The grand pattern in 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. The three concepts are indistinguishable in practice. They cover economic systems where political insiders use their power to make money. This includes corrupt means, so it requires some control over the legal system and the media. The political capitalism family is measured by the state capture index. It is roughly proportional to the corruption index. 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. One reason is that the four indices have similar transitions. That is, they have a strong underlying long-run relation to income. In the long run countries develop from having authoritarian political capitalism with high corruption to becoming democratic market capitalism with low corruption.

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1.   Introduction

The analysis in this paper deals with the sector producing goods and services to be sold on the market, where we compare political and market capitalism. 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.

Market capitalism is a concept from economic theory, where production is by (private) firms in perfect competition.[3] Countries have different distances from this 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 would 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 (at least) political capitalism, state capture and crony capitalism are indistinguishable. The state capture index, SC, is a measure of all three.

The paper considers the definitions and the pattern in SC relative to T, EF, V, and y for corruption, economic freedom, democracy and income, y respectively; see the Appendix table for sources.[4] These indices are approximations to the theoretical concepts. However, they are independently compiled, and large cross-country data samples are available. Table 4 in section 3.1 shows the high correlations between the five variables.

The two shares s_p and s_m should be proportional to SC and EF, and the two variables are indeed negatively correlated, but the correlation is well above -1 indicating the imperfection of

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[3] 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 limited political power.
[4] See also Paldam (2021, 2024, 2025a and b) and Paldam and Saadaoui (2025) – from now *ibid*.

the measures. It is partly by construction as discussed below: *SC* provides relative values around a constant international level, while *EF* is an absolute measure with international trends.

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 insiders from the rest of the population, which it dislikes. 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.[5] Authoritarian leaders are above the law, and can punish journalists who expose such collusion. Hence, the large correlation of *SC* and *V*.

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 favor, hence building mutually profitable relations. Monopoly takes many forms. From tariffs to rigged auctions. 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 – hence, the large correlation between *SC* and *T*.

1.2 Welfare: a normative note

The analysis below is positive, but there is no reason to hide that the authors want *SC* and *T* to decline and *EF* and *V* to rise. The paper shows that when *y* rises, *SC* and *T* go down, while *P* and *V* go up. If long-run development is demand driven, these signs show what people want, when they can afford it. Thus, the preferences of the authors are the usual ones.[6]

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 political insiders. Thus, the only ones with preferences for a high s_p are the insiders. Other people dislike high s_p. This explains why the family of related terms for political capitalism has negative connotations. Kleptocracy is surely bad! Political capitalism is a (relatively) neutral term, but we still note that it is good when it goes down and the economic system becomes more market oriented.

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[5] Some authoritarian strongmen care for power only, but most strongmen become rich. It is a problem for the strongman to keep his loot if he is deposed. Hence the demand for safe heavens abroad.
[6] The world values surveys include an item asking about the preference for public vs. private ownership to business. It is analyzed by Bjørnskov and Paldam (2012). The preference for private ownership grows with income.

2.   Definitions of five concepts

The concepts are (i) political capitalism, (ii) state capture, (iii) crony capitalism, (iv) corruption, (v) economic freedom. These concepts deal with important issues that have been endlessly discussed as seen from Table 2.

Table 2. Google hits in millions 12/8 2025

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

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

The many google entries have caused the definitions of the concepts to be a bit woolly, but empirical analysis requires simple and robust definitions. The three next paragraphs are chasing the definitions. We report some of the most prominent definitions and the AI overviews made by Googles Gemini program (14/8-2025). These summaries are cited in dark red. They may include examples or alleged consequences of high/low values of the indices. Such extras are in {}-brackets.

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

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 the related 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 the 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,

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and is often achieved through illicit means, such as bribery and other forms of corruption.}

It should be noted that the index is calibreated to have the same cross-country average and standard deviation every year. Thus, it is a relative index.

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 favored (as through tax breaks, grants, and other forms of government assistance) in ways seen as suppressing open competition in a free market.' The AI overview of the 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 Table 1 at the start. The *SC* index measures state capture. It is compiled as explained by Kaufmann (2024). It follows that it equally measures political capitalism and crony capitalism. This will be assumed from now.

It uses a set of 18 indicators published by different agencies/NGOs, so it is not primary data. However, none of these indicators overlap with *T*, the Transparency Internationals corruption index, and *EF*, the Fraser Institute's Economic Freedom index.

