State-society relations and the "re-industrialization" of the developed world: Power relations, coordination and growth paths

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Abstract

Purpose – This paper investigates the effect of state-society relations on the industrially-related growth paths of developed countries.

Design/methodology/approach – It introduces a novel theoretical framework, the state-business-labor relations (SBLR) framework, where four main actors are identified: the state, big businesspersons or tycoons, owners and managers of small and medium enterprises (SMEs) or Entrepreneurs and labor. Different SBLR categories or modes are introduced depending on levels of coordination and power relations between the studied actors. The paper then investigates how these SBLR modes, through adopting various policies targeting the industrial sector, lead to different growth paths. Rather than focusing only on economic growth, this research regards a growth path as a matrix of the performance in long-run growth and equality of distribution.

Findings – Using regression analysis and statistical data, the results suggest that the Co-Balanced mode, having higher levels of coordination and lower favoritism, leads to the best growth path among the four introduced modes, especially with its emphasis on high levels of venture capital availability and easiness of starting business. while the Lib-Capture mode, characterized by lower coordination and higher favoritism, seems to have the worst growth path and the best implemented policy for this mode is suggested to be high profit taxes that seem to counter the negative impact of the existing high levels of favoritism.

Research limitations/implications – Despite the important findings that this research has reached, this paper is mainly meant to open a further investigation into this topic and open this dimension that the research on VoC and political economy have under-researched. A deeper investigation of SBLR typologies that could only be possible by having richer datasets with more data on coordination for the whole world, rather than only the advanced economies, would further our understanding of the dynamics that shape the growth paths of different countries of the world.

Practical implications – To realize the best industrial growth path, fighting favoritism should be an important objective. The negative impact of favoritism on innovation could not be disregarded in the eve of the fourth industrial revolution, where innovation is increasingly pivotal to future industrial development. Actively engaging societal groups in the policymaking process is important in addressing their concerns and balancing them at the same time. This should lead to the double benefit of formulating better policies that should foster growth as well as provide better distribution of this growth. High levels of coordination should help in realizing this objective. Yet, this could only be possible if societal groups are free to associate and aggregate their power and when there are means of preventing one actor from gaining more favorite treatment and exclusive influence over policymakers. The presence of both powerful and broadly represented business associations and labor unions and the existence of a government interested in coordinating their efforts-rather

than letting itself be controlled by one group at the expense of the others-should help in the realization of the best growth path. Thus, institutional reform that empowers societal groups and enables them to defend their interests as well as fights all forms of corruption should lead to the realization of a more prosperous and equitable industrial development, with the "re-industrialization" of the developed world being no exception. The technological and social challenges of intensive automation and digitalization accompanying the fourth industrial revolution make the envisaged institutional reform more urgent.

Originality/value – This paper is introducing a novel theoretical framework for studying the effect of state-society relations, particularly SBLR, on the industrial growth paths of developed countries. It integrates three important bodies of literature in order to build a more comprehensive understanding of the dynamics of state-society relations and their economic consequences. These are the Varieties of Capitalism (VoC), State-Business Relations (SBR) and Industrial Relations. The SBLR framework differentiates between tycoons and entrepreneurs, an important distinction that often goes unnoticed. Different SBLR categories or modes are introduced, depending on levels of coordination and power relations between the actors. It is proposed in this research that the effect on growth paths goes beyond the simple dichotomy between CMEs and LMEs usually present in the literature of VoC and that power relations provide an essential complementary dimension in explaining this causality.

Keywords State-business-labor-relations, State-society relations, Industrial policies, Developed countries, Economic growth, Inequality

Paper type Research paper

1. Introduction

The Covid-19 crisis heated the discussion that had been running for more than a decade in the developed world. The growing interest in the developed world on industrial development, or "re-industrialization", went beyond academic debate and knew its way to government policies and strategies. The Fourth Industrial Revolution (Industry 4.0)- with its focus on digital production technologies, management processes based on information technology (IT), and new materials-promises more flexibility, efficiency, and limited labor-cost component. Such benefits encourage the reshoring of manufacturing activities to the developed world (Kinkel, 2020; Kinkel, Pegoraro, & Coates, 2020; Pegoraro, Propris, & Chidlow, 2020). Moreover, the de-industrialization in manufacturing increased the developed world vulnerability to external shocks and harmed their economic diversity (Pegoraro et al., 2020, p. 155). Investing in manufacturing activities should address such shortcomings. The reshoring process is now a reality, especially for US and to a lesser degree EU firms. The USA is increasingly encouraging such a development to create more jobs (Kinkel et al., 2020). The re-industrialization of the advanced economies seems to reverse the decades-long de-industrialization process that marginalized the sector to the benefit of the presently-dominant service sector.

Reindustrialization calls on the new-old debates on how to boost industrial innovation and productivity, as well as how automation and the new technologies could lead to loss of jobs and harm equality of distribution to the favor of capital owners. This brings industrial policy back to the forefront and with it the usual actors that mostly shape and benefit or lose from it, businesspeople and workers. Investigating state-society relations, and particularly state-business-labor relations (SBLR), should lay at the center of any trial to understand and predict the growth path of industrialization, in the past and present alike.

Many bodies of literature would be helpful in this regard. The first is the literature on varieties of capitalism (VoC). It differentiates between countries according to the way various actors coordinate their actions, categorizing developed countries into coordinated market economies (CME) and liberal market economies (LME) (see Hall & Soskice, 2001; Hall & Thelen, 2008; Martin, 2005). Another important body of literature is that on state-business relations (SBR). It differentiates between formal (e.g.: public-private dialogues-PPD) and informal (e.g.: family or political connections) relations connecting state officials and businesspeople and how these forms affect economic outcomes (see Hausmann, Rodrik, & Sabel, 2008; Hausmann & Rodrik, 2003; Enderwick, 2005, and Haggard, Maxfield, & Schneider, 1997) see as well Sabry (2017, 2018). A third relevant body of literature is the one on industrial relations (e.g. Glassner &

Keune, 2012; Hayter, 2018; Streeck, 2008), and especially the pluralist perspective that accepts the presence of conflict between businesspeople and labor but believes in the possibility of containing it, for instance, by collective bargaining (Hayter, 2018, p. 3–4) [1]. SBLR seek to integrate these bodies of literature in order to build a more comprehensive understanding the dynamics of state-society relations and their economic consequences.

This paper is using the SBLR theoretical framework as introduced in Sabry (2022, 2023) for studying the effect of state-society relations on the industrial growth paths of developed countries. The novelty of this work is mainly the use of this framework in understanding why SBLR lead to different policy choices and empirically investigating the outcome of these choices on the growth path of developed countries. Four main actors are identified: the state, big businesspersons or tycoons, owners and managers of small and medium enterprises (SMEs) or Entrepreneurs, and labor. Different SBLR categories or *modes* are introduced, depending on levels of coordination and power relations between the actors. Then, the paper investigates how these SBLR modes shape industrial policy and the economic outcomes from different policies, leading to different growth paths. A growth path here is perceived as a matrix of (industrial-related) levels of long-run growth and equality of distribution. Given that the level of coordination is an important dimension in drawing the lines between different modes, this paper focuses on developed countries, which are at the center of the literature on VoC. Although these countries are predominantly from Europe and European settled former colonies in North America and Oceania, two East Asian economies are also included, Japan and South Korea.

The SBLR framework depends on the above-highlighted bodies of literature. It differentiates between tycoons and the rest of businesspeople, an important distinction that often goes unnoticed. It is proposed in this research that the effect on growth paths goes beyond the simple dichotomy between CMEs and LMEs usually present in the literature of VoC and that power relations provide an essential complementary dimension in explaining this causality. Arguably, the economic outcomes of higher coordination when the different actors have a balanced power relation would not be the same as when one actor, such as tycoons, is more dominant than other actors. Such power relations would affect government strategies, policies, and regulations which will ultimately affect various economic outcomes. In other words, levels of coordination together with inter-actors power relations strongly influence the growth path of different countries.

The paper reaches empirical findings that suggest that the presented SBLR modes lead to the formulation of different policies and to varying outcomes from the implementation of these policies. The Co-Balanced mode-having higher levels of coordination, more balanced state-society relations, and lower favoritism-leads to the best growth path among the four introduced modes. To the contrary, the Lib-Capture mode-characterized by lower coordination and higher favoritism-seems to have the worst growth path.

