Chapter 2

Production structure, employment, and corporate governance

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2.1 Introduction

The data regarding the discrete development paths presented in the previous chapter illustrate that the correlation between the highest level of GDP per capita and, on the one hand, its greater increase over time, and, on the other, the extent of income inequality, cannot be reduced to a simplistic univocal equation. In other words, high income conditions are not necessarily associated with lower inequality. Nevertheless, situations of stagnation or low growth are more uniformly associated with high inequality. Clearly, a competitive production structure, based on innovation, productivity growth, and the ability to export quality products with high technological content, may provide greater scope for effective redistributive measures to combat inequality. It is therefore important to distinguish our own paths from this point of view and identify the key aspects in which they differ.

This, however, is not enough. Good income levels and stronger development would seem to be conditions that are favourable, yet not sufficient, for more inclusive growth. We hypothesise that they should therefore be integrated with other institutional factors, in particular redistributive interventions linked to industrial relations and the welfare model, which in turn bring up the significance of the political-institutional structure, and which will be analysed later.

To proceed in this direction, it would therefore be advisable to first pose a few questions. What is the degree of solidity of the productive apparatus and what is it based on? How do the quantity and quality of employment vary in the different development paths? How do corporate governance and financing mechanisms differ? We will address these questions in a very schematic way, with the sole aim of outlining the main features of the productive engine that differentiates our ideal-typical paths of more or less dynamic and inclusive growth.

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2.2 Production structure

Examining the production structure in the years between 2009 and 2018, a general shift of the economy towards services can be observed, along with diminishing employment in the industry sector. These trends, however, take a variety of forms. The data on employment in industry (Figure 2.1) illustrates that the significance of the industrial sector has dropped in recent years where non-inclusive growth (NIG) and egalitarian inclusive growth (EIG) are concerned, while higher peaks have been recorded in the other two types of growth, with the greatest values reached by Germany (27.9) and Italy (27.2) respectively.

In relation to the incidence of services on employment (Figure 2.2), this can be noted as generally lower in countries with greater growth difficulties non-inclusive low growth economies (NILG), including Italy, while it reaches the highest levels in those cases where greater dynamism is manifest, both with low (EIG) and high (NIG) inequality.

Later, we will see how the numerical composition of those employed in services varies in some countries that reflect the different development pathways. Here, we can anticipate how different profiles emerge. Notwithstanding the greater significance of personal services (which include public services) in all the cases considered, NIG countries are characterised by the higher incidence of both more specialised services with high wages (business services) and less specialised and lower added value services (consumer services), as well as by the considerable significance of personal services. Only the Scandinavian countries with an EIG trend are characterised by even higher peaks of personal services, linked to the high incidence – as we shall see – of public

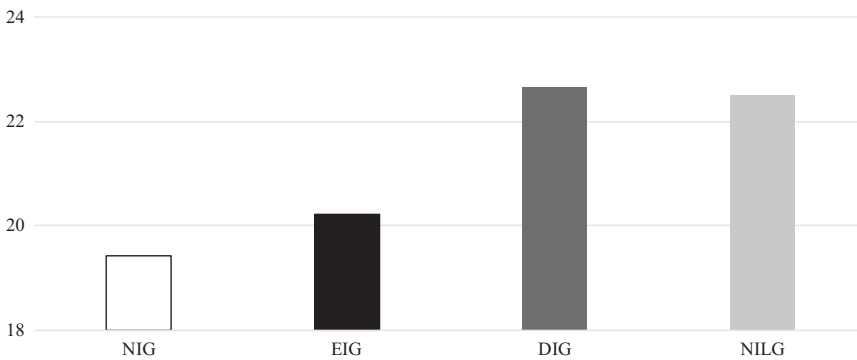

Figure 2.1 Employment in the industrial sector as a percentage of total employment (2009–2018 average).

Source: World Bank.

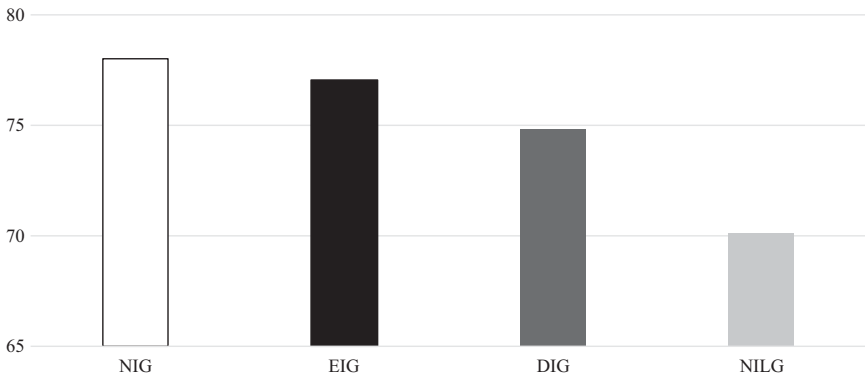

Figure 2.2 Incidence of employment in services on total employment (average 2009–2018). Source: World Bank.

employment. But in this case lower values for consumer services emerge, as is the case for the dualistic inclusive growth (DIG). Finally, in NILG countries, there is a lower incidence of business and personal services and a substantial presence of consumer services with low added value.

The dynamism measured by the level and growth of per capita income over the last two decades would thus seem associated with a lower industrial connotation in terms of employment and with the presence of, and increase in, more specialised services. However, let us return to the industrial structure for a moment to highlight some differential features in the different contexts.