2.2   Corruption, the T index

The definitions of corruption have gradually converged to Transparency International's formulation 'the abuse of entrusted power for private gain.' Within the framework of the principal-agent model it is corruption when '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 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 occur in both the public and private sectors. Corruption undermines good governance, erodes public trust, and hinders economic development.}

It uses Transparency Internationals definition and includes examples. Embezzlement and fraud may be or not be corruption depending upon the participants. If an employee diverts some 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 the well-known device of overcharging and kickbacks.

It is frequently claimed that corruption comes in different forms, and that some regimes may tolerate a little corruption as a semi-legal supplement to the low wages of civil servants. In addition, some corruption is political where the kickbacks in not to the insider himself, but to his political party. Kickbacks from public contracts may be an established system to finance political activity such as election campaigns in many countries. 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 index measure corruption as subjective perceptions from polls or surveys. The TI organization collects 13 primary cross-country measures of corruption, and calibrates them to be comparable, and then they provide an average (and a std).

The calibration makes it problematic to analyze the development over time, but a revision of the compilation method in 2013 reduces the problem. Still there has been no trend since 2003. However, the standard deviation across countries is falling. We shall take it to be relative index as the SC-index. 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 to market capitalism, as it is defined as the freedom to go about your own lawful business as you please. It implies 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* , *T* and *V* indices.

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

The *SC* index covers the 25 years from 1997 and every third year until 2021, for 172 countries. Thus, there are 9 *x* 172 = 1,548 *SC* data. The pattern in the index in the OPEC group of countries is analyzed elsewhere, so they are deleted at present, where a sample of 1,051 observations are used. They also have observations for *T*, *EF*, *V*, and *y*.

The *SC*-scores are given as a percentage]0,100[. The ends of the scale are theoretical. As already noted, the *SC*-index is calibrated so that the cross-country average and its standard deviation is 50 (1.87) all nine years. 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).' The index shows country differences, but international trends cannot be analyzed.

3.1   Some descriptive statistics. Two index/variable types

EF, V, and *y* are *absolute* measures with international movements over time. From 1997 to 2021 the real GDP per capita in the world has doubled. However, the *SC* and the *T* indices are *relative* measures. Figure 1 show the distribution of the 9 x 172 = 1,548 *SC* observations. The graph singles out the poorest and the richest country group. Table 3 show averages for major country groups.

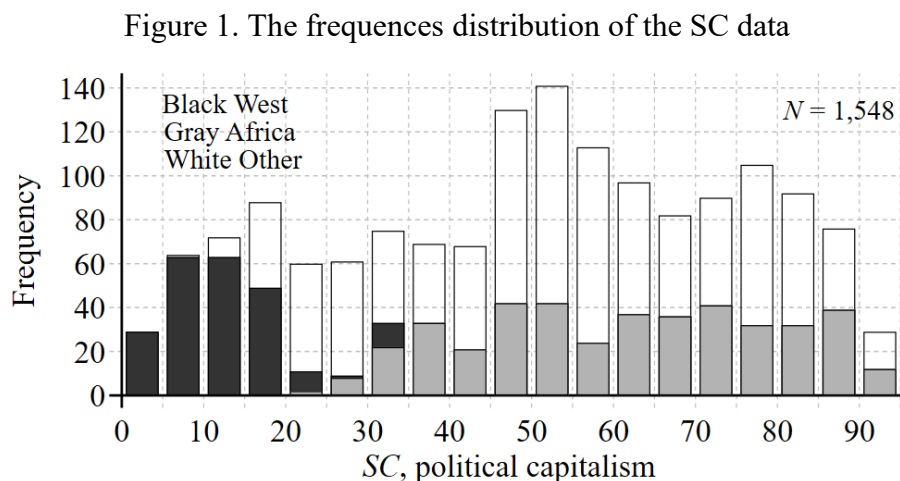Figure 1. The frequences distribution of the SC data

Figure 2 shows the distribution of the changes in the 172 countries. Per construction of the index the figure is symmetric around zero. In addition, it has an almost normal distribution. The extremes are Tunesia with a rise by 43 points, and Venezuela with a drop by 43 points.

