

Political capitalism and related concepts

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Abstract:

Political capitalism belongs to a family of similar concepts that include state capture and crony capitalisms. For practical purposes they are indistinguishable. Thus, the state capture index is a measure for the three members of the family. The corruption index is close to the family as it is roughly proportional to state capture. The reverse type of capitalism is market capitalism, where the economic freedom index is a measure. These indices and the democracy index are all highly intercorrelated, as the four indices have similar transitions. In the long run most countries develop from having authoritarian political capitalism with high corruption to become democratic market economies with low corruption.

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1. Introduction

Table 1 defines the concept of Political capitalism in two steps. Both steps come in different sizes. There are always political insiders and some political capitalism, but their importance may be small or large.

Table 1. A two-step definition of political capitalism

Political insiders are politicians, administrators, and businessmen with some power over the political system.
Political capitalism means that a significant part of GDP is generated by political insiders using this power.

The alternative capitalism is market capitalism that is an ideal concept from economic theory meaning that production is by (private) firms in perfect competition.² Countries have different distances to the ideal. Thus, capitalist systems have shares, s_m and s_p , adding to 1 of market and political capitalism respectively. If we had perfect measures for the two, they should have a correlation of -1.

A set of concepts are close to political capitalism. It is state capture, crony capitalism, kleptocracy, and stationary banditry. The concepts are increasingly different, and the terms are increasingly derogatory. Section 2 claims that political capitalism is undistinguishable from state capture and crony capitalism.

The paper considers the definitions and the pattern in four indices: SC , T , EF , V for state capture/political capitalism, corruption, economic freedom, and democracy respectively, and income, y , see the Appendix table for sources.³ These indices have measurement errors, and they are not defined exactly as wanted by this study. However, they are independently collected, large cross-country samples are available. Table 4 in section 3.1 show that the five variables are highly correlated.

The two shares s_p and s_m should be proportional to SC and EF . It will be shown they are negatively correlated, but the correlation is above -1 indicating the imperfection of the measures. It is also shown that the SC and V , the democracy index is negatively correlated.

² Managers of public firms easily become political insiders using their power in their business. So, we assume that the firms in market capitalism are private, with strictly limited political power.

³ T , EF , V and y are analysed in *ibid*, which is Paldam (2021, 2024, 2025a and b) and Paldam and Saadaoui (2025).

Economic theory predicts that a perfect market system is optimal (with well-known qualifications) as regards efficiency, so (most) increases in s_p are redistributions to the political insiders from the rest of the population, which it resists. For political capital to thrive the political insiders must have some control over the legal system and the press. Hence, high political capitalism occurs in authoritarian system, where it is tempting for the leader and his associates to collude with business leaders and make money.⁴ Authoritarian leaders are above the law, and can punish journalists, who expose such collusion.

The key mechanism whereby political insiders make money is through rent seeking, where political decisions give monopoly that generate rents to business associates. They are likely to pay for the favour, hence building mutually profitable relations. Monopoly takes many forms. From rigged auctions to tariffs. To the extent it happens openly, and by a published law, it may be legal. However, it often has a secret and illegal part. This is corruption, so the high correlation between the SC and T indices reported in Table 1 is not surprising.

1.2 *Welfare: a normative note*

The analysis below is positive, but there is no reason to hide that the author has the usual preferences: He wants SC and T to decline and EF and V to rise. The paper shows that when y rises, SC and T goes down, while P and V goes up. If long-run development is demand driven, these signs show what people want, when they can afford it. The preferences of the author are like the ones of most people.⁵

Further to the welfare assessments: A high s_p may imply some small loss of efficiency, but the main effect is the redistribution from the rest of the population to the political insiders. Thus, the only ones with preferences for a high s_p are the insiders. People with a preference for a very high s_m are termed libertarians, while people in the normal political spectrum prefer a moderately high s_m .