Considering first the size of industrial enterprises, NILG countries turn out to have the highest proportion of manufacturing enterprises with fewer than 20 employees (Figure 2.3), with peaks reached by Greece (96.8%) and Italy (92.5%). A glance at the number of employees by company size reveals even more clearly the significance of the small companies in the various contexts. In this respect, the dividing line is essentially between the NILG and all other models. In countries with the former trend, the number of workers in firms with fewer than ten employees is roughly twice as high as in the other cases (Figure 2.4).

The significance of small enterprises can be considered an indicator of greater weakness and more limited innovative capacity in the production structure – not that all small enterprises necessarily have these characteristics, especially when they are integrated into local systems or districts at a regional level. In order to explore this dimension further, and to check whether, and to what extent, it differs from our models, let us consider the incidence of the export of high technology goods, and of medium and high technology goods, on total exports.

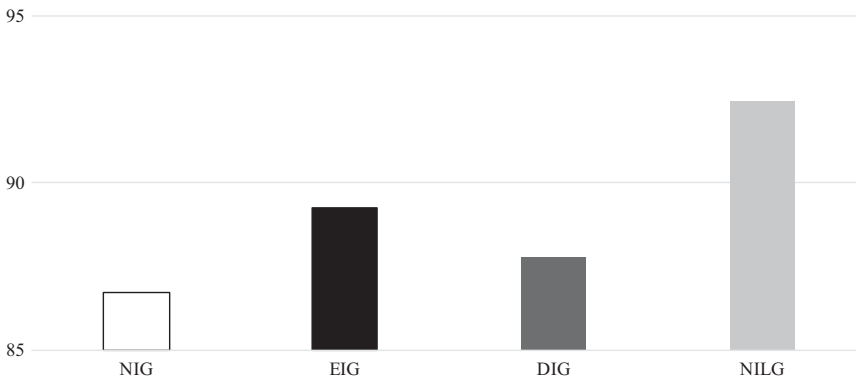

Figure 2.3 Number of manufacturing firms with fewer than 20 employees (2016).

Note: The figure for the United States and Canada refers to 2015.

Source: OECD.

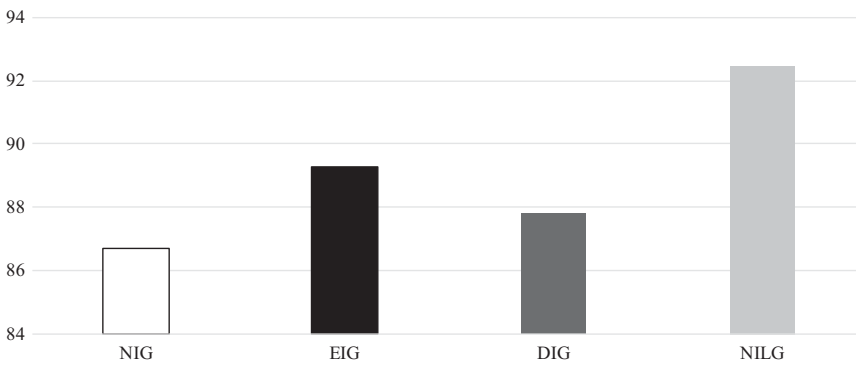

Figure 2.4 Percentage of workers employed in small enterprises (one to nine employees) over total employment (2016).

Source: OECD (SDBS).

For the first indicator (relating only to products classified as high-tech), the United States and the United Kingdom are the countries that stand out the most, while, with the exception of France, which reaches the highest peak, the values of EIG and DIG countries are lower – not, however, Germany, the export country par excellence.

It should be noted that the data from Ireland is influenced by the strong presence there of foreign multinationals for tax purposes. NILG countries reveal a considerably more modest performance (Figure 2.5a).

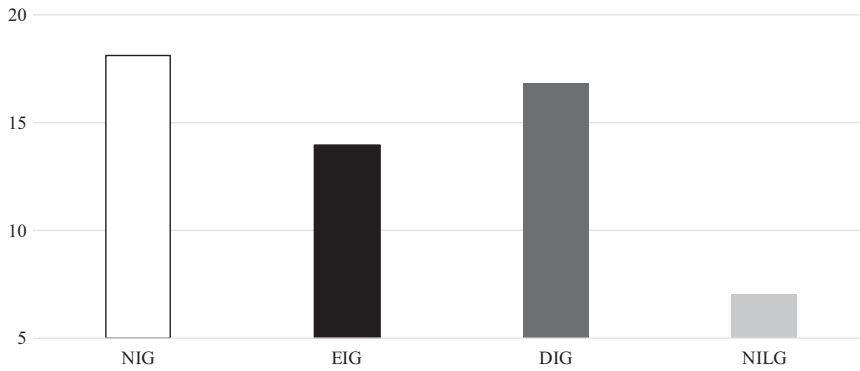

Figure 2.5a High-tech exports as a percentage of manufacturing exports (average 2009–2017).

Source: United Nations Industrial Development Organization (UNIDO), Competitive Industrial Performance (CIP).