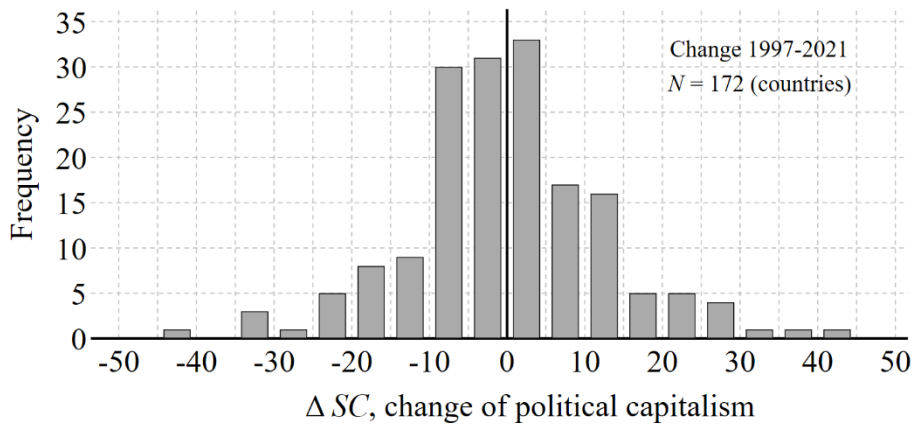Figure 2. The frequences distribution of the changes in the *SC* data

Table 3. 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	Eqt 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	Eqt. Guinea

N is number of observations; *Nc* is the number of countries: *N* = 9*Nc*. The OPEC countries are also in one of the groups – mostly in MENA. Israel is included is the group of West. The second highest is the USA. Eqt. Guinea is Equatorial Guinea.

Table 3 gives data for the main country groups. The West is the main outlier just as on Figure 1. The OPEC/MENA group is at the other end, but they are not so extreme in the distribution as the West. Paldam and Saadaoui (2025) discuss the OPEC case.

3.2 The correlations of the five variables, and some regressions

Section A in 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. This mixes long-run between-country and short-run within-country effects. Hence, section B looks at within-country effects. They are smaller, but half of the correlation survives for (*SC*, *V*), (*T*, *EF*), (*T*, *y*) and (*EF*, *y*). Thus, the time span of 25 gives half of the adjustment, as will be discussed below.

Section A of 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. This mixes long-run between-country and short-run within-country effects. Hence, Section B reports the average within-country effects. They are smaller, but some of correlations only fall to half in the within-country averages.

This, in particular, applies to the large (*SC*, *V*) correlation. However, it also applies to the (*T*, *EF*) and the (*T*, *y*) and the (*EF*, *y*) relations. This pattern is also found in Table 5.

Table 4. The correlation between the four indices and income

Index	Measuring	Type	A: All observations merged					B: Within-country results				
			SC	*T*	*EF*	*V*	*y*	*SC*	*T*	*EF*	*V*	*y*
C	Political capitalism	R	1					1				
T	Corruption	R	0.84	1				0.10	1			
EF	Market capitalism	A	-0.70	-0.77	1			-0.05	-0.32	1		
V	Democracy	A	-0.84	-0.67	0.66	1		-0.43	-0.04	0.10	1	
y	Income	A	-0.68	-0.77	0.76	0.62	1	-0.07	-0.28	0.39	0.06	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. The type is R (relative) if the average index is calibrated to be constant every year, or A (absolute) if it tries to catch international trends. The within country results are averages of correlation calculated independently for all 131 countries with more than 5 observations.

The standard method to separate short and long run effects is to compare regressions without and with FE (fixed effects) (FE) for countries, as done in Table 5. The fixed effects catch the cross-country differences, which we consider to be mainly due to income differences and thus the long run.

Table 5. Eleven regressions explaining the *SC* variable, $N = 1,051$

	Constant	*T*	*EF*	*V*	*y*	R^2adj
FE alone	45.02 (15)					0.944
(1a)	-9.28 (8)	9.75 (51)				0.712
(1b) FE	28.38 (8)	2.66 (8)				0.948
(2a)	149.8 (45)		-15.67 (-32)			0.496
(2b) FE	52.00 (13)		-1.23 (-2.6)			0.945
(3a)	93.7 (88)			-83.72 (50)		0.706
(3b) FE	90.40 (37)			-61.49 (-32)		0.974
(4a)	173.4 (40)				-14.11 (30)	0.466
(4b) FE	55.84 (7)				-1.22 (1.5)	0.944
(5a)	28.17 (6)	6.36 (25)	0.79 (1.7)	-51.05 (-30)	0.65 (1.5)	0.849
(5b) FE	59.10 (7)	2.21 (8)	-0.13 (-0.4)	-59.75 (-32)	1.74 (2.6)	0.976

Parentheses hold t-ratios. If they are larger than 5, they are rounded to the nearest integer.

The first row in the table for fixed effects alone. They explain 94% of the variation (i.e., the adjusted $R^2 = 0.94$). When one of the four variables is added the R^2 increases marginally by 0.01 to 0.04. Thus, the cross-country differences explain nearly everything. Another sign that

tally with this interpretation is that the FE makes the nice coefficient on income in (4a) disappear in (4b). Finally, it should be mentioned that a set of experiments with the effect of country size (measured as the log to population) showed a small positive effect, of dubious significance. So, to the extent it matters, small countries have less political capitalism than large countries, especially when controlled for income.

