

VENTURE CAPITAL

Venture capital invested as a percentage of GSP.

Why Is This Important? Venture capital is an important source of funding for new, fast-growing entrepreneurial companies. Notwithstanding some noted bankruptcies of Internet high fliers, venture capitalists continue to have faith in the nation’s entrepreneurs. With \$38 billion invested, 2001 was the third-highest year for venture capital, exceeding all years except 1999 and 2000. Venture capital increased from an average of \$7.5 billion in the early 1980s to almost \$16 billion in 1997 and to \$37 billion in 2001 (in constant 2001 dollars), and from 0.10 percent of GDP in the mid-1980s to 0.37 percent in 2001. In 2000, it was disbursed to some 5,458 companies, more than two times more than in 1997. As a result, 16 states received more venture capital as a share of GSP in 2000 than the highest ranking state, Massachusetts, did in 1997.

The Rankings: While venture capital is significantly less concentrated geographically than it was a decade ago, it’s still focused in a few states, particularly those with strong university engineering and science programs and an existing base of high-tech companies, both of which can be the source of entrepreneurial startups or spinoffs. There is also considerable continuity over the last few years in the high-ranking states. The top five states receiving venture capital in 1997 remain the top five in 2000, even after venture capital funding increased by more than sixfold.

The top five		Venture capital as percentage of GSP
1	Massachusetts	3.6%
2	California	3.4%
3	Colorado	3.0%
4	New Hampshire	1.6%
5	Washington	1.3%
U.S. average		1.1%

Source: National Venture Capital Association, 2000 data.

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