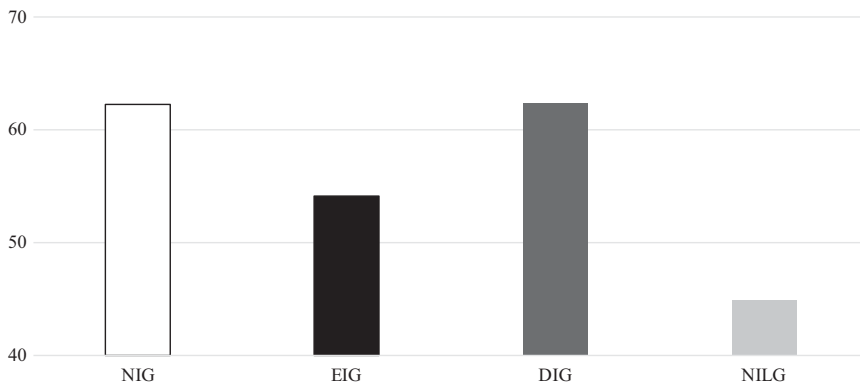

Figure 2.5b Incidence of medium and high-tech exports on manufacturing exports (2017).

Source: See Figure 2.5a.

Looking at the export figure that includes medium as well as high-tech, the balance between NIG countries (especially the USA and the UK) and inclusive growth countries is redressed, thanks mainly to the performance of Germany and France. The position of Italy and France also improves (Figure 2.5b).

Overall, this data points to an initial, very clear divide between countries with low growth or stagnation and those with higher growth capacity. The former show elements of greater weakness in the production structure linked

to the lower development of specialised services and the greater persistence of industry, characterised by the much more widespread presence of small businesses and a modest specialisation in high, but also in part medium, technology production.

The second divide concerns countries with higher non-inclusive growth, on the one hand, and dynamic and more inclusive countries, on the other. The former have seen more significant industrial downsizing in favour of services, with the great, though not exclusive, presence of (low-skilled) consumer services. Industrial firms, however, reveal greater capacity to move into high-tech production, in the field of what has also been called "radical innovation" (Hall & Soskice, 2001).

Conversely, the countries of the two more inclusive growth models seem to share a lower presence of consumer services and an industrial base that in some cases, such as Germany, remains more substantial in terms of employment. In general, this latter performs well in the production and export of medium-technology goods (such as, for example, German cars) linked to the world of "incremental innovation".

2.3 Employment and productivity

Over the last two decades, the employment rate has varied significantly between the different groups of countries analysed (Figure 2.6). The EIG and DIG countries (in particular, Germany and the Netherlands) show a high level of participation in the labour market, with higher values than the NIG countries (74–75%). The gap with the NILG is even greater, with significantly lower rates.

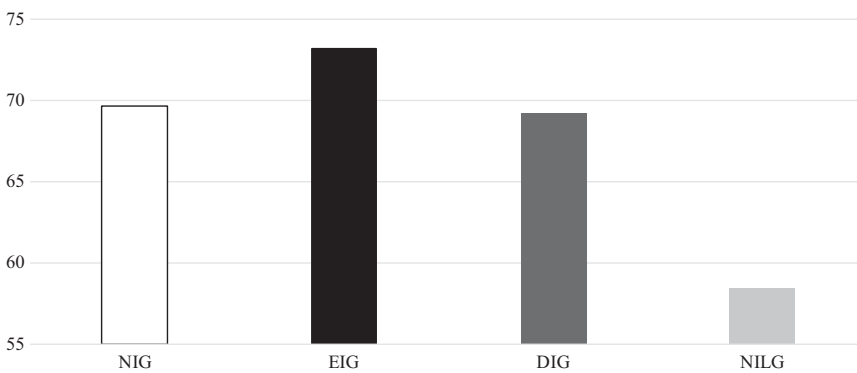

Figure 2.6 Employment rate, age range 15–64, percentage values (average values for 2009–2018).

Source: OECD, Labour Market Statistics.

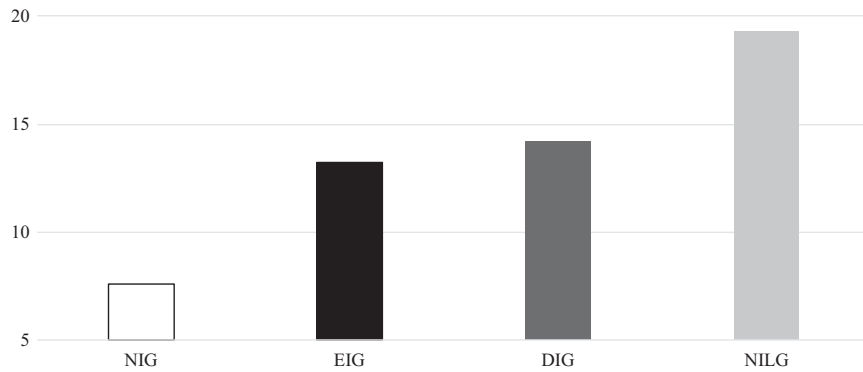

Figure 2.7 Number of employees with fixed-term contracts, percentage values (2017).
Source: OECD, Labour Market Statistics.

The Scandinavian EIG countries are also characterised by a higher presence of women in the labour market (a trend that has been observed since the 1960s), the diffusion of voluntary part-time work, and flexibility combined with low precariousness. The economic crises of the early 1990s (in particular, in Finland and Sweden) and 2008 thus found countries with robust labour markets featuring a distinctive capacity for generating employment (Sapir, 2005).