Thus, it is no wonder that most of the related terms for political capitalism have negative connotations. Kleptocracy is surely bad! Political capitalism seems to be a relatively neutral term, but we still note that is a good when it goes down and the capitalism becomes more market oriented.

⁴ Some authoritarian strongmen care for power only, but most strongmen become rich. It is a problem how much of a fortune acquired by a strongman (or his family) will be able to keep if he is deposed. Hence, it is rational to keep some of the loot in safe heavens abroad.

⁵ The world values surveys include an item asking about the preference for public vs. private ownership to business. It is analysed by Bjørnskov and Paldam (2012). The preference for private ownership grows with income.

2. Definitions of the five concepts

The concepts are political capitalism, state capture, crony capitalism, corruption, market capitalism and economic freedom. These concepts are del's with important issues as seen from Table 2. The many google entries have caused the definitions of the concepts to be a bit woolly, but empirical analysis requires that definitions that are simple and robust. The three next paragraphs are chasing the definitions of the concepts. We report the AI overviews of the definitions made by Googles Gemini program (14/8-2025) to find an objective summary of the many related definitions. These summaries may include examples or alleged consequences of high/low values of the indices. Such extras are put in {}-brackets.

Table 2. Google hits in millions 12/8 2025

Concept	Hits	Concept	Hits
Political capitalism	57.8	Corruption	193
State capture	692		
Crony capitalism	1.2	Economic freedom	396

The left-hand side is a family of related concepts.
The right-hand side covers two concepts differ.

2.1. *The family of political capitalism, state capture and crony capitalism. The SC index*

Political capitalism is defined in Table 1 and by Holcombe (2018) in his book on the subject: It is an economic and political system in which the economic and political elite cooperate for their mutual benefit. The AI overview of a dozen definitions is:

Political capitalism refers to an economic and political system where the wealthy and powerful collaborate to shape public policy for their mutual benefit, often at the expense of the broader public. {This system blurs the lines between the state and the market, with economic elites influencing government actions to maintain their privileged positions}.

State capture is defined by Kaufmann (2024), who has made the SC index as: it occurs when individuals in government or corporations actively shape laws and institutions to serve their own interests. The AI overview of a dozen related definitions is:

State capture is a form of systemic political corruption where private interests significantly influence a state's decision-making processes to their own advantage, often to the detriment of the public good. {This influence can involve shaping laws, policies, and regulations, and is often achieved through illicit means, such as bribery and other forms of corruption}.

Crony capitalism has even more definitions in Google, for example Merriam-Webster use this definition: Economic system in which individuals and businesses with political connections and influence are favoured (as through tax breaks, grants, and other forms of government assistance) in ways seen as suppressing open competition in a free market. The Google's AI overview of the many related definitions is:

Crony capitalism refers to an economic system where businesses thrive due to close relationships with political figures and government officials, rather than through fair competition or merit. {This can manifest as preferential treatment, special privileges, or even corruption, ultimately hindering economic progress and distorting market mechanisms}.

It is obvious that the three concepts have strongly overlapping definitions, which are all covered by the definition in the first paragraph of the paper.

The *SC* index measure state capture, as explained by Kaufmann (2024). It is compiled from a set of 18 indicators published by different agencies/NGOs, so it is not primary data. However, none of these indicators overlap to *T*, the Transparency International's corruption index, and *EF*, the Fraser Institute's Economic Freedom index.

2.2 Corruption, the *T* index

The definitions of corruption have gradually converged: Within the framework of the principal-agent model corruption means that an agent colludes with an outsider to defraud the principal. This definition explains why corruption is particularly large in the public sector, where the chain of principals and agents is longest. It also means that corruption is a criminal activity. The Google AI overview is:

Corruption, in general, is the abuse of entrusted power for private gain. {It can manifest in various forms, including bribery, embezzlement, and fraud, and occurs in both the public and private sectors. Corruption undermines good governance, erodes public trust, and hinders economic development}.

