Abstract:

What is the impact of innovation on attracting private capital to a region? We utilize a shock to local innovation in the form of the Bayh-Dole reforms, which provides a positive shock to the supply of innovation in certain industries in university towns. Because each university specializes in different areas, we leverage variation across industries within counties containing universities and counties left relatively unchanged from the reforms. Our empirical approach leverages this differential shock to explore the impact of an unexpected supply of new ideas on attracting capital. We demonstrate an increase in the allocation of venture capital to industries within a county where resident universities specialize relative to industries in that county where resident universities do not specialize and counties without universities. Our empirical approach accounts separately for the impact of prior corporate R&D and changes in the supply of venture capital due to contemporaneous changes in the Prudent Man Rule during our study period. Our results demonstrate that the Bayh-Dole reform shifted the regional allocation of venture capital and the most likely mechanisms was through the supply of new ideas available for commercialization unlocked from research in universities.