The rest of the paper is structured as follows. Section 2 introduces the theoretical perspective of this paper, introducing different SBLR modes, how they lead to the selection of different policies, and how the interaction of SBLR modes and policies lead to different growth paths. This is followed by the methodology section, where statistical and regression analysis is conducted to empirically investigate the suggestions of the previous section. The next section has a discussion on the results of the empirical study. The paper ends with a conclusion that summarizes the empirical findings, brings them together with theory, and then provides policy and research insights.

2. Theoretical perspective

a- The SBLR Framework

State-society relations take various forms with different characteristics. Those forms depend on the dynamics governing the interaction between the main actors in these relations.

In industrialized societies, the main actors in state-society relations are the state, businesspeople, and labor. Accordingly, state-business-labor relations (SBLR) represent the part of state-society relations relevant to the industrial sector. Big business managers and owners, or business tycoons, could be introduced as a distinctive actor, where they could be identified by the market power that they have in their respective sectors. Entrepreneurs, on the other hand, will refer to managers and owners of small and middle enterprises (SMEs). Thus, it is assumed here that there are four main players: the government, tycoons, entrepreneurs, and labor.

The literature on the varieties of capitalism (VoC) suggests a dimension of state-society relations based on which countries could be categorized. This dimension is the level of coordination between different actors in SBLR. Hall and Soskice (2001, pp. 6–7) (the foundation stone of the VoC literature) studied how different state-society actors rationally pursue their interests "in strategic interaction with others", with a special focus on firms as central players in a capitalist economy. Studying the level of coordination among actors is at the heart of this approach. In this regard, VoC investigates how firms manage their relations internally (with their workers) and externally (with labor unions, the government, business associations. . .etc.). Firms' coordination mechanisms differ in five major relation spheres: industrial relations, vocational training and education, corporate governance, inter-firm relations, and management-employees relations. Industrial relations, for instance, studies how entrepreneurs (and tycoons) coordinate with their labor force the process of wage bargaining and working conditions, while inter-firm relations investigate, among others, inter-firm collaboration in technology transfer and research and development (R&D).

According to the coordination mechanism used by firms, countries are categorized into CMEs (e.g.: Scandinavian countries, Germany, and Japan) and LMEs (e.g.: USA, UK, Australia) [2]. Coordination in LMEs is achieved by market mechanisms: "arms-length market exchange", formal contracting, and price signals (Hall & Soskice, 2001; Ahlborn, Ahrens, & Schweickert, 2014). In CMEs, to the contrary, coordination is more intensively realized by non-market relations, or "institutional coordination among societal stakeholders" (Herrigel & Zeitlin, 2010, pp. 668–670). This includes widespread "relational or incomplete contracting", intra-network exchange of private information, and a higher tendency to build firms' competencies through collaborative relations (Hall & Soskice, 2001, p. 8). Coordination-oriented policies are more feasible in CMEs whose political system permits businesspeople to have "substantial structural influence" (Hall & Soskice, 2001, p. 48). Institutional complementarities exist, where using a coordination mechanism in one sphere would urge the development of the same mechanism in others (Hall & Soskice, 2001, p. 18 and Hall & Gingerich, 2009).

A good proxy for measuring the level of coordination is the indicator introduced by Witt and Jackson (2016). To construct this indicator, the authors combined data on the above-mentioned five relation spheres presented by Hall and Soskice (2001). The average of the last three years for which data on this indicator is available (2001–2003) is used here as the coordination indicator. Given data limitation for this indicator, this average will be assumed to be fixed and applicable for the empirical analysis done later in this paper which covers the period between 2007 and 2018.

Little is said in the VoC literature, however, on power relations between the four actors. Power relations should point to who benefits from more coordination? Are tycoons and entrepreneurs benefiting equally from government involvement and coordination? Does lack of coordination always leave labor at a disadvantage? These and other similar questions point to the need of integrating an additional SBLR dimension. This is suggested here to be a power dimension, resting on the relative power of state-society actors vis a vis each other. Such dimension is based on the literature on state-business relations (SBR) and industrial

relations. This is suggested here to be favoritism, which usually is to the advantage of tycoons and at the expense of other social actors such as entrepreneurs and labor and at times even at the expense of state autonomy. Such relations are usually referred to in the literature as state-capture (see Adly, 2010; Enderwick, 2005). In developed democratic countries (as is the case in the studied 22 countries according to the World Bank's voice and accountability indicator) [3], favoritism is more likely translated into state capture, rather than crony capitalism that is more common in developing and authoritarian states (Sabry, 2023). A more open political system with an "incomplete process of political liberalization" encourages state capture through various means, including the financing of parliamentary election campaigns (see Hellman, Jones, & Kaufmann, 2003; Innes, 2013). Although the open political system permits labor and entrepreneurs to organize and aggregate their power, they are unable to balance the political and economic power that tycoons have. Entrepreneurs face considerable challenges in their trial to forge collective action even in a democratic system. This includes their isolation that hinders monitoring participation and preventing free-riding (unlike factory workers) and their inability to provide large electoral votes (like workers) or significant financial support to political candidates (like tycoons) (Shadlen, 2002). Moreover, tycoons might dominate business associations or entrepreneurs might be so reliant on tycoons, as the discussion below would reveal. On the other hand, in the post-Fordist order-dominant since the 1980s-developed countries have witnessed diminishing union membership, decentralization of the collective bargaining mechanism, and a fall in bargaining coverage (see Eurofound, 2016; Glassner & Keune, 2012, p. 368). The literature on labor market segmentation attributes diminishing unionized labor power to workers' segmentation and fragmentation into different groups based on skills, industrial sector, and other criteria (see Streeck, 2009; Reich, Gordon, & Edwards, 1973). Acemoglu, Aghion, and Violante (2001) argued that de-unionization took place because of "skill-biased technical change". This bias widened productivity differentials between workers and provided incentives for skilled labor to seek the "competitive market return" rather than joining forces with unskilled labor and taking part in collective bargaining through labor unions.

To the contrary, when the organizational power of the different actors brings a more balanced form of power relations among them and limits chances for favoritism, one can refer to this as "*balanced-power*" relations. In balanced-power relations, entrepreneurs and labor can organize and their organizations are less fragmented or filled with rivalry. For labor, this could be realized by having labor unions that represent workers on the national, sectoral, and firm levels, as is the case in Germany (Traub-Merz, 2010, p. 7). These conditions should limit the power of tycoons and favoritism.

A good indicator that helps in differentiating between the highlighted-above two forms of power relations is the favoritism indicator of the Global Competitiveness Indicators' (GCI) dataset. This measures "to what extent do government officials show favoritism to well-connected firms and individuals when deciding upon policies and contracts?" (Schwab & Sala-i-Martín, 2017, p. 342). Data for the indicator is available for the whole period studied later in the empirical section of this paper (2007–2018).