The definition starts with Transparency International's definition and includes examples. Embezzlement and fraud may be or not be corruption depending upon the participants.⁶ It also includes testable consequences that are difficult to confirm, as will be discussed.

It is frequently claimed that corruption come in different forms, and that some regimes may tolerate a little corruption as a para-legal supplement to the low wages of civil servants. In

⁶ If employee diverts some of the funds, in his trust, to his own account, it is surely embezzlement. It is corruption by the TI definition, but not by the principal-agent definition. However, it is corruption by both definitions if the cheating is done in collusion with an outsider by including excess amounts on an invoice and they share the excess.

addition, some corruption is political in the sense that the kickbacks in not to the insider himself, but to someone he chose, such as his political party. Kickbacks from public contracts may be an established system to finance political activity such as election campaigns. However, it is still illegal and frowned upon by most people.

The TI index measures corruption on a 10-point scale $]0, 10[$ from corruption to honesty, so that perfect honesty is 10. We want the corruption index to increase with growing corruption. Consequently, we define: $T = 10 - TI$.

The T index measure corruption as subjective perceptions from polls or surveys. The TI organization collect 13 primary cross-country measures of corruption, and calibrate them to be comparable, and then they provide an average (and a std). The calibration makes it problematic to analyse the development over time. TI only publish the index if it has 3 or more primary sources, and the std is about 0.5 point for the average country.

2.3 *Economic freedom, the EF index*

Economic freedom is closely related market capitalism, as it is defined as the freedom to go about you own lawful business as you please, which imply law and order including well protected property rights. The Googles AI overview is:

Economic freedom, also known as economic liberty, refers to the ability of individuals to make their own economic decisions. It encompasses the freedom to work, produce, consume, and invest as they choose, with minimal government intervention. {High levels of economic freedom are often associated with increased prosperity, reduced poverty, and greater overall well-being}.

The Fraser Institute economic freedom index is compiled from about 30 indicators collected according to a manual by a chain of about 50 conservative/libertarian NGOs. The indicators used do not include the ones used for the SC and the T indices.

3. The grand pattern in the *SC* index for political capitalism

The *SC* index for state capture/political capitalism is pt. available from 1997 and every third year until 2021. It is given as a percentage score]0,100[. The ends of the scale are theoretical. From 1997 to 2025 the real GDP per capita in the world has doubled. However, the average *SC* index has not changed at all, and neither has its standard effort, as showed by Table 1. Kaufmann (2024) presenting the index, do not dwell on this issue, but just writes on p 13 that “averages were then normalized and converted to range from 0 (low capture) to 100 (high).” Thus, the development over time is relative only (as for *T*), but there is lots of interesting differences between countries, and over time for individual countries, and the index is correlated to other relevant variables.

Table 3. The missing development of the *SC* index over time

	1997	2000	2003	2006	2009	2012	2015	2015	2021
Avr	50.0	49.9	49.9	49.9	49.9	50.0	49.9	49.9	49.9
se	1.87	1.87	1.87	1.86	1.87	1.86	1.86	1.87	1.88

3.1 The relation of the *SC* index to the other indices, and across country groups

Table 4 reports the 10 pairwise correlations on the unified data for *SC*, *T*, *EF*, *V*, and *y*. Each series is a vector of the stacked panel. Most of the inter-correlation is due the cross-country variation, so it is of a long-run nature, *ibid*.

Table 4. The correlation between the four indices and income

Index	Measuring	<i>SC</i>	<i>T</i>	<i>EF</i>	<i>V</i>	<i>y</i>
<i>SC</i>	Political capitalism	1				
<i>T</i>	Corruption	0.84	1			
<i>EF</i>	Market capitalism	-0.70	-0.77	1		
<i>V</i>	Democracy	-0.84	-0.67	0.66	1	
<i>y</i>	Income	-0.68	-0.77	0.76	0.62	1

Calculated for all $N = 1,051$ non-OPEC observations with data for all four variables.
The correlations for OPEC are found in Paldam and Saadaoui (2025). They are smaller.

