

THE DETERMINANTS OF VENTURE CAPITAL: A Panel Data Analysis of 16 OECD Countries**Astrid ROMAIN and Bruno VAN POTTELSBERGHE DE LA POTTERIE**Contact : astrid.romain@ulb.ac.be

The objective of this paper is to identify the main determinants of venture capital (VC). We develop a theoretical model where three main types of factors affect the demand and supply of VC. These factors are related to macroeconomic conditions, research efforts and technological opportunity, and the entrepreneurial environment. The model is evaluated econometrically with a panel dataset of 16 major OECD countries over the period 1990-1998. The estimates confirm that VC intensity is highly pro-cyclical - it reacts positively and significantly to GDP growth. Short-term (one-year) interest rates have a positive impact on VC intensity, which means that they affect more the demand side of VC (entrepreneurs) than the supply side. Indicators of technological opportunity, such as the growth rate of R&D investment, the stock of knowledge and the number of triadic patents affect positively and significantly the relative level of VC. The factors associated with the entrepreneurial environment also explain a substantial part of cross-country variations in VC intensity. An increase in corporate income tax rate has a negative effect on VC intensity. Labour market rigidities reduce the impact of the GDP growth rate and of the stock of knowledge, whereas a minimum level of entrepreneurship is required in order to have a positive effect of the available stock of knowledge on VC intensity. One important policy implication emerges from these results. It is not by providing money for VC that public decision makers will stimulate VC, but by providing knowledge and improving the entrepreneurial environment.