The number of people employed with permanent contracts varies widely across our models (Figure 2.7). This figure is influenced not only by the organisational culture of work in the various countries examined but also by the fact that different programmes are implemented to encourage the spread of fixed-term contractual formulas and thus introduce greater labour market flexibility, especially on entry (Rizza & Scarano, 2019). The Netherlands (21.5%) has the longest tradition of fixed-term work while the NIG countries resort less to temporary employment (7.6%); this can be correlated – as will be seen in more detail in Chapters 4 and 9 – with the broader regulation entrusted to the market that does not require the expedient of searching for atypical work in order to obtain more flexibility. On the other hand, the strong protection of permanent employment over the years has led, especially in NILG countries, to greater recourse to fixed-term work in order to favour labour market entry flexibility.

The incidence of young people not in education and employment (NEETs), with reference to the youth population (Figure 2.8), is greater in the countries that, as we have seen, are characterised by a lower overall employment rate, and in NIG countries where, notwithstanding a high employment rate, there is a high level of youth unemployment, especially in the United States and Canada.

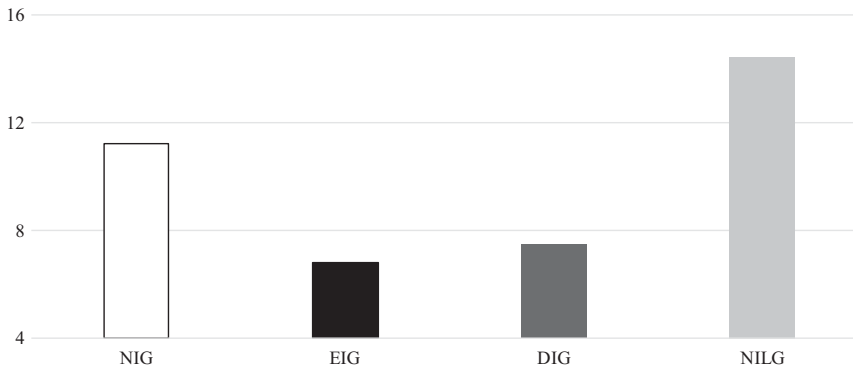

Figure 2.8 Incidence of NEETs on the youth population, percentage values (2017).
Source: OECD, Employment and Labour Market Statistics.

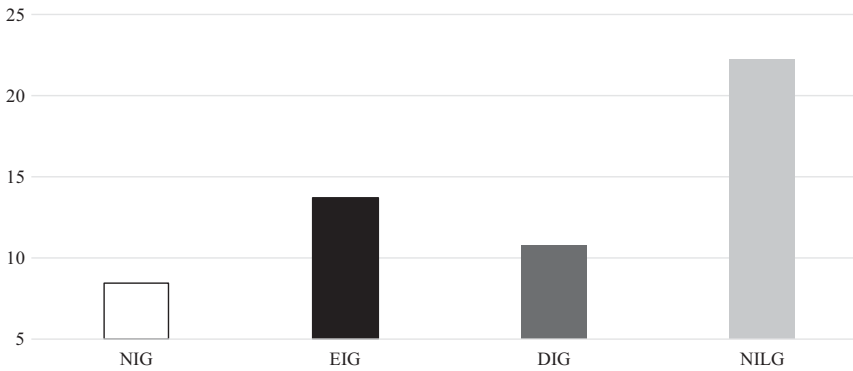

Figure 2.9 Undeclared economy as a percentage of GDP (year 2015).
Source: Medina and Schneider [2018].

Another striking indicator concerns "unofficial" economic activity, i.e. the hidden or shadow economy (Figure 2.9). As might be expected, the incidence of the shadow economy on GDP is highest in the NILG countries (22.3%), with particularly high values in Greece (26.5%) and Italy (23%). With rates lower by more than half, the European countries come closest to inclusive growth while those with non-inclusive growth trends are lower still.

With regard to labour productivity in 2018 (Figure 2.10) significant differences emerge between the various cases considered. First, there is a strong gap between the Mediterranean NILG countries and the others. But substantial differences also appear within the different types of development. Italy and Spain have markedly higher values than Greece and Portugal. The

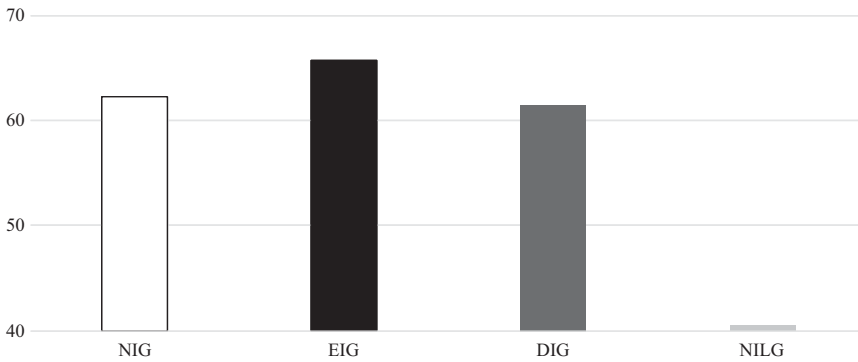

Figure 2.10 Labour productivity (GDP per hours worked, in 2010 PPP dollars, 2018).

Note: data regarding the United States and Canada refers to 2017.

Source: OECD, Labour productivity growth in the total economy.