Differentiating between various SBLR modes depending on levels of coordination and power relations, with a focus on favoritism, would lead to identifying four distinctive modes: *Coordinated-balanced-power, coordinated-state-capture, liberal-balanced-power, and liberal-state-capture*. Table 1 shows which countries belong to each of these modes. To design this table and easily identify the four modes, the scale of the used indicators, coordination and favoritism, are reconstructed to run from +50 to −50. The geometric and arithmetic means of the (absolute) favoritism and coordination scores of the studied countries are also reported. Geometric means should be given more credit while ranking the countries within each SBLR mode. This measurement pushes down the rank of countries having a low scores in either of the constituent variables (coordination and favoritism) and ensures that higher mean values

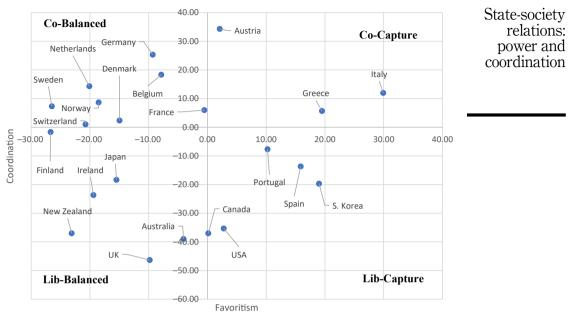| Country	Favoritism	Coordination	Geometric mean (fav. and Coord.)	Arithmetic mean (fav. and Coord.)
Co-balanced				
Sweden	−26.47	7.33	13.93	16.90
Norway	−18.49	8.67	12.66	13.58
Switzerland	−20.73	1	4.55	10.87
Netherlands	−20.09	14.33	16.97	17.21
Denmark	−14.95	2.33	5.90	8.64
Germany	−9.31	25.33	15.36	17.32
Belgium	−7.84	18.33	11.99	13.09
France	−0.51	6	1.75	3.26
Co-capture				
Italy	29.94	12	18.95	20.97
Greece	19.51	5.67	10.52	12.59
Austria	2.11	34.33	8.51	18.22
Lib-balanced				
Finland	−26.67	−1.67	6.67	14.17
New Zealand	−23.08	−37	29.22	30.04
Ireland	−19.39	−23.67	21.42	21.53
United Kingdom	−9.8	−46.33	21.31	28.07
Japan	−15.46	−18.33	16.83	16.90
Australia	−4.06	−39	12.58	21.53
Lib-capture				
Spain	15.87	−13.67	14.73	14.77
Portugal	10.23	−7.67	8.86	8.95
Korea, Rep	18.99	−19.67	19.33	19.33
Canada	0.16	−37	2.43	18.58
United States	2.79	−35.33	9.93	19.06

Table 1.
Levels of coordination and power relations in the studied developed 22 countries

Note(s): Information on the favoritism indicator is obtained from the Global Competitiveness Indicators (GCI) for the year 2016. Values on coordination is obtained from Witt and Jackson (2016), taking the average of the values for the years 2001–2003. The two indicators are rescaled into an ascending order running between −50 and + 50. The geometric and arithmetic means are calculated using absolute values of coordination and favoritism

reflect higher scores in both variables. Figure 1 visualizes the categorization of the studied countries using coordination and favoritism graph coordinates. The more countries are placed at the corners of the graph's frame, the more they exhibit characteristics of their mode; the more central they are placed the less they show these characteristics. The characteristics of the four modes are discussed below.

2.1 Coordinated-balanced-power (co-balanced) SBLR
The countries of this mode are characterized by higher levels of coordination, less favoritism to tycoons, and generally more balanced relations between the considered actors (thanks to powerful associations and union). In Table 1 and Figure 1, these are the countries having a positive coordination score and a negative favoritism score (Coordination>0; Favoritism<0). Examples are: The Netherlands, Germany, and Sweden. In these countries an important mechanism of coordinating policies in a more balanced (with less favoritism) way would be active and balanced tripartite PPD bringing together government officials, broad-based business associations, and labor unions. According to Figure 1 and Table 1, the Netherlands

Note(s): Data on favoritism and coordination is obtained from the GCI and Witt and Jackson
(2016) respectively. Both indicators are adjusted to an ascending order scale running from
−50 to +50

is the best representative country for this mode given its position in the graph and having the
highest geometric mean among the countries of this mode.

The Netherlands has a multi-layer level of social dialogue between various SBLR actors.
Other than the level involving the European Union (EU) and non-state actors, Dutch major
and broad economic and social policies are guided by the Social and Economic Council which
has equal representatives from business associations, trade unions, and independent experts.
Short-term agreements are negotiated by associations and unions in another body, the Labor
Foundation (STAR). This is followed by another level where collective labor agreements
(CLA)- which cover 80% of Dutch labor and almost all workers in the manufacturing and
construction sectors-are negotiated between unions and associations in the sectoral and
enterprise levels. By law, sectoral CLA are binding for all employees in the sector. The last
level of social dialogue is that held at the enterprise, where work councils and the enterprise
management negotiate (Nauta, 2015, pp. 107–108). Associations-unions' negotiations on
policies and benefits complement state social policy and advance public programs; the
government supports and subsidizes their welfare agreements (Trampusch, 2006).
Accordingly, the Netherlands provides a perfect example on how policies are coordinated
and how power is balanced between different non-state actors.

2.2 Coordinated-state-capture (co-capture) SBLR
The countries of this mode have high levels of coordination, but also high levels of favoritism
to tycoons (Coordination>50; Favoritism>50). Examples are: Italy, Austria, and Greece.
According to Figure 1, Italy is the best representative country for this SBLR mode. Table 1
also shows that Italy has both the highest geometric and arithmetic means of coordination
and favoritism among the countries of the mode.

Italy is a country that is characterized by strong relations between tycoons and the state, where some tycoons are able to have leading government positions (e.g.: Prime Minister Silvio Berlusconi). There are no major restrictions on political connections with business (Infante & Piazza, 2014). Parliamentarians' formulation of legislations favoring a few tycoons is so intense that political corruption allegations in 1993 included half of the members of the parliament and almost all of pre-1992 elections' government officials (Newell & Bull, 2003, p. 39). Despite major judicial campaigns that altered the political arena in Italy, political corruption and favoritism continued because of the new political elite resilient resistance and public loss of enthusiasm for anti-corruption campaigns (Porta & Vannucci, 2007; Newell & Bull, 2003, pp. 47–48).

Even if it is open for entrepreneurs, the most significant and influential employer association, the *Confindustria*, is controlled by Tycoons due to the use of a weighted voting system (Pulignano, Carrieri, & Baccaro, 2017). In the aftermath of the Cold War, the Confindustria freed itself from the commitment to back the Christian Democrats Party and started to support whichever party supporting its interests, further strengthening its political power (Lanza & Lavdas, 2000). Nevertheless, the well-organized trade union movement is still powerful enough to protect labor interests through collective bargaining, which is done on the enterprise but also on the national, regional, district, or sectoral levels (Passarelli, 2015, p. 95). They are also well connected to the existing big political parties which form Italian ruling cabinets (Molina & Rhodes, 2007), although this became less valid since the 1990s (Passarelli, 2015, p. 95). This institutional settings suggest that, although tycoons are the main beneficiaries from this SBLR mode, labor's losses are limited. However, entrepreneurs seem to be the relative losing actors from this mode, as would be revealed latter when investigating the different implemented policies in this SBLR mode.

2.3 Liberal-state-capture (lib-capture) SBLR

In this mode, countries having low levels of coordination and higher levels of favoritism are grouped together (Coordination<50; Favoritism>50). Examples are: South Korea, Spain, Portugal, and the USA. According to Figure 1 and Table 1, South Korea is the best representative of these countries since it has the highest geometric and arithmetic means among the countries in this mode.

Industrial relations in South Korea are characterized by low coordination, where collective bargaining is predominantly done of the enterprise rather than the industry or sectoral levels (Yoon, 2010). The post-developmental state of the 21st Century in Korea is characterized by powerful tycoons, represented in the managers of the big conglomerates, the *chaebols*, who strongly influence policy formulation to their favor (You, 2021). Added to enterprise collective bargaining, labor unions' memberships are rather low and their density fell to the half between 1980s and 2000s reaching only 10% (Yoon, 2010, p. 44), which should have exacerbated labor weakness vis a vis tycoons. Some scholars argue that industrial relations centered around the "Korea Tripartite Commission" accrue more benefits to capital (Han, Jang, & Kim, 2010), most likely tycoons, but this is debated (Witt, 2014). On the other hand, SMEs are highly dependent on chaebols, to whom they provide supplier services. SMEs are also less keen to cooperate with each other (Witt, 2014). South Korea, thus, represents a country where SBLR is tilted to tycoons' benefit at the expense of both labor and entrepreneurs.

2.4 Liberal-balanced-power (lib-balanced) SBLR

In countries having this SBLR mode, low levels of coordination are matched with low levels of favoritism (coordination<50; Favoritism<50). Examples are: New Zealand, the UK, Japan, and Ireland. Given that it has the highest geometric and arithmetic means among the countries of this mode, New Zealand is the best representative for it.