Table 5 give averages for the main country groups. All averages are in the range from 50 to 67, except one. The West has an average of 12, and a small standard deviation as well. OPEC and MENA that are greatly overlapping have the highest score.

Table 5. The average SC index in the standard country groups

Group	Counts		SC, state capture		y, income		Outlier in group	
	N	Nc	Av	(Std)	Av	(Std)	Low	High
Africa SS	396	44	60.5	(17.7)	7.71	(0.86)	Cabo Verde	Equ Guinea
Asia	216	24	52.1	(20.3)	8.97	(1.13)	Japan	North Korea
Latin America	198	22	53.6	(19.5)	9.09	(0.65)	Uruguay	Haiti
MENA	162	18	65.3	(14.5)	9.66	(0.96)	Tunesia	Syria
Post-socialist	252	28	50.4	(23.8)	9.36	(0.65)	Slovenia	Turkmenistan
West	225	25	12.1	(6.8)	10.52	(0.30)	Netherlands	Israel/USA
OPEC	162	18	67.3	(13.6)	9.69	(1.00)	Kuwait	Equ. Guinea

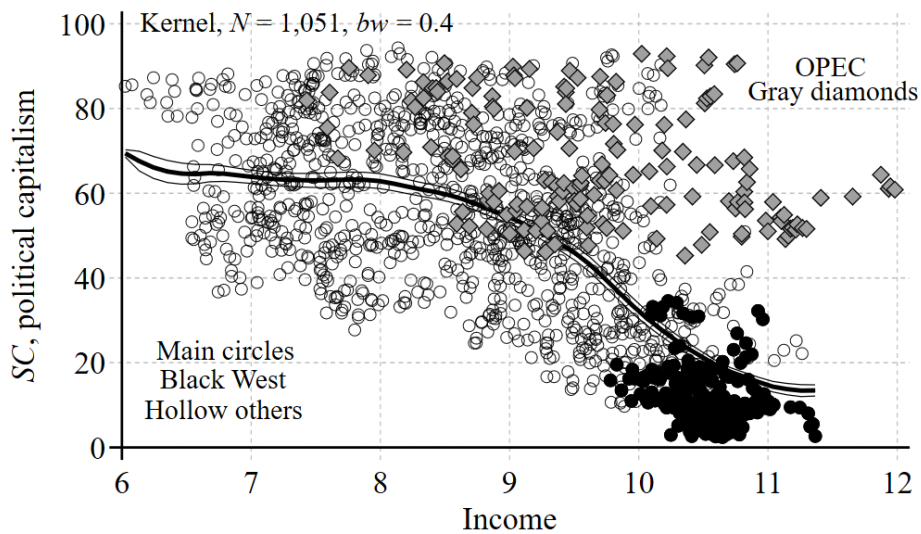
N is number of observations; N_c is the number of countries: $N = 9N_c$. The OPEC countries are also in one of the groups – mostly in MENA. Israel is included in the group of West. If it is disregarded USA is the highest.

3.2 The SC-score as a function of income, $SC(y)$

The data for Table 5 are depicted on Figures 1 and 2. The two outliers in Table 5 are indicated on Figure 1, while the richest and poorest country groups are shown on Figure 2. The West is included in the calculation of the kernel average on Figure 1, but the OPEC countries are not. The curve for kernel averages shown on Figure 1 is a perfect transition curve.⁷ It shows a late transition, as further analysed in the next section.

