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Innovation and Finance: Internal Tensions in the U.S. Model

While the U.S. has been successful in nurturing successive generations of high tech startup firms, there has been considerable misunderstanding as to which of the institutional features of the U.S. deserve credit for these successes. Most attention has been focused on venture capital and the opportunity for high tech entrepreneurs to be richly rewarded through Initial Public Offerings on Wall Street. But dramatic success stories such as Google and Facebook obscure the ongoing failure of the U.S. financial system to provide adequate support for its growing sector of Small and Medium sized enterprises. Ironically, the U.S. must now look to German models of SME financing in order to sustain its historic advantage in high tech growth.