4. The effect of income: Transitions

Elsewhere the author argues that socio-economic variables have transitions, so that they change systematically from one level in poor traditional society to another in modern wealthy society. The institutional indices *V*, *EF*, and *T* have clear transition. Standard economic time series are easier to analyze than indices for institutions as they react slowly and often depend upon political actions, which in the transition perspective are endogenous. For the relative time series *SC* and *T,* the long run can only be identified by assuming *equivalence*, so that the cross-country pattern reflects the long run, as it does in the absolute time series *EF* and *V*, see *ibid*. which also surveys the large literature.

*4.1   The transition in the SC index, SC(y)*

The data are depicted on Figures 3. The two outlier groups from Table 3 are indicated: The black circles are for West, and the gray diamonds are for OPEC (*ibid*). The West is included in the calculation of the kernel curve, but the OPEC countries are not. The kernel curve is a perfect transition curve. It shows a late transition, as further analyzed in the next section.

Figure 3. The point scatter of the SC index, with kernel average
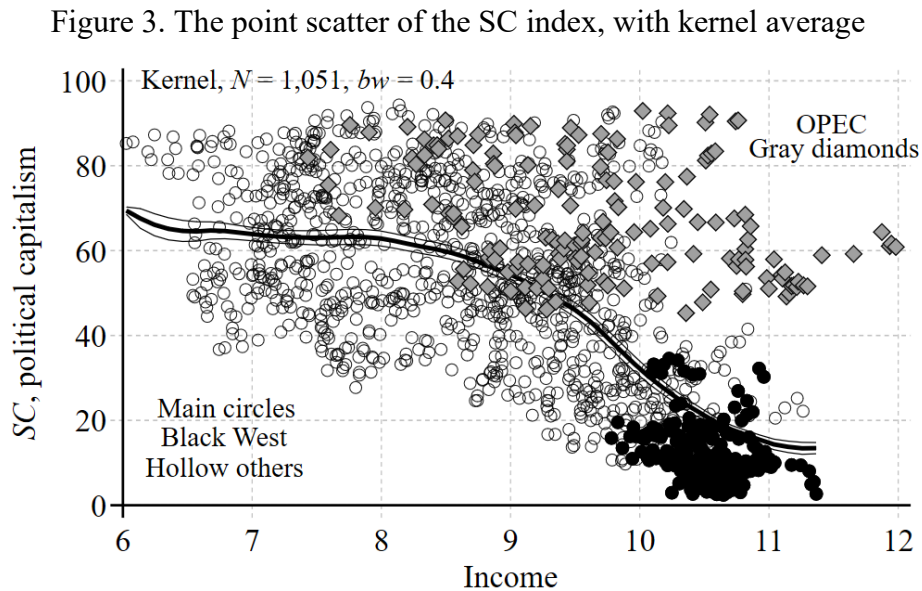
4.2   The transition in the four series: SC(y), T(y), EF(y) and V(y)

Figure 4 compares the transition in *SC* with the transition in *T*, *EF*, and *V*. To compare the transitions the data for each index is normalized to average zero and standard deviation one, and the signs on *EF* and *V* are turned.

Figure 4. Comparing the transition in the four variables *SC*, *T*, *EF*, and *V*
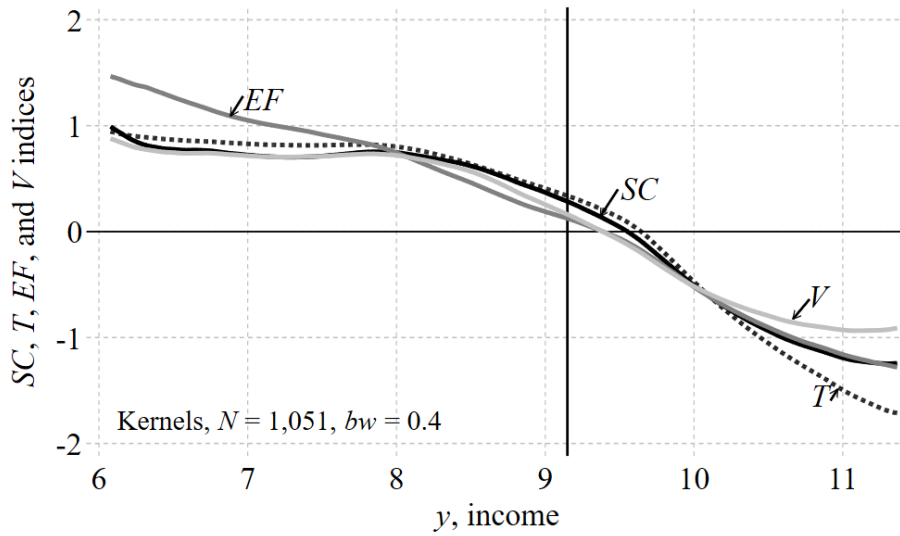
The series are transformed as explained in text. The vertical line is for the median observation.