United States is well above the UK and better than the EIG (with the exception of Norway) and DIG countries. The latter also perform well overall in comparison with the Nordic countries with an EIG trend.

Overall, the data on employment and productivity confirm and reinforce the picture that has already emerged from the consideration of some indicators relating to the structure of production. The employment level is higher in the inclusive growth areas (EIG and DIG, especially Germany and the Netherlands), while lower values are recorded for the NILG. Atypical employment is more widespread in the context of the NILG, but also in some inclusive growth countries (the Netherlands and France, less so in Germany). In this respect, it is conceivable that a dualisation of the labour market (insiders/outsiders) has emerged more significantly due to the expedient of atypical work as a resort to make employment more flexible and more remunerative in sectors with highly variable patterns of demand, especially in the field of low-productivity services.

The positive performance of employment in the inclusive growth countries is confirmed by the low number of young people not in education or employment (NEETs), which in contrast reaches high values in the Mediterranean European countries (NILG). Similar trends can be observed in youth unemployment and more generally in the shadow economy, as well as in productivity levels and trends over time.

2.4 Corporate governance and financing mechanisms

The fact that production specialisation, innovation paths, and competitiveness may be affected by the governance of firms and the way they are financed

is not a new consideration. In the literature on the variety of capitalisms, this dimension has been identified as one of the most important factors for identifying models such as "Anglo-Saxon capitalism" and "Rhineland capitalism" (Albert, 1991) or distinguishing between "coordinated market economies" and "non-coordinated economies" (Hall & Soskice, 2001).

Comparative studies have pinpointed some variables helpful in defining the main models, such as the shareholding structure of firms and the role and functioning of capital markets (Allen & Gale, 2000; Bosetti, 2010; Zattoni, 2015). Corporate governance interacts with the type of financial system, centred on markets or intermediaries; with the relationships created between firms and workers, collaborative and long-term or distant and flexible (Trento, 2012); and with the role of the State (Burroni, 2016).

The prevailing legal regime is one of the first elements to take into account. In common law countries, where the law is unwritten and case law is the source of law, corporate governance guidelines tend to be significantly influenced by the indications expressed by stock exchange supervisory bodies. This regime predominates in Anglo-Saxon countries, where extensive recourse to the financial market is common, along with a prevalence of large, widely owned public companies and a marked separation between ownership and management. In contrast, in civil law countries, greater centrality is reserved for the legislator, who defines the orientation rules and constraints for formalising governance structures and processes. Public regulation, however, is part of a "closed" context, where ownership of risk capital is essentially transferred through agreements between the parties, while the financial market plays a less important role.

Therefore, a second factor to consider is the roles played by the markets and the banks. In the Anglo-Saxon markets, resources flow quickly, following stock market price movements, and thus stable majorities interested in the long-term management of the company are infrequent ("impatient capital"). In such a situation, managers assume a powerful leadership position. However, shareholder pressure to seek short-term results that satisfy investors may discourage innovative processes with long-term yields. Indeed, management can only maintain its position if the shareholders' results are deemed satisfactory.

In contrast, banks have historically played a more important role in continental Europe and Scandinavian countries. Banks have participated in formulating business strategies, acting both as partners – in the capacity of permanent shareholders, holding a considerable part of the risk capital and therefore authorised to appoint directors – and as creditors. In this case, a more "patient" capital makes possible the pursuit of longer-term innovation processes but may encounter more difficulties in monitoring the effectiveness of management action (Rajan & Zingales, 2001).

Finally, a third element concerns the openness of the institutional bodies (composed by employees and employers). The most significant example

of this, which will be looked at in more detail in the following chapters, is provided by Germany, where employee representatives are present on the supervisory board of the largest companies.

Based on these elements, we can identify two criteria of classification: on the one hand, the type of monitoring to which managers are subjected and, on the other, how powers of administration and control are distributed.

In the first case, we will distinguish between an outsider system ("external" monitoring) carried out by the market and an insider system ("internal" monitoring) carried out by the main stakeholders. The outsider system – also called the market-oriented system – is implemented in the presence of many large listed companies, with widespread ownership, in which the market regulates the potential conflict of interest between shareholders and management. The capital market thus plays a relevant role for savings transformation, institutional investors, and venture capital funds (Allen & Gale, 2000; Deeg, 2010; Zattoni, 2015; Burroni, 2016; Amable, 2003). It should also be noted that, in this case, the legal system accords high protection to investors (Trento, 2012, 45; Doing Business, 2018).

Nonetheless, it has recently been highlighted in the literature how the emphasis placed on the creation of shareholder value as a guiding criterion for all business decisions may not only, as mentioned earlier, hinder innovation processes because of impatient capital: it has also been one of the determining factors behind the increase in inequality over the last 30 years. On the one hand, it has contributed to transferring wealth from the remuneration of labour to the remuneration of capital; on the other, it has shifted much of the income to the top managerial and professional positions, where remuneration is correlated with shareholder value. In fact, inequalities in disposable income are affected by the primary distribution of "market income", both because redistribution cannot intervene beyond a certain degree and because, if the primary distribution is highly unbalanced in favour of the holders of capital, the latter will have more strength to influence tax policy and prevent effective redistribution (Sacconi et al., 2019).

