

Mar 21 2018 at 11:00 PM
Updated Mar 21 2018 at 11:00 PM

In defence of venture capital



SpaceX's Falcon 9 rocket at Cape Canaveral on February 6, 2018. Elon Musk's dream to colonise Mars is venture capital-backed. AP/Malcolm Denmark

by **Michael Hui**

In a column for *The Australian Financial Review* on Monday, [Morphic Asset Management's Chad Slater](#) said there was a lack of "true innovation" in the world today.

Slater attributed the supposed absence of "ideas that have completely changed the world" to a withdrawal of government funding from research and suggested venture capital, or more precisely its investors, was to blame.

But Slater is wrong on both counts: there are plenty of ideas that are completely changing the world and they're being funded by venture capital.

Slater may be riffing on Peter Thiel's famous quote, "We wanted flying cars, instead we got 140 characters," but that's an insular view. Twitter may not have changed the world for many in the West (except journalists and news junkies), but for those in the

developing world, social media and instant messaging has done everything from foment revolutions to provide a means to trade with the outside world.



Michael Hui, investment director at Arowana, an operator of SMEs and specialist asset manager. **Supplied**

Hits and misses

Similarly, Uber is an easy target for those lamenting Silicon Valley's role. With its myriad of cultural and governance issues, Uber unquestionably has problems. But speak to any Uber driver (or taxi driver) about the difference it has made to their lives and you'll learn that the impact of innovation comes in many forms and is often most keenly felt by those at the bottom of the chain – not those of us with harbour views.

It's easy to make fun of the failure of some of Silicon Valley's worst ideas such as [Juicero](#). But let's not pretend that government-funded research is always wise in its allocation of capital. The Australian Research Council has approved funding for such esoteric projects as investigating Soviet-era neuroscience, archaeological excavations in Tonga and a study on the evolution of university campuses.

More worryingly, a [recent report in Nature](#) found about 90 per cent of 1576 researchers surveyed believe there is a reproducibility crisis in science. Which calls into question the billions of dollars spent on research each year.

Thankfully, little to nothing is being spent on Slater's hero project of cold fusion, a process for which there is no accepted theoretical model. However nuclear fusion has attracted VC interest, with investors such as Jeff Bezos, Thiel and Paul Allen investing in start-ups such as General Fusion, Tri Alpha Energy and Helion Energy, that have raised over \$US300 million (\$390 million) to date.

The productivity growth problem

If investment in something with the potential to be a virtually unlimited source of power isn't sufficiently world changing, then consider Elon Musk. SpaceX, one of his three multibillion-dollar businesses, each with massive transformative purposes, has raised over US\$1.6 billion from investors to date and has the ultimate aim of colonising Mars.

Where Slater is right is that low productivity growth is a problem. But innovation alone is hardly a panacea that will drive productivity growth. Governments and stakeholders, such as unions and employers, need to face the harsh reality of the future of work. The likes of Amazon have leveraged artificial intelligence and improvement in sensors to drive huge productivity gains in their logistics operations. Step inside an Amazon warehouse and see the robot-to-human worker ratio.

It's true that automation and robotics may not yet have filtered down to affect most people. But deriding a technology such as machine learning based on its use of cat pictures to train algorithms is a bit like writing off the telephone because Bell first used it for the mundane task of getting his assistant to join him from another room.

These technologies are platforms upon which applications will be built and it's not unusual for the first-use cases to be novel or niche.

Draconian tax

Even if Uber, SpaceX and many other venture-backed companies today are built on technologies funded by government spending on research, it took those entrepreneurs and their VC investors to take a risk, grow a company and bring a useful product to the market.

Which brings me to my point: there's a role for government in research and VC in development. Government is notoriously bad at picking winners and VC has an obligation to generate returns for its investors – [many of which are now superannuation funds](#).

It's fun in the current environment to partake in a bit of VC-bashing. The tech-lash is well and truly upon us. But government shouldn't be allowed to hide behind some fallacy that VC is somehow responsible for a dearth in research funding. And applying a draconian tax on VC returns won't just deter investors from allocating capital to it, but ultimately shut off the pipeline of true innovation that we see and experience every day.

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