In New Zealand, trade unions traditionally played an active role in collective bargaining until the early 1990s, when business associations managed to push for the change towards a more decentralized system of bargaining. This culminated with the enforcement of the Employment Contracts Act (ECA) (Foster, Rasmussen, Murrie, & Laird, 2011; Lansbury, Wailes, & Yazbeck, 2007). The ECA individualized work contracts and deprived trade unions from much of their bargaining power and usual entitlement as workers' sole representatives (Lansbury *et al.*, 2007). This led to a dramatic fall in union membership and collective bargaining coverage (Foster *et al.*, 2011, May, Walsh, & Otto, 2004). The reform done in the early 2000s through the Employment Relations Act (ERA)- which re-introduced some measures of collective bargaining-did not seem to have much altered the previous transformation and its emphasis was more on the enterprise-level bargaining (Lansbury *et al.*, 2007). Union density and collective bargaining coverage continued to fall (Foster *et al.*, 2011).

On the other hand, broad-based business associations were actively lobbying the government to adopt broad neoliberal policies in various aspects, such as fiscal and trade policies, justifying this by public interest claims (Roper, 2006). The success of business associations in pushing the government towards this direction shows that tycoons chose to direct policies through broad-based organizations (e.g.: Business New Zealand) that incorporated entrepreneurs rather than trying to obtain individualized favorite privileges. Overall, New Zealand presents an example in which balanced power relations applies between tycoons and entrepreneurs, but not between the two and workers who seem to be in a much weaker position.

b- SBLR and industrial policies

The varying levels of coordination and favoritism in the four SBLR modes lead to the formulation of different policies and/or varying degrees of efficiency in reaching the expected economic outcomes. These industrial policies are explored in this sub-section.

The investigated policies are ones which considerably affect the industrial growth paths of the studied countries and the comparative gains of non-state actors. The growth path indicators are identified as industrially-related long-run economic growth and equality of distribution. Given the focus placed on the industrial sector, the relevant indicators are industrial labor productivity, industrial innovation-agreeing with the suggestions of the endogenous growth model (see Aghion & Howitt, 2009; Todaro & Smith, 2015)- and industrial income distribution. Given the two criteria set above, the following policies are chosen: (1) innovation policies, such as venture capital regulations and government technological procurement; (2) competition policies, such as market entry regulations; and (3) distributional policies, such as labor and profit taxes. Since the focus of this paper is on developed countries, other broad sets of policies are assumed to be less relevant. For instance, trade and monetary policies are less relevant since most of the studied countries adopt free trade principles and a stable monetary system that keep inflation in check. The comparative gains/losses for different non-state actors from these sets of policies are also hard to detect. Focusing on the chosen four policy sets, the comparative gains/losses of different non-state actors from applying these policies are discussed below and summarized in Table 2.

Innovation and labor productivity could be fostered by increasing venture capital availability which is widely used in financing the early stages of new businesses (see Alsina, 2013, p. 24 and OECD, 2015). Encouraging the creation of small businesses should also decrease inequality by allowing small entrepreneurs a better chance to enter the market and generate income. Thus, easing venture capital regulations would provide entrepreneurs with a comparative gain relative to tycoons. Government tech procurement, by placing orders on new products or systems that need to be developed, should encourage firms to invest in R&D and, thus, foster innovation and productivity (see Edquist & Hommen, 2000). Corruption,

Policy	Actors' comparative Gain/ Loss	Suggested growth path
Innovation policies		
Venture capital regulations	Gain: Entrepreneurs	Higher Innovation and Productivity and lower Inequality
Government tech. Procurement	Gain: Tycoons	Higher Innovation (debatable)
Competition policies		
(Easing) Market entry regulations	Gain: Entrepreneurs Loss: Tycoons	Higher Innovation and Productivity (debatable) and lower Inequality
Distributional policies		
Labor taxes	Gain: Labor Loss: Tycoons and Entrepreneurs	Lower Inequality and (probably) lower Productivity
Profit taxes	Gain: Labor Loss: Tycoons and Entrepreneurs	Lower Inequality and (probably) lower Productivity

Source(s): The author's hypotheses based on the literature

Table 2.
The selected policies, actors' comparative gains, and the suggested resultant growth path

however, could distort the positive potential of procurement on innovation by misallocation of contracts to less efficient producers, which would ultimately harm innovation (Burguet & Che, 2004). The same logic should also apply for favoritism and how it could distort the effect of government tech procurement on long-run growth. In this case, tycoons would be likely the beneficiaries and would receive a comparative gain at the expense of entrepreneurs.

Easing market entry would increase SMEs' chances to compete, support their innovation potential, and boost productivity (see Djankov, 2009; Nicoletti & Scarpetta, 2003). It would also decrease inequality by allowing small entrepreneurs a better chance to enter the market and generate income (see Chambers, McLaughlin, & Stanley, 2019). Easier market entry provides entrepreneurs with a comparative gain and tycoons with a comparative loss.

By compelling entrepreneurs and tycoons to provide social security for workers, labor taxes should decrease inequality in distribution. This is especially the case whenever these taxes are high and regressive (see Golosov, Maziero, & Menzi, 2013). However, if these taxes are proportional, they could provide a disincentive for skill formation, since firms will have to pay more taxes in absolute terms to highly-salaried skilled labor. This would ultimately lead to a decrease in productivity (see He & Liu, 2008). Labor taxes provide labor with a comparative gain. Profit taxes could decrease inequality. However, by discouraging the development of new techniques as a mean for generating higher profits, profit taxes could arguably harm innovation. Moreover, De Pinto (2015) argued that higher profit taxes will discourage market entry and demand for skilled labor, which will ultimately decrease average productivity. Nevertheless, Coccia (2018) found that profit taxes could maximize labor productivity up to a threshold beyond which, that is to say, when taxes are too high, productivity will decrease. Profit taxes would bring a comparative loss for tycoons and to a lesser degree entrepreneurs.

Having a comparative statistical analysis of the different SBLR modes would provide useful insights. For each of the chosen policies, a proxy is used, depending on the available data. The description of how these variables are obtained or calculated is reported in Table 3. Two policies are obtained from the WDI, which are "labor tax and contributions (% of commercial profits)" (shortly, labor tax), and "profit tax (% of commercial profits)" (shortly, profit tax). The rest is obtained from the GCI, and these are: "no. days to start a business"

Variable	Proxy calculation and/or readjustment	Source(s) of the original Indicator(s)
Labor productivity	Logarithmic of the "Industry (including construction), value-added per worker (constant 2010 US$)" variable	World Bank's World Development Indicators (WDI)
Patents	"Number of applications filed under the Patent Cooperation Treaty (PCT) per million population"	Global Competitiveness Indicators (GCI)
GINI	"GINI Index"	WDI
GDP per capita	GDP per capita (constant 2010 USD)	WDI
Coordination	"Coordination Index"	Witt and Jackson (2016)
Favoritism	Favoritism = (7 - "Favoritism in decisions of government officials")*(100/6)	GCI
Labor tax	"Labor tax and contributions (% of commercial profits)"	WDI
Profit tax	"Profit tax (% of commercial profits)"	WDI
Start business	"Number of days required to start a business"	GCI
Venture capital	Venture Capital = ("Venture capital availability"-1) *(100/6)	GCI
Gov. Tech. Proc	Gov. Tech. Proc. = ("Government procurement of advanced tech"- 1)*(100/6)	GCI

Note(s): Between quotation marks are the original variables obtained from different datasets
Source(s): Author's compilation from the stated sources

Table 3.
The used proxies, the sources from which they are obtained, and the readjustments that are done on them

(shortly, starting business), "venture capital availability" (shortly, venture capital), and "Government procurement of advanced technology" (shortly, government tech procurement).

Table 4 reports the average levels of the various considered policies in the four SBLR modes between the years (2010–2017). The averages and standard deviations of the studied countries for the whole studied period are reported in order to support the comparative analysis done below.