Figure 4 shows 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 wealthy countries. The movements are all in the direction of 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.

The flat section from $y = 6$ to 8 tallies with the observation that the West is an outlier in Table 3 and Figure 3. It is well known in cross-country studies of corruption, where the West stands out as a low corruption outlier.

To obtain the deep changes in society caused by becoming a high-income society it is not only important to be wealthy, but it is necessary to be wealthy for some time, such as half a century. One may speculate that the crony groups that give high political capitalism and corruption will only be broken when democracy and the associated goods of a free press and an independent legal system has been working for some time – the calculation in Table 4 suggests that 25 years are half the way. The long adjustments are also seen in Figures 4 and 5.

5.   Two strong relations: *SC(T)* and *SC(V)*

Tables 4 and 5 showed that *SC* is strongly connected to *T* and *V*. The two connections are analyzed in Figures 5 and 6. The end of section 4 suggested that it is worth separating latecomers from old HICs. The latecomers are in two groups: The South European group is Cyprus, Greece, Israel, Italy, Malta, Portugal and Spain. The Asian high growth-group of Hong Kong, Singapore, South Korea, and Taiwan.

On the face of it the causality between these variables may be quite complex. 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 difference in the pair may tell a story, see *ibid*. In the case at hand, the kernels pairs ($K^{SC}(T, bw)$ and $K^T(SC, bw)$), ($K^{SC}(V, bw)$ and $K^V(SC, bw)$), are similar. This suggests simultaneity, so the analysis does not suggest a causal direction.

5.1   The kernel $K^{SC}(T, 0.4)$ analyzing the relation between SC and T

Figure 5 shows the relation between *SC*, state capture, and *T*, corruption. It 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 two latecomer groups are both close to the old West. We speculate that they will get closer in the next couple of decades. Thus, the latecomers point to long lags of institutional adjustment. The two extreme cases are Hong Kong, which has moved from being a soft British colony to become a province in China, and Singapore that has been slow to democratize.


Figure 5. Explaining political capitalism by corruption
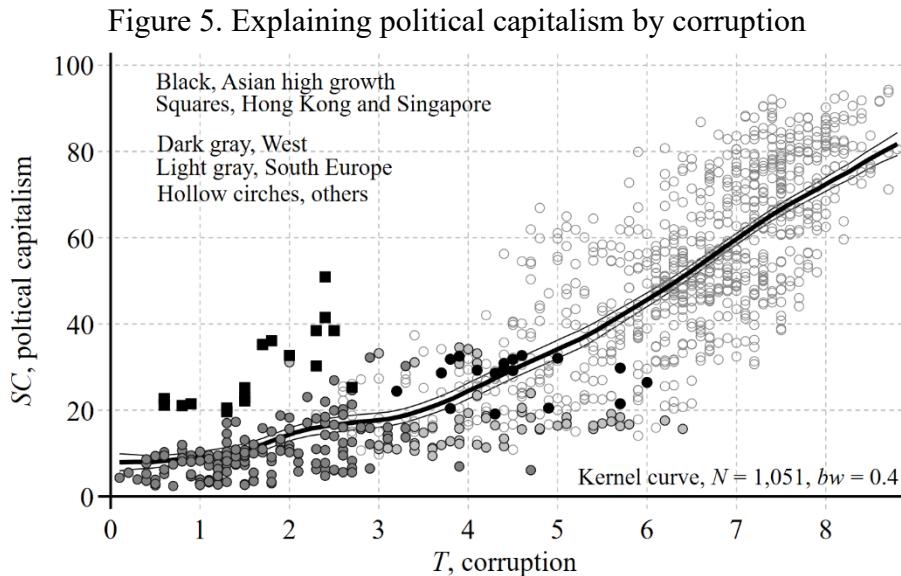
5.2   The kernel $K^{SC}(V, 0.4)$ analyzing the relation between SC and V

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 and Singapore stick out, due to their political regimes.

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

Figure 6. Explaining political capitalism by democracy