On the other hand, Insider systems are characterised by underdeveloped financial markets, concentrated and stable ownership and strong links between companies and banking institutions. Since only one shareholder, or a few, constitute the "hardcore" of ownership, often only a marginal part of the capital is traded on the market – which would not allow management to be replaced by external takeovers. In the countries where the insider system has been established, historical and economic events have, nevertheless, contributed to the evolution of partially divergent forms (Bosetti, 2010; Zattoni, 2015): the "Rhineland" type systems (relationship-based or network-oriented), characterised by a high degree of participation in control by the banks and, in part, by the employees; and the "Latin" type, in which the majority shareholder controls the management, exercising considerable influence through the board of directors.

The Latin system (as adopted in Italy, Spain, Portugal, Greece, Belgium, and France) has some essential elements in common with the Rhineland system: the limited role of the stock market in financing companies and controlling management; ownership of capital concentrated within a family or group and protected through voting agreements and cross-ownership of shares. However, in this case, bank and worker representatives, both seen as external stakeholders in government and control functions, exert a different role. The relationship with banks does not take on strategic significance: the banks are not involved in the ownership of the companies but merely provide financing by way of credit and sometimes offer assistance in "special" operations but are unlikely to have an enduring influence on the decision-making processes (only, indirectly, by limiting credit). At the same time, the employees seem to tend more towards the Anglo-Saxon context than that of the Rhineland. Neither system, indeed, institutionalises the role of employees within the company, although the Latin system offers greater protection thanks to the role of the trade unions (Bosetti 2010, 30–38).

2.5 Corporate governance and development paths

In the light of the above considerations, we will now endeavour to define how the more or less dynamic and inclusive development paths fit in with the different types of corporate governance and financing.

To this end, we focus on the presence of the smallest firms (one to nine employees) and those – fully or partially – owned publicly. The former can be seen as a proxy for the role of family-owned firms, while the latter constitutes a relevant mode, especially in some contexts, of state intervention in the economy.

As illustrated in Figure 2.2, small enterprises (one to nine employees) are mainly present in the group of NILG economies with about 50% of employees working in this bracket, while the lowest values are recorded in NIG and EIG countries and following these in DIG countries. In short, it can be assumed that the presence of small family-owned businesses, with low differentiation between ownership and management, and with traditional credit financing channels, significantly conditions the governance of businesses in the NILG countries and influences their path, often holding back both innovative processes and competitiveness. Of course, this is not necessarily the case, as the literature on industrial areas has pointed out in past years. Nevertheless, the intensification of competition from emerging countries in the more traditional areas of production, and the constraints imposed by family control on the process of management renewal, are all factors that influence the competitive trajectory of small enterprises.

Public enterprises (Figure 2.11) have played an essential role in some countries, such as Italy and France, in the early post-war decades. Public enterprises

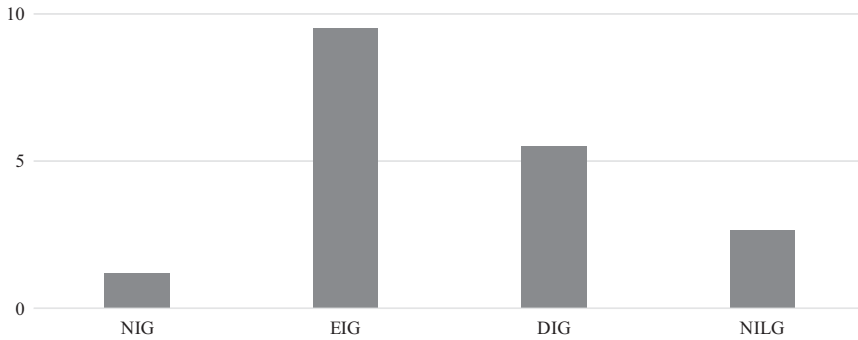

Figure 2.11 Percentage of workers employed in publicly owned or controlled enterprises over total number of employees.

Source: OECD.

or SOEs (state-owned enterprises) are legal entities owned or controlled by the national government on whose behalf they operate. Usually concentrated in sectors such as transport, utilities, or finance, they have recently become increasingly active at the national level (OECD, 2017). Although their role has been somewhat downsized over time, it still appears relevant, at least in terms of employees, particularly in countries reflecting DIG and EIG trends.

Among DIG countries, France stands out, while Austria and Germany have values closer to those of Italy. There is also a specific variance in EIG countries, with Sweden, Finland, and, above all, Norway showing a central role for public enterprises. Low values, with the sole exception of Ireland, are observed in NIG countries.

The previous discussion on corporate governance and financing presented the distinction between outsider and insider systems as the "Rhineland" and "Latin" variants. Our models confirm this typology, especially concerning specific indicators determining how firms are financed, making it possible to point out the different countries that are more "bank-centric" or market-oriented.[1]

The first dimension examined is financial depth, which enables us to approximate the size of financial markets and institutions.