In *Co-Balanced* countries, more balanced power relations should lead to policies characterized by consensus. The high coordination between the various actors in this mode should mean more government involvement in the implementation of these policies, especially those targeting skill development. In the countries of this mode, as CMEs, industry-specific training is supported and policy formulation is aided by the exchange of information and collaboration among firms (Hall & Soskice, 2001). The power of entrepreneurs in this more balanced-power mode would allow them to push forward policies that defend their interests, such as less-strict venture capital and market entry regulations. Generally, the social policy in CMEs offers higher benefits than in LMEs (Hall & Soskice, 2001, p. 51). Strong labor organizations would generally lobby for policies targeting a more equitable distribution

		Co-balanced	Co-capture	Lib-balanced	Lib-capture	Mean	Std. Dev
Policies	Venture Capital	45.14	26.23	42.18	34.26	43.61	14.39
	Gov. Tech. Proc	51.46	38.52	47.03	49.25	49.06	8.67
	Start Business	9.57	13.38	8.86	12.6	12.43	10.06
	Labor Tax	23.07	39.52	14.61	21.31	23.64	13.68
	Profit Tax	16.96	14.64	18.93	18.29	17.88	7.44
Growth path	Labor Productivity	11.83	11.23	11.59	11.14	11.36	0.49
	Patents	212.92	85.95	141.28	103.36	147.12	92.88
	GINI	28.77	33.5	32.4	36.12	31.94	3.72

Source(s): The author's calculation from the available data

Table 4.
The average levels for the years (2010–2017) of applied policies and growth path variables of SBLR modes

of income (see Lee, 2005). Given the comparative power of labor organizations in this mode, there is an additional reason to think that distributional policies, and especially labor taxes, would be more favorable for labor.

Table 4 shows that the countries of this mode have the highest figures (among the four SBLR modes) in venture capital availability and government tech procurement as well as the second shortest time to start business and second-highest level of labor tax. These figures for venture capital and easiness of starting business show the high support received by SMEs, which is in line with this mode's balanced power relations. Supporting labor also reflects these balanced relations, although the tax rate is slightly lower than the sample average (much lower than one standard deviation below the average). On the other hand, active government involvement that is characteristic of CMEs is reflected in the witnessed levels of procurement.

In *Co-Capture* countries, despite the high level of inter-actor coordination, policies tend to serve the interests of tycoons more than the other non-state actors. High favoritism is generally more likely to induce the government to impose high sectoral regulations and obstruct high levels of competition in order to protect the interests of business tycoons (see Djankov, La Porta, de Silanes, & Schleifer, 2002). Table 4 shows that the countries of this mode have the lowest venture capital availability (lower by more than one standard deviation from sample average) and the longest time to start a business, confirming this bias towards tycoons and against entrepreneurs. The bias towards tycoons is further reflected in having the lowest profit tax rates, although this might also benefit entrepreneurs. The countries of this mode have the highest level of labor taxes (higher than one standard deviation from sample average). This matches the profile of CMEs with regard to social policy but contradicts the assumption that tycoons would have higher favors at the expense of other non-state actors. The general note that could be said given the reported figures is that, tycoons favorable treatment in this mode tends to be at the expense of entrepreneurs, but labor still reap the benefits of high coordination and government involvement. The example of Italy, as presented above, resonates well with these arguments.

In *Lib-Balanced* countries, low levels of coordination and government involvement are matched by policy formulation practices that reflect a more balanced power relations. As LMEs, the countries of this mode would have insufficient support for high-skill fostering strategies, neither for entrepreneurs nor for labor (Martin, 2005, pp. 55–56). In New Zealand, tycoons and entrepreneurs are pushing actively towards neoliberal policies that are of interest to them and disadvantageous to labor. This includes less government expenditure and a lower tax rate (Roper, 2006). According to the figures reported in Table 4, government low involvement is reflected in having the lowest labor tax rate and the second-lowest government procurement. Generally, firms in LMEs have deregulated markets (Hall & Soskice, 2001). More balanced power relations in this mode should provide additional reasons for policies that would benefit entrepreneurs. Accordingly, figures reported in Table 4 show that the countries of this mode have the shortest duration for starting a business and the second-highest venture capital availability. The more balanced power relations are also reflected in having the highest profit taxes.

In *Lib-Capture* countries, finally, formulated policies would reflect low government involvement and more biasedness towards tycoons at the expense of other non-state actors. According to the reported figures in Table 4, the countries of this mode have the second-longest duration to start a business and the second-lowest venture capital availability and labor tax. The levels of the first two policies indicate biasedness against SMEs and the third suggests biasedness against labor, which are all in line with power relations characterizing this mode. The countries of this mode, however, have the second-highest government procurement. Given the high levels of favoritism in this mode, it is likely that this policy serves tycoons' interests.

c- SBLR and growth paths

It is here suggested that the two main dimensions identifying the growth paths of the studied countries are: levels of long-run economic growth and equality of distribution. The relevant proxies that are used here for these variables are labor productivity and patents (for long-run economic growth) and Gini coefficient (for inequality). The number of patents is used as a growth path indicator since it reflects the level of innovation which is crucial for long-run economic growth, according to endogenous growth models (see Aghion & Howitt, 2009; Todaro & Smith, 2015). Table 3 explains how the different growth path variables are obtained or are calculated. Table 4 shows the average of the years (2010–2017) of the four SBLR modes in the different growth path variables. Using the literature on coordination and power relations governing SBLR, the possible growth paths of the different modes could be anticipated. This could then be compared with the figures reported in Table 4.

In *Co-Balanced SBLR*, the more balanced power relations and high level of coordination in the mode should lead (through the previously discussed policies) to higher inclusive growth (higher economic growth and lower inequality). The exchange of information and collaboration among firms and industry-specific training help CME firms to be more competitive in high-skill markets (Martin, 2005, pp. 55–56) and enjoy a comparative advantage in sectors that depend on incremental improvements (Herrigel & Zeitlin, 2010, pp. 668–670). Balanced-power relations should ensure that the coordinated policies lead to the gain of all actors, and this is best fulfilled by higher labor productivity (leading to higher wages and profits). Table 4 confirms this assumption, where the countries of this mode have the highest labor productivity among the four SBLR modes.

The policies adopted by this mode that support SMEs innovation and foster competitiveness should lead to higher innovation. Inter-firm coordination and exchange of information and cooperation that are characteristic of CMEs could augment the effect of these policies on innovation. However, strong labor unions could present a challenge to innovation. A long history of labor resistance to labor-saving technologies supports this view (see Frey, 2019). Furthermore, Bradley, Incheol, and Xuan (2017) provided empirical evidence that strong labor unions tend to obstruct innovation because of their rent-seeking behavior that provides a disincentive for spending on R&D. Others, (e.g.: Calabuig & Gonzalez-Maestre, 2002; Dowrick & Spencer, 1994) argued that this is not always the case and that this depends on other factors, such as labor demand elasticity and market size. Table 4 reveals that the countries of this mode has on average the highest number of patents among the four modes.

Concerning equality of distribution, strong labor organizations would pressure for more equality (see Lee, 2005). The more generous social policies in this mode should lead to lower inequality (Hall & Soskice, 2001, p. 51). Hall and Soskice (2001, pp. 21–29) suggested that income distribution in CMEs is more equal than in LMEs. Besides, in comparison to LMEs, workers in CMEs enjoy long-term contracts, and wage bargaining is done on the industrial level (rather than the firm-level in LMEs). The more balanced power relations of the Co-Balanced mode provide an additional force that fosters more equality. Figures in Table 4 confirm these assumptions; the countries of this mode have the lowest level of inequality among the four modes.

In *Co-Capture SBLR*, the high levels of coordination are benefiting business tycoons more than other players, which might lead to growing income and wealth inequality and harm innovation. For instance, Hellman *et al.* (2003) have found evidence that state-capture harms the overall performance of the enterprise sector. Table 4 shows that the countries of this mode have the lowest number of patents and the second-highest inequality among the four modes. Thus, coordination seems to fail in reducing inequality when favoritism is high, but the effect of favoritism is relatively contained because of high coordination. For instance, in Italy, the different reforms done in the 1990s and 2000s that aimed at bringing more flexibility in the job market, led to increasing wage inequality. However, the negotiations with labor unions led to the enforcement of the "national labor contracts" (CCNL) which regulated and guided firm-level-bargaining, and contained wage differentials (Molina & Rhodes, 2007).

Lib-Capture SBLR, the combination of low coordination and high favoritism would likely lead to more negative outcomes. Hall and Soskice (2001) argued that firms in LMEs tend to have radical rather than incremental innovation, focus on high-tech and services rather than the manufacturing sector. The negative effect of favoritism, however, could put brakes on this innovation. This negative expected outcome is likely more witnessed in the industrial sector which receives less attention in the countries of this SBLR mode. Concerning inequality, As mentioned above, Hall and Soskice (2001, pp. 21–29) suggested that income distribution in LMEs is comparatively more unequal, where wage bargaining is done on the firm-level. Moreover, LMEs have weaker labor unions and lack broad-based business associations, making it harder to have economy-wide coordination in setting wages. High favoritism to tycoons would arguably exacerbate workers' loss. For instance, added to labor unions' weakness in South Korea, the liberalization of the 1990s and the trials to make the job market more flexible (to the tycoons' advantage) led to a surge in the percentage of irregular labor. These are generally not members in trade unions (Yoon, 2010), and receive much lower wages (Han *et al.*, 2010).

The negative perception on the mode are confirmed by Table 4. The figures of the table suggest that Lib-Capture countries have the lowest level of productivity, the second-lowest level of patents, and the highest level of inequality (more than one standard deviation from the sample average of the Gini coefficient).

Finally, in *Lib-Balanced* countries, the lack of sufficient coordination but the presence of more balanced power relations could harm or benefit innovation and productivity but should contain inequality. In New Zealand, for instance, the introduction of the ECA-which led to individualized job contracts and diminished union bargaining power-put unskilled labor at a disadvantage and generally led to higher inequality, stagnant productivity, and failure in conducting skill training, which ultimately led to low skill formation (Wilson, 2001, p. 6). The extreme effects of the ECA were somehow mitigated (although debated) by the introduction of the ERA which reinstated some of the labor unions' bargaining power (Lansbury *et al.*, 2007). Arguably, this was an outcome of more balanced-power relations that limited tycoons' dominance over policy formulation. Figures in Table 4 indicate that Lib-Balanced countries have the second-highest level of labor productivity, patents, and equality (second lowest Gini-coefficient).

Generally speaking, it is to be noted that the two capture modes (Co-Capture and Lib-Capture) have the lowest levels of labor productivity and patents, and the highest levels of inequality. This calls the attention to the possible negative effect of favoritism on the growth path of developed countries.

3. Methodology

In this section, regression analysis is used to investigate the effect of various policies implemented in different SBLR modes on the growth paths of the studied countries. The assumption made here is that SBLR modes could strengthen, mitigate, or reverse the effects of these policies. The regressions are run for the studied 22 developed countries and the period between 2007 and 2018. A summary statistics of the used variables is reported in Table A1 in the Appendix.

The conducted regressions have the following general equation:

$$Y = \alpha + \beta_1(\text{SBLR}) + \beta_2(\text{Coordination}) + \beta_3(\text{Favoritism}) + \beta_4(\text{Policies})$$
$$+ \beta_5(\text{SBLR} * \text{Policies}) \tag{1}$$

The dependent variable (Y) is labor productivity in the first, number of patents in the second, and inequality in the third regression. The proxies used for the different considered variables are calculated as explained in the previous section and reported in Table 3.

Dummy variables are constructed for the four SBLR modes. For instance, Co-Balanced SBLR has a positive level of coordination (coordination>0) and a negative level of favoritism (favoritism<0). For each of the studied countries, categorization differs from one year to the other according to each country's score in coordination and favoritism. To avoid multicollinearity, the Lib-Balanced SBLR dummy is excluded and used as the benchmark. Gross domestic product (GDP) per capita, coordination, and favoritism are used as control variables. The latter two variables are rescaled into an ascending percentage scale (from 0 to 100). Both variables are used to test the effect of different levels of coordination and favoritism on growth paths regardless to the four SBLR modes (see Table 3).

The two-stage least squares (2SLS) model is used to run the different regressions [4]. 2SLS is used because of concerns on endogeneity in terms of reverse causality. Running the Hausmann test on the conducted regressions confirmed that all regressions are better run by 2SLS. As instruments, a number of legal (British, French, and German legal origins), cultural (Protestant and Catholic percentages and ethnic fractionalization), and social (size in terms of population) variables are used. Instrumented variables are the policy variables and their interaction with SBLR dummies (as well as the GDP per capita indicator). SBLR dummies, however, are treated as exogenous, and the same is true for the coordination and favoritism indicators. It is reasonable to think that labor productivity, patent creation, and Gini index have little (if any) causality effect on the SBLR modes or their two constituting indicators which are rather deeper entrenched institutions that are largely the outcome of path dependent historical developments, especially in the developed world.

To avoid multicollinearity, each of the studied five policies are introduced individually (together with its interaction terms with SBLR dummies) in a sperate regression. Finally, sequential elimination of statistically insignificant variables is done automatically using the Gretl program's function "sequential elimination at 10%" which guarantees, through an F-Test, that removing insignificant variables did not considerably alter the consistency of the original regressions. The process led to maintaining only statistically significant variables and these were mostly highly significant variables (at the 1% of significance).

The results of the conducted regressions are reported in Tables 5–7, one table for each dependent variable.

4. Results and discussion

Table 5, reporting the regressions that have labor productivity as the dependent variable, show the following. The control variables of favoritism and coordination both tend to have statistically significant positive effects on labor productivity. Given that the Lib-Balanced mode is the benchmark, venture capital availability increases productivity in both Lib-Capture and Co-Balanced modes, where a 1% increase in venture capital leads to a comparable increase in productivity in both modes (3.3% and 3.2% respectively given the use of log for the dependent variable). Government technological procurement leads to a slightly negative effect on labor productivity only in the Co-Balanced mode (1% leading to −0.5%). It is to be noted that the level of government technological procurement in this mode is the highest in comparison to the other modes, and thus it might be rather too excessive. Longer starting business durations decrease labor productivity in both the Co-Balanced and Lib-Capture modes, with a higher effect on the former. Stated differently, more easiness of starting business has a stronger effect on productivity in Co-Balanced followed by Lib-Captured modes. Higher labor taxes decrease productivity in the Lib-Capture followed by the Co-Capture mode. This provides some evidence supporting the arguments made by He and Liu (2008) about how higher labor taxes could discourage skill formation, especially in the Co-Capture mode where it is the highest among the four modes. Profit taxes, however, have varying effects. They increase labor productivity in Co-Balanced followed by

TSLS
Dependent variable: log labor productivity
Instruments: Leg. British, leg. French, leg. German, protestant, Catholic, ethnic fractionalizational, log. Population

	(1)		(2)		(3)		(4)		(5)	
const	10.958	***	9.798	***	9.457	***	9.773	***	10.593	***
	(0.233)		(0.111)		(0.167)		(0.112)		(0.277)	
GDP per capita	0.000	***	0.000	***	0.000	***	0.000	***	0.000	***
	(0.000)		(0.000)		(0.000)		(0.000)		(0.000)	
Favoritism			0.003	***	0.007	***			0.009	**
			(0.001)		(0.002)				(0.003)	
Coordination	0.007	***	0.004	***	0.004	***				
	(0.002)		(0.001)		(0.001)					
CoBalanced	−1.984	***					−0.325	***	−1.144	***
	(0.520)						(0.057)		(0.272)	
CoCapture	−0.738	***	−0.237	***	−0.386	***				
	(0.149)		(0.051)		(0.086)					
LibCapture	−1.475	***					0.824	***	−0.971	**
	(0.339)						(0.167)		(0.396)	
Venture capital	−0.021	***								
	(0.005)									
CoBalanced * VentureCap	0.032	***								
	(0.010)									
LibCapture * VentureCapital	0.033	***								
	(0.007)									
CoBalanced * Gov. Tech. Proc			−0.005	***						
			(0.001)							
Start bus					0.009	***				
					(0.003)					
CoBalanced * StartBus					−0.029	***				
					(0.006)					
LibCapture * StartBus					−0.010	***				
					(0.004)					
Labor tax							0.019	***		
							(0.003)			
CoCapture * LaborTax							−0.012	***		
							(0.002)			
LibCapture * LaborTax							−0.039	***		
							(0.008)			
Profit Tax									−0.033	***
									(0.008)	
CoBalanced * ProfitTax									0.059	***
									(0.015)	
CoCapture * Profit tax									−0.027	***
									(0.008)	
LibCapture * ProfitTax									0.041	*
									(0.022)	
n	242		242		242		230		230	
R-squared	0.775		0.874		0.829		0.813		0.724	
Hausmann p-value	0.000		0.001		0.000		0.000		0.000	