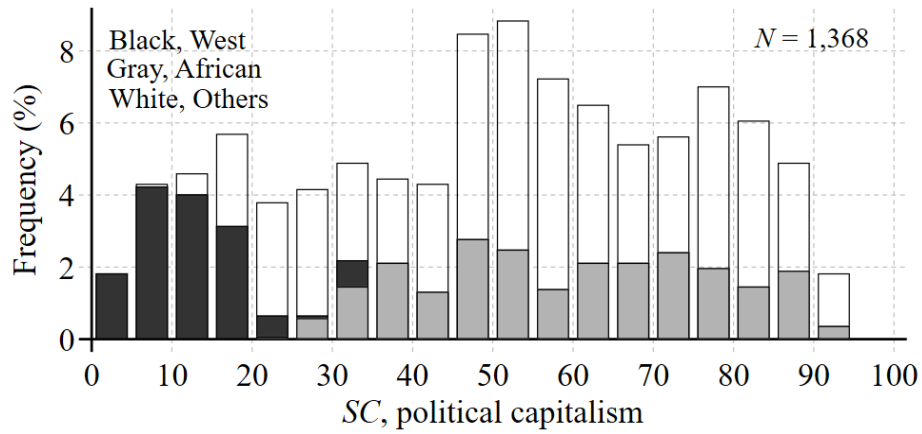
Figure 2 confirm that all observation for the West have small values for the SC index that are close together. It also noteworthy that the African scores are spread out over most of the scale going from 24.6 in Cabo Verde to 91.2 in Cameroon.

Figure 1. The point scatter of the SC index, with kernel average



⁷ *Ibid* claims that the underlying skeleton in the development of countries is a set of transitions in all socio-economic variables including institutional indices. That is, they chance systematically from one level in poor traditional society to another in modern wealthy society.

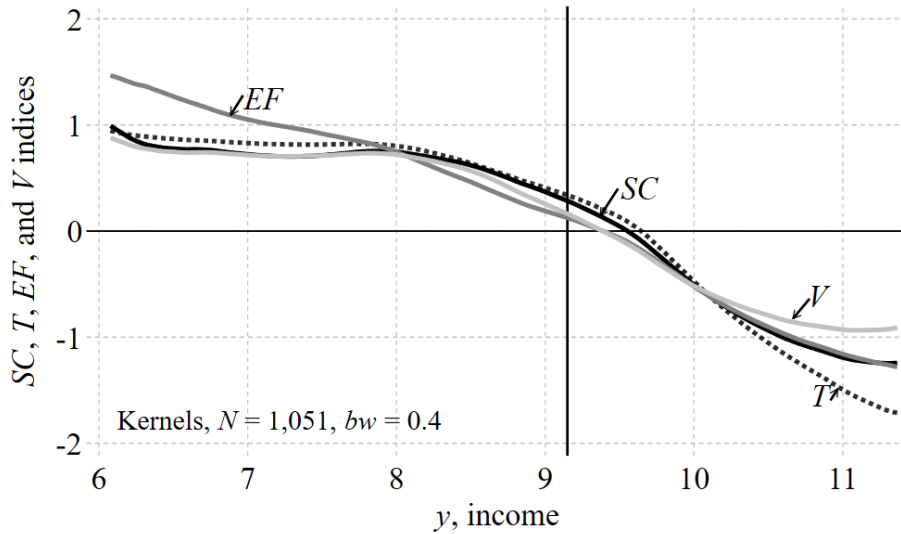
Figure 2. Histogram showing the frequencies distribution of the SC data



3.2 The transition in the four series: $SC(y)$, $T(y)$, $EF(y)$ and $(V8y)$ ⁸

To compare the transitions in the four indices the data are normalized to average zero and standard deviation 1, and the sign on EF and V are turned.

Figure 3. Comparing the transition in the four variables SC , T , EF , and V



The series are transformed as explained in text. The vertical line is for the median observation.

The figure show that the four indices have highly confluent transitions. The series change by two standard deviations when countries move from +1 in poor countries to -1 in

⁸ A transition is the systematic move in the level of the variable when a country moves from the traditional to the modern steady state, a movement that typically takes well over a century. Transitions are similar in cross-country data and in long time series, *ibid.*

wealthy countries. The movements are all in the direction increasing welfare, as mentioned in section 1.2. The transition curves for SC , T and V are similar. They are almost flat for $y = [6, 8]$. The fall is steepest for $y = [9, 10]$. At the high end around $y = 11$ the V -curve have flattened, the SC and EF curves are almost flat, while T is still falling.