As far as the financial institutions are concerned, the variable that has come most under the spotlight is private credit, defined as a credit to the private sector from bank deposits as a percentage of the GDP.[2]

Concerning financial markets, the variable used is stock market capitalisation to GDP (%). From these measures, it is possible to calculate the ratio of private credit to market capitalisation (financial structure ratio), which defines the degree to which a financial system can be considered more or less bank-centric.[3]

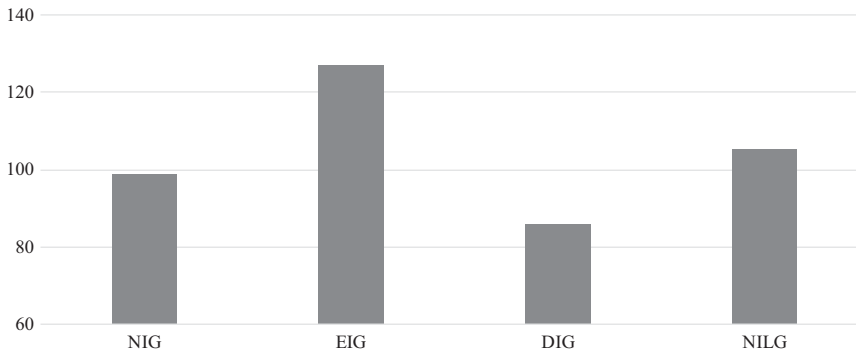

Figure 2.12 Credit to the private sector from bank deposits as a percentage of GDP (2016).

Source: (G)DFDD.

Credit to the private sector from bank deposits (Figure 2.12) is high in the EIG group but lower in the DIG countries. The other two groups show similar intermediate values.

In more detail, the NILG countries show similar levels, as do the DIG countries, with Belgium – with the lowest value – and France at the extremes. There is a steep variance in the EIG countries, where the average, although high, is led by Denmark. Finally, regarding NIG countries, two subgroups can be distinguished: Ireland and the United States, with low values, and Canada, the United Kingdom, and Australia, with similarly high values.

These values identify the relationship between savers' deposits and credit with the private sector and may be seen as a proxy for corporate financing and household saving and investment patterns. The link between saving and financing is strongest in the EIGs and some countries of the NILG groups. In other contexts, however, this may indicate, on the one hand, different ways of raising funds from businesses – especially large ones – and, on the other, diversified investment strategies on the part of banking institutions. In Germany, for example, financing channels for SMEs would appear to continue to follow a bank-based model while this no longer seems to be the case for larger companies (Deeg, 2010).

Shifting the focus to market capitalisation (Figure 2.13), a substantial gap can be observed opening between the NIG and NILG group of countries. The other two groups, demonstrating intermediate values, show similar results, while minor variance emerges in the distribution of values in individual countries. On the one hand, NILG countries show similar levels. Only the case of Spain shows a higher percentage, closer to that of the DIG

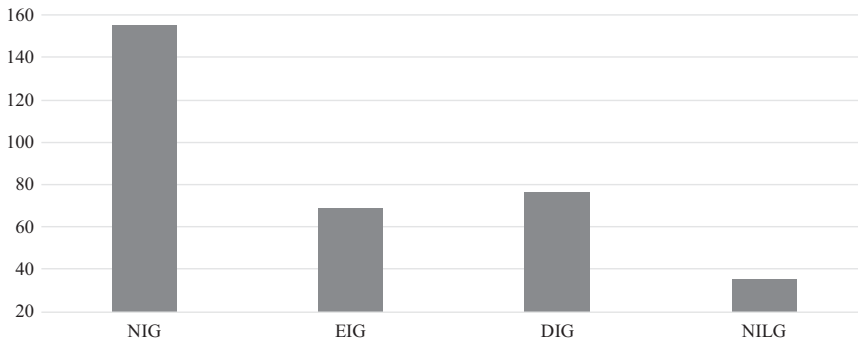

Figure 2.13 Equity market capitalisation as a percentage of GDP (2017).

Source: (G) DFDD.

countries in comparison with Greece, Italy, and Portugal. The variance within the two intermediate groups is small, ranging between the values of Austria and the Netherlands. At the same time, in Germany, although the reforms of the 1990s have accentuated the relevance of "markets", savings banks and cooperative banks continue to maintain a particular relevance (Schnyder & Jackson, 2013), while the French case seems similar to the British one (Deeg, 2010). Finally, as might be expected, stock market capitalisation is much stronger in the Anglo-Saxon countries, with Ireland showing low values, in line with those of the NILG countries.

The next step is to calculate the financial structure ratio, which makes it possible to distinguish between a more bank-centric model, like that of the NILG countries, and a more market-oriented model, like that of the NIG group (Figure 2.14). Individual countries align with the reference set: the lowest values are recorded for the United States and Australia, the highest for Italy, Portugal and especially Greece. However, in the other groups, the highest values are observed in Austria and Denmark.

2.6 Concluding remarks

In conclusion, by integrating the characteristics identified by the indicators on financing mechanisms with those on ownership and management of firms, we can characterise our models as follows.

In NILG economies, we observe a strong presence of small enterprises as a proxy for family-based governance. The primary funding sources are self-financing and commercial credit, while medium and large enterprises, based on shareholder control, are fewer in number and closer to the insider model,