Note(s): (***) is 1% significance, (**) is 5% and (*) is 10%. The standard errors of the various independent variables are placed between brackets below the corresponding coefficients
Source(s): Regressions conducted by the author

Table 5.
TSLS regressions with log labor productivity as the dependent variable

TSLS
Dependent variable: patents per million inhabitants
Instruments: Leg. British, leg. French, leg. German, protestant, Catholic, ethnic fractionalizational, log. Population

	(1)		(2)		(3)		(4)		(5)	
const	−53.463		−579.874	***	102.611	**	39.018		−553.832	***
	(35.471)		(129.089)		(46.262)		(48.402)		(163.317)	
GDP per capita									0.005	***
									(0.001)	
Favoritism					−3.199	***	−3.036	***		
					(0.975)		(0.729)			
Coordination			1.846	***			1.026	*	5.689	***
			(0.640)				(0.602)		(1.398)	
CoBalanced			1266.364	***	60.034	***	282.601	***	280.219	*
			(465.912)		(18.751)		(56.198)		(161.486)	
CoCapture					211.553	***				
					(73.492)					
LibCapture	243.177	***	−54.411	**	260.296	***	426.493	***		
	(82.270)		(24.407)		(65.032)		(78.379)			
Venture capital	4.762	***								
	(0.913)									
CoBalanced * Venture cap	1.128	**								
	(0.435)									
LibCapture * Venture cap	−7.477	***								
	(2.298)									
Gov. Tech. Proc			14.953	***						
			(2.635)							
CoBalanced * Gov tech proc			−26.817	***						
			(9.885)							
Start bus					19.378	***				
					(2.654)					
CoCapture * Start bus					−21.226	***				
					(5.263)					
LibCapture * Start bus					−26.860	***				
					(6.674)					
Labor tax							13.726	***		
							(2.749)			
CoBalanced * Labor tax							−16.429	***		
							(2.754)			
CoCapture * Labor tax							−9.131	***		
							(1.760)			
LibCapture * Labor tax							−23.355	***		
							(4.133)			
Profit tax									17.477	***
									(5.258)	
CoBalanced * Profit tax									−27.420	**
									(11.439)	
CoCapture * Profit tax									−12.165	***
									(3.258)	
n	110		110		110		110		110	
R-squared	0.290		0.386		0.549		0.604		0.245	
Hausmann (p-value)	0.000		0.000		0.000		0.000		0.000	

Note(s): (***) is 1% significance, (**) is 5% and (*) is 10%. The standard errors of the various independent variables are placed between brackets below the corresponding coefficients
Source(s): Regressions conducted by the author

Table 6.
TSLS regressions with patents per million inhabitants as the dependent variable

TSLS
Dependent variable: Gini index
Instruments: Leg. British, leg. French, leg. German, protestant, Catholic, ethnic fractionalizational, log. Population

	(1)		(2)		(3)		(4)		(5)	
const	40.856	***	4.802		52.227	***	30.325	***	18.973	***
	(2.238)		(8.714)		(3.030)		(2.107)		(1.817)	
GDP per capita	0.000	***	0.000	*	0.000	***	0.000	***		
	(0.000)		(0.000)		(0.000)		(0.000)			
Favoritism			0.355	***			0.178	***	0.153	***
			(0.068)				(0.023)		(0.027)	
Coordination	−0.143	***	−0.127	***	−0.151	***				
	(0.031)		(0.030)		(0.034)					
CoBalanced	25.242	***	4.103	**	−8.650	***			9.139	***
	(5.215)		(1.657)		(2.417)				(2.643)	
CoCapture			−18.463	**			−19.878	***	8.116	***
			(8.879)				(3.602)		(2.793)	
LibCapture			−3.409	**	−5.094	**				
			(1.593)		(2.382)					
CoBalanced * Venture cap	−0.436	***								
	(0.099)									
CoCapture * Venture cap	0.185	***								
	(0.045)									
LibCapture * Venture cap	0.088	***								
	(0.020)									
Gov. Proc. Tech			0.389	***						
			(0.119)							
CoCapture * Gov Proc Tech			0.510	**						
			(0.207)							
Start bus					−0.506	***				
					(0.112)					
CoBalanced * Start bus					0.991	***				
					(0.174)					
CoCapture * Star bus					0.348	***				
					(0.086)					
LibCapture * Start bus					0.534	***				
					(0.147)					
Labor Tax							−0.152	***		
							(0.027)			
CoCapture * Labor tax							0.486	***		
							(0.089)			
Profit Tax									0.401	***
									(0.090)	
CoBalanced * Profit tax									−0.645	***
									(0.159)	
CoCapture * Profit tax									−0.642	***
									(0.191)	
n	179		179		179		168		168	
R-squared	0.362		0.401		0.417		0.481		0.523	
Hausmann (p-value)	0.000		0.000		0.000		0.000		0.000	

Table 7.
TSLS regressions with the Gini index as the dependent variable

Note(s): (***) is 1% significance, (**) is 5% and (*) is 10%. The standard errors of the various independent variables are placed between brackets below the corresponding coefficients
Source(s): Regressions conducted by the author

Lib-Capture modes and decrease it in the Co-Capture mode. The positive effect of profit taxes in the Co-Balanced mode supports the arguments made by Coccia (2018) that, at low levels, raising profit taxes increases productivity (where the tax has the second lowest level in the Co-Balanced mode). Generally, it could be said that concerning policies in which the Co-Balanced mode has one of the two highest levels among the four modes, productivity is fostered by venture capital availability and easiness of starting business. For the Lib-Capture mode, this is rather the case for its comparatively high levels of profit tax, while it would benefit from raising both venture capital availability and easiness of starting business for which the mode has comparatively low levels. On the other hand, the remarkable implemented policy that benefits labor productivity in the Co-Capture mode is rather having low profit taxes (the lowest among the four modes), where lowering it further would increase productivity.

Table 6 reports the regressions having patents per million inhabitants as the dependent variable. In two of the conducted five regressions, favoritism has a negative effect on patents while coordination has a positive effect in most of the regressions, both matching the findings of Sabry (2019) that favoritism generally harms innovation while manifestations of high coordination such as broadly-participated PPD have a general positive effect, especially in more open political systems. Venture capital availability increases patents in the Co-Balanced mode but decreases it in the Lib-Capture mode. Government technological procurement sharply decreases patents (a 1% increase in procurement decreases patents by about 27 patents per million inhabitants), again suggesting that the excessiveness of this policy in this mode might be responsible for unfavorable economic outcomes. Longer durations for starting business sharply decreases patents in the Lib-Capture followed by Co-Capture mode (1% causing a fall of 27 and 21 patents, respectively). The two modes have on average the highest duration for starting business among the SBLR modes, suggesting that innovation is likely better supported by a moderate level of market entry and competition (see Aghion & Griffith, 2005; Goto, 2009), in a way that balances the entrance of entrepreneurs' innovative firms and protecting the market share of tycoons. Higher labor taxes decrease patents in the three considered modes, with the highest effect being on the Lib-Capture, followed by the Co-Balanced, then the Co-Capture mode (an increase of 1% decreasing patents by 23, 16, and 9 per million inhabitants, respectively). Similarly, profit taxes reduce patents but only in the Co-Balanced followed by the Co-Capture mode (1% increase causing a fall of 27 and 12 patents, respectively). Generally, for the Co-Balanced mode, the most effective implemented policy in increasing patents is venture capital availability. On the other hand, for both Co-Balanced and Co-Capture modes low levels of profit taxes seem to be the most beneficial policy for patents creation.