It is well known that the transition of corruption is late, and we note that the same lateness occurs for the SC -transition. Institutions have much inertia.

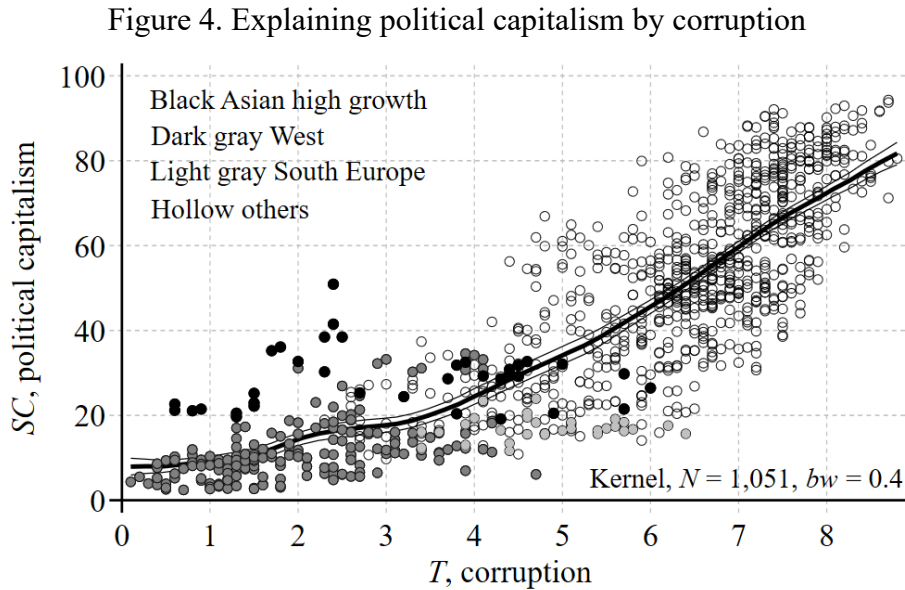
4. Two relations: $SC(T)$ and $SC(V)$

Figures 4 and 5 show two kernel regressions. A kernel regression is always a member of a pair, as the kernel for $x = x(y)$ can always be made for $y = y(x)$ as well. The two kernels are often surprisingly different as the data are sorted by y in the first regression and by x in the second. The different curves may tell a story, see *ibid*. In the case at hand, the kernels pairs $[K^{SC}(T, 0.4), K^T(SC, 4)]$ and $[K^{SC}(V, 0.4), K^V(SC, 4)]$, are similar. This suggests simultaneity.

4.1 The kernel $K^{SC}(T, 0.4)$ analysing the relation between the SC and T indices

Figure 4 show that the relation between SC , state capture, and T , corruption, is almost linear, so it is no wonder that the transition is the same for both variables. As expected, the West has low values especially for the SC index.

The Asian high growth countries are Hong Kong, Singapore, South Korea, and Taiwan. The South European countries are Cyprus, Greece, Italy, and Malta. Both groups are latecomers in the group of high-income countries. Thus, they point to long lags of institutional adjustment. The outliers for the Asian high growth countries are strongest for Hong Kong that has substantial SC -values. This contrast to the high values for the Economic Freedom index in Hong Kong, so it is worth further analysis.

