such a relatively small part of federal expenditures,[48] such a program could conceivably simply be deemed not worth the time of auditors to inspect properly. While the federal government is vast, it is currently understaffed.[49] Once a federal venture capital program is established, unless the department the program is created under is actively monitoring the funds being spent, it is easy to see how it could simply be lost in the shuffle.

Accordingly, while the possibility for lack of accountability likely comes from a different source in federal vs. state programs, the danger still exists. However, the danger at the federal level is likely not as pronounced as federal departments currently are required to conduct regular internal audits. Additionally, such programs would also be subject to external checks from Freedom of Information Act requests, something which does not necessarily exist to the same extent at the state level.

VII. POTENTIAL INEQUITIES

Naturally, the potential for inequalities as discussed by Rose are just as susceptible at the federal level as at the state level.[50] The rural-urban dynamic as discussed by Rose is endemic across the entire nation and not particular to any specific state.[51] It is unlikely to see how a move from the state level to the federal level would significantly reduce the potential for inequalities in this particular manner.

In fact, it is worth noting that the potential for inequalities may actually be exacerbated at the federal level. As discussed above, just as access to the geography of the entire United States lends a great advantage to the federal government over state governments in targeting funds in areas where it is likely to do the greatest good, it also has the potential to exacerbate potential inequalities in its distribution of funds.

One of the main goals of state venture capital funds is to try and bolster economic conditions in disadvantaged areas within their state.[52] As discussed, this often leads to poor performance of these funds, whereas federal funds can focus instead on geographies more traditionally favorable to venture capital-backed companies. This provides a great opportunity for federal fund programs that are focused on achieving traditional success metrics (i.e., financial profit).

This same benefit to federal fund programs simultaneously opens the gate for the potential exacerbation of inequalities. The fact that states invest in disadvantaged geographies demonstrates an important and unsurprising reality: inequalities currently exist. Some communities benefit greatly economically because of the large amount of private venture capital investment funds coming into local businesses, creating jobs, and

48. *Fiscal Data Explains Federal Spending*, FEDERAL SPENDING | U.S. TREASURY FISCAL DATA, (June 04, 2024), https://fiscaldata.treasury.gov/americas-finance-guide/federal-spending/ (putting US federal government spending for 2023 at $6.13 trillion).

49. Joe Thiel, *Why Federal Agencies Have a Retention Problem, and What to do About It*, FEDERAL TIMES (June 04, 2024), https://www.federaltimes.com/opinions/2023/10/24/why-federal-agencies-have-a-retention-problem-and-what-to-do-about-it/.

50. Rose, *supra* note 1, at 474.

51. Carlianne Patrick, *Jobless Capital? The Role of Capital Subsidies*, 60 REG'L SCI. & URBAN ECON. 169, 175–77 (2015).

52. Rose, *supra* note 1, at 465.

growing the business ecosystem.[53] This comes at the expense of other communities which are not currently attractive to investments. Should federal venture capital fund programs focus exclusively on companies with the highest likelihood of financial success then the lion's share of their investments will inevitably be in these investment-friendly locations. Thus, the federal programs would result in helping the communities currently being benefited by the presence of venture capital-backed companies to absorb more such funds, while financially disadvantaged communities would continue to fall further and further behind.

CONCLUSION

Rose's article is an important addition to the continuing conversation on state venture capital. Perhaps the most important contribution is his recognition and conclusion that state venture capital is not inherently flawed. As much as his discussion centers around the shortfalls of state venture capital, this does not change the underlying impetus for its creation in the first place. Rather than using these headwinds to argue against further state venture capital creation, Rose rightly positions this as an opportunity to learn from past shortcomings and provides critical suggestions on how to improve moving forward.[54]

In connection with Rose's suggestions as to how best to improve state venture capital programs, this response hopes to provide an early framework in determining if these public-private funds are best generated at the state level or at the federal level. Upon review of the headwinds addressed by Rose, it seems that at least on its face federal venture capital programs likely do not suffer from many of the same shortfalls as state programs. To address growing economic disparities among geographies within the United States, it is likely necessary to look to both state and federal programs in propping up disadvantaged geographies.

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53. *See generally*, Henry Chen et al., *Buy Local? The Geography of Venture Capital*, 67 J. OF URBAN ECON. 90–102 (2009).

54. Rose, *supra* note 1, at 481–86.