Finally, Table 7 reports the results of the regressions that have the Gini index as the dependent variable. Favoritism has a statistically significant positive effect on the Gini index (lead to higher inequality) in most of the conducted regressions while the opposite is true for coordination. Venture capital availability decreases the Gini index, and thus inequality, only in the Co-Balanced mode but raises it in both the Co-Capture followed by the Lib-Capture mode. The effect is the strongest in the Co-Balanced mode (a 1% increase in venture capital availability leading to a decrease of 0.436% in inequality). Government technological procurement increases inequality in the Co-Capture mode, suggesting a negative impact of favoritism on allocating procurement offers, even when the mode has comparatively the lowest level of the policy among the SBLR modes. Longer duration for starting business expectedly increases the Gini index in the three considered modes, with the biggest effect being on the Co-Balanced mode. Labor taxes increase the Gini index in the Co-Capture mode (the mode has and by a wide margin the highest level of the policy). Finally, profit taxes decrease the Gini index and inequality in both the Co-Balanced and Co-Capture modes. Generally, venture capital availability again proves to be the best policy for the Co-Balanced

mode where it decreases inequality as it increases labor productivity and patents. The second policy for which high levels are beneficial for the mode is the easiness of starting business as it decreases inequality the same as it increases labor productivity. For the Co-Capture mode, lower government technological procurement is a beneficial implemented policy for this mode with regard to equality.

5. Conclusion

This research argues that state-society relations, and especially SBLR, strongly affect the growth paths of developed countries, whether in terms of long-term industrially-led economic growth and/or equality of distribution. The differentiation between SBLR modes goes beyond the usual coordination dichotomy between LMEs and CMEs, present in the VoC literature, and integrates a very important dimension which is power relations between the various studied actors. This presents coordination and favoritism as the two important determining dimensions for differentiating between four main SBLR modes in developed countries.

The empirical results, depending on regression analysis and statistical data, offer many interesting findings. The Co-Balanced mode having higher levels of coordination and lower favoritism enjoys the best growth path among the four modes. Statistically, Co-Balanced countries have better long-run economic growth prospects and the lowest level of inequality. The lower levels of favoritism in this mode lead to more balanced power relations that encourage SMEs and their innovation; and this is reflected in having the highest level of venture capital availability and a comparatively shorter duration for starting a business. Higher levels of coordination added to low favoritism seem to make the best use of these two policies on growth path indicators as the empirical results have shown.

On the other hand, the Lib-Capture mode, characterized by lower coordination and higher favoritism, seems to have the worst growth path. Statistically, Lib-Capture countries have comparatively lower long-run economic growth prospects and the highest levels of inequality. Higher favoritism seems to provide a bias against SMEs, leading to a longer duration for starting a business and low availability of venture capital. The latter is suggested by the empirical results to affect equality in this mode. The only policy that the countries of this mode have on average high levels and that at the same time brings some benefits is high profit taxes which increase labor productivity.

Between the above-mentioned two poles of distinctive modes, two other SBLR modes with different policy profiles and growth paths exist. The most remarkable outcome in these two modes is the notably low level of patent creation (i.e.: innovation) in Co-Capture countries. The heavy impact of high favoritism in this mode on this outcome could be arguably be detected from the negative effect of strict market entry-the strictest in all four modes-on patent creation. The countries of this mode in which entrepreneurs are likely the main losing actor would benefit from policies and regulations that increase their relative economic power vis a vis tycoons. The policies that seem to bring benefits are actually that which involve less government intervention: lower profit taxes for labor productivity and patents and low government technological procurement for inequality. In comparison to the Co-Balanced mode, the results point to how government intervention and the benefits of high coordination are distorted by favoritism that renders government involvement less beneficial.

Hence, to realize the best industrial growth path, fighting favoritism should be an important objective. The negative impact of favoritism on innovation could not be disregarded in the eve of the fourth industrial revolution, where innovation is increasingly pivotal to future industrial development. Actively engaging societal groups in the policymaking process is important in addressing their concerns and balancing them at the same time. This should lead to the double benefit of formulating better policies that should foster growth as well as provide better distribution of this growth. High levels of coordination

should help in realizing this objective. Yet, this could only be possible if societal groups are free to associate and aggregate their power and when there are means of preventing one actor from gaining more favorite treatment and exclusive influence over policymakers. As pointed out by Hall and Thelen (2008), capacities for coordination are much in doubt if labor lost the belief that the existing industrial relations provide them with "a just set of rewards". The presence of both powerful and broadly represented business associations and labor unions and the existence of a government interested in coordinating their efforts-rather than letting itself be controlled by one group at the expense of the others-should help in the realization of the best growth path. Thus, institutional reform that empowers societal groups and enables them to defend their interests as well as fights all forms of corruption should lead to the realization of a more prosperous and equitable industrial development, with the "re-industrialization" of the developed world being no exception. The technological and social challenges of intensive automation and digitalization accompanying the fourth industrial revolution make the envisaged institutional reform more urgent.

The discussion is specifically relevant for the Lib-Capture mode, for which South Korea is the best representative, as discussed in the paper. The country's economic development has been a textbook case for a successful economic development process, with the term developmental state being synonym to its experience (Evans, 1989; Lee & Han, 2006). Critical accounts pointed to this experience though as crony capitalism with high levels of favoritism to connected tycoons who were however subservient to the more dominant state (Enderwick, 2005; Kang, 2003). The democratization of the state seemed to flip the balance between the state and tycoons, to the latter's favor, but favoritism survived and the country witnessed an institutional transformation into state capture (Sabry, 2023). The comparatively poor figures in the considered variables of the growth path of the Lib-Capture mode suggest that South Korea needs to yet move to the left of Figure 1 to follow the historical developmental path of its historical role model, Japan (Evans, 1989), which is in the Lib-Balanced mode; or it might even further move up as well towards the Co-Balanced mode. In either cases, curbing favoritism would be the key for this institutional change that would open more chances for further economic development. This is the case as well for other countries for which the characteristics of the Lib-Capture mode are relatively strong.

Despite the important findings that this research has reached, this paper is mainly meant to open a further investigation into this topic and open this dimension that the research on VoC and political economy have under-researched. A deeper investigation of SBLR typologies that could only be possible by having richer datasets with more data on coordination for the whole world, rather than only the advanced economies, would further our understanding of the dynamics that shape the growth paths of different countries of the world. While acknowledging the limitations of this paper, it is hoped that this research would motivate the collection of richer empirical data that would boost research in this field.

Notes

1. The other two perspectives in industrial relations are the unitarist perspective – which assumes that both actors basically share the same goals, and the Marxist (radical) perspective – -which assumes that conflict between them is inherent (Hayter, 2018, pp. 3–4).

2. Different categorizations were introduced in some works (see Witt & Jackson, 2016, p. 780, Whitley, 1999; Witt et al., 2015).

3. Rescaling the voice and accountability indicator (World Bank, n.d.) into a percentage scale would show that the 22 countries having values above the 50% mark, as remarked in Sabry (2023).

4. Using fixed-effects regression model would have been counterproductive since the four SBLR modes dummy variables largely depend on time invariant variables especially with regard to the coordination component of the modes.

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Appendix

Variable	Mean	Median	Minimum	Maximum	Std. Dev	Skewness	Ex. Kurtosis
Log labor productivity	11.36	11.33	9.82	12.74	0.49	0.30	1.19
Patents (per million)	147.12	132.25	7.62	335.38	92.88	0.40	−0.91
GINI index	31.94	32.10	24.90	41.50	3.72	0.40	−0.12
GDP per capita	41,968	40,683	8464.9	92,121	15,414	0.856	1.222
Favoritism	45.13	44.01	15.89	81.78	15.53	0.34	−0.75
Coordination	43.36	49.50	4.00	84.00	22.25	0.18	−1.03
Co-balanced	0.33	0.00	0.00	1.00	0.47	0.73	−1.46
Co-capture	0.15	0.00	0.00	1.00	0.36	1.96	1.83
Lib-capture	0.18	0.00	0.00	1.00	0.38	1.68	0.84
Venture capital	43.61	43.19	11.74	78.28	14.39	−0.09	−0.58
Government tech procurement	49.06	50.04	23.94	71.50	8.67	−0.35	0.20
Start business	12.43	10.00	0.50	54.00	10.06	1.60	2.96
Labor tax	23.64	21.10	1.40	54.00	13.68	0.47	−0.64
Profit tax	17.88	18.20	−0.20	33.10	7.44	−0.26	−0.59

Source(s): Gretl program-generated summary statistics

Table A1.
Summary statistics of the studied variables (without interaction terms)

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