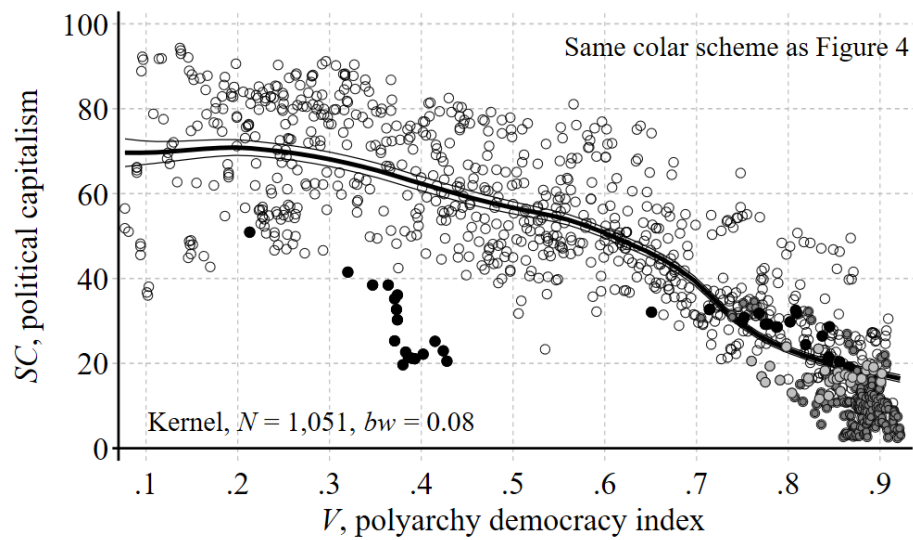


4.2 The kernel $K^{SC}(V, 0.4)$ analysing the relation between the SC and V indices

Figure 5 demonstrate the non-linear path of the relation between the SC, state capture index, and the V , democracy index. Once again Hong Kong sticks out, due to the political regime, which was first a British colony and then a Chinese province.

The West is close together at the preferable end for high democracy and low political capitalism. It is nice to see that most East Asich high income and South European countries are getting close to the West that has been wealthy for long.

Figure 5. Explaining political capitalism by democracy



5. Conclusions

The paper started by a review of the definitions: Political capitalism, state capture, and crony capitalism have overlapping definitions, so they are the same in practice. The SC index for state capture is an equally good measure for political capitalism and crony capitalism.

The SC index cannot be used to study the development over time in the world. But it gives some insights in the relative movements of political capitalism in 172 countries.

The note considers the long-run/cross-country pattern in SC relative to three other indices: T for corruption, EF for market capitalism, and V for democracy. The four indices have large correlations, as all four has highly significant transitions. When income increase from the traditional low-income level the modern high income level SC and T decreases, while EF and V increases. Countries develop from having authoritarian political capitalism to becoming democratic market economies.

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Paldam (2021, 2024, 2025a and b) and Paldam and Sadaoui (2025) are referred to as *ibid*. These references contain analysis of the variables T , EF and V but not SC , it also has substantial reference lists, and discussion of techniques.

Appendix Table: Variables with sources

Political capitalism proxies	
SC	State capture index, range]0, 100[, from Kaufmann (2024) Source: https://governanceactionhub.org
T	Corruption, $T = 10 - TI$, where TI is Transparency international's honesty index, range]0, 10[Source: https://www.transparency.org/en/cpi/2024
Market capitalism proxy	
EF	Economic Freedom index, range]0, 10[, from the Fraser institute Source: https://www.fraserinstitute.org
Democracy index	
V	Polyarchy. Scale: 2-3 decimals in the interval]0, 1[, from authoritarian to democratic Source: https://v-dem.net/
National accounts variables	
GDP	Gross Domestic Product, in fixed PPP, purchasing power parity, prices
gdp	GDP per capita in fixed 2011 US\$. From the Maddison Project, see references
y	Income, the natural logarithm to gdp . One logarithmic point is a gdp change of 2.72 times Source: https://www.ggdc.net/maddison/maddison-project/home.htm
Kernel regression terminology	
$K^x(y, bw)$	Kernel regression of the relation $x = x(y)$, bw is the fixed bandwidth to be estimated Estimated by the command <code>lpoly</code> in stata using the defaults

The][refers to open intervals, where the limits are extremes/ideals that has not been/cannot be reached.