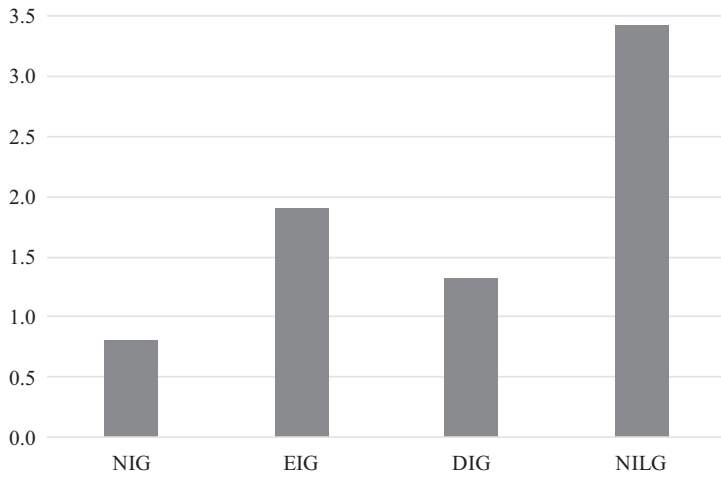

Figure 2.14 Financial structure. Ratio of bank credit to financial credit (2017).
Source: (G) DFDD.

with a stable ownership structure that tends to be "closed" to the outside world. Therefore, the relationship with banks tends to be medium-long term, but without a shared vision of business ownership, and as such there is more involvement in pursuing a strategic perspective of growth. The role of finance for innovation is particularly lacking in some countries, including Italy.

In essence, we are close to what the literature has called a "Latin" variant of the insider system. Its limitations are that its encouragement for innovation and efficient business management is weak. On the one hand, there is no "impatient capital" to keep management under pressure as in market-oriented models and, on the other, the longer-term oriented mechanisms characterising the classical Rhineland model, with forms of bank co-ownership and "patient capital", are lacking. As a result, growth in size, diversification of savings and investments and economic innovation are inhibited.

The context of the DIG countries represents the core of what has been called the classic "Rhineland" insider system. Larger firms have a significant weight, relationships with banks are structured in the medium to long term, often with forms of participation in the ownership of firms, and a greater centrality of financial intermediation emerges. As the literature has shown, this creates an ideal ecosystem for incremental innovations, which in turn are supported by forms of "institutional complementarity" (Hall & Gingrich, 2009) in the arenas of industrial relations, labour, and education policies, as we shall see further on.

However, some differences between the main countries can be observed in this context. In France, there is a more significant presence of financial markets and publicly owned or controlled firms (Deeg, 2010; OECD, 2017). In contrast, in Germany, notwithstanding the implementation of market-oriented strategies by larger firms and more internationalised banks (see, for example, the case of Deutsche Bank), there is a greater centrality of the banking system and a lower level of capitalisation of stock markets in relation to the GDP (Schnyder & Jackson, 2013; Jackson & Sorge, 2012).

On the other hand, the EIG economies represent what we might call a "Nordic variant" of the insider model. In this case, state-owned enterprises prevail (especially in Norway), but the banking system's importance is confirmed more generally. Nevertheless, from this point of view, a more "open" relationship emerges vis-à-vis both financial markets and finance tools for innovation, such as private equity and venture capital (Burroni, 2016). For example, in 2018, in terms of the weight of venture capital in relation to the GDP (OECD data), after the United States, we find Finland, Denmark, and Sweden.

Thus, in Northern European capitalism, banks have played a similar role to that played in some continental countries, such as Germany, by actively acting as investors in specific sectors and influencing the structure of firms through direct participation and other forms of influence that have facilitated mergers and acquisitions and strengthened dimensional growth. This blend of more traditional and market-oriented credit instruments, together with the growth of innovative forms of financing, i.e. venture capital, has afforded a helpful combination for supporting economic activities in general and innovation activities in particular. Thanks to a peculiar synthesis of a liberal approach and coordinated institutions (Boyer, 2004), Northern European economies have grown in the ICT sector.

Elements of the stakeholder model have also been traced in the Nordic model, balanced by an ownership structure with a concentrated shareholder base that is sensitive to the role of the trade unions (realised through pension funds) (Thomsen, 2016).

Lastly, in NIG economies, larger and more diffusely owned firms (public companies) come to light, while under the impetus of governance devoted to the creation of shareholder value, the roles of the stock exchange and the stock market acquire greater importance, and there are fewer employees in "public" companies. These countries can thus be traced back to the model of the outsider system, where incremental innovation, requiring stability, is frustrated by "impatient capital" in favour of radical innovation, which is more likely to generate significant returns in the short term. As we have already mentioned, these features condition the trend of inequality and present a high institutional complementarity with some policy areas – such as labour policies and industrial relations – which we will explore in detail in the following pages.

Notes

1 To classify financial systems, we will use some of the measures developed by Čihák et al. (2012) and discussed by the World Bank (2013). The original methodology identifies four dimensions, distinguishing between financial institutions and markets: financial depth, accessibility, efficiency in service provision, and stability. The choice of variables falls, on the one hand, on indicators with greater coverage across countries and, on the other, on variables analytically linked to the literature on poverty reduction and economic growth (World Bank, 2013; 2015).

2 An alternative measure is total banking assets to GDP, which, compared to private credit, includes credit to governments and banking assets other than loans. Although this measure allows a better approximation of the size of the banking system, it is less widely used in the literature. Moreover, the two variables are closely correlated (r=0.98), so private credit can provide a reasonable approximation of total assets (World Bank, 2013, 25). Data on private credit, as well as on GDP, in the GFDD (Global Financial Development Database) comes from International Financial Statistics (IFS), published by the International Monetary Fund (IMF).

3 In this regard, although the economic literature provides some evidence concerning the link between the stage of economic development and the financial system, with bank-centric models more present in the first stage, the sociological literature proposes a different reflection. See Dore (2000; 2009) and Mutti (2008).

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