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Financialisation and Innovation: The Case of German Biotechnology.

Financialisation tackles a key issue in the institutional architecture of modern capitalism, namely the relationship between finance and innovation, which is considered the functional core of capitalist development (O'Sullivan 2005). This insight may be traced in the works of Joseph Schumpeter, who put the finance-innovation nexus at the heart of his definition of capitalism as 'a private property economy in which innovations are carried out by means of borrowed money, which in general implies credit creation' (Schumpeter 1939: 223). Accordingly, monetary credit relations and the competitive dynamics of technological innovation constitute decisive elements in the exposition of distinct 'commonalities of capitalism' (Streeck 2011: 138).

In this conceptual setting, the process of financialisation implies that those varieties of capitalism and their inherent systems of finance and innovation, which had been characterised by a predominance of non-market coordination become subject to pressures of finance-led marketisation and commodification (Hall and Soskice 2001, Engelen 2008). Indeed, the hegemony of financial markets over other spheres of economy and society also shifts the demarcation of market and non-market domains of allocation and coordination, driven by both economic and political actors and their particular strategies (Krippner 2011). This insistence on the political dimension of financialisation resonates well with the perspective of

comparative capitalisms that highlights the political economy of institutional change (Jackson and Deeg 2008).

The key thesis of our paper is that financialisation drives an evolutionary process of institutional hybridisation in the diverse types of capitalist market economies, in particular in the non-market coordinated varieties. In exploring the conceptual and empirical underpinnings of this thesis, the paper applies the matter of institutional hybridisation to the finance-innovation nexus in Germany's coordinated market economy, highlighting the matter of venture capital and innovation in German biotechnology. This focus on biotechnology is meant to underline the specificity of sectoral trajectories across diverse national and regional settings. However, it needs to be taken into account, that the production regime of the German political economy is still largely shaped by the rationale of diversified quality production, as exemplified by industries like automobiles and tool-making. Reform projects that favour a drive for adaptive flexibilisation without due consideration of the persistent systemic complementarities and interactions are thus doomed to create unintended inefficiencies (Hall and Gingrich 2009: 168-169). Instead, when it comes to policy conclusions, one might reconsider the argument that the actual diversity of political-economic interactions corresponds with a persisting divergence of capitalist varieties (Thelen 2010). Accordingly, also in the German case, a hybrid type of coordinated market economy may emerge, which combines the peculiarities of the German variety of capitalism and its subsystems of finance and innovation with the international pressures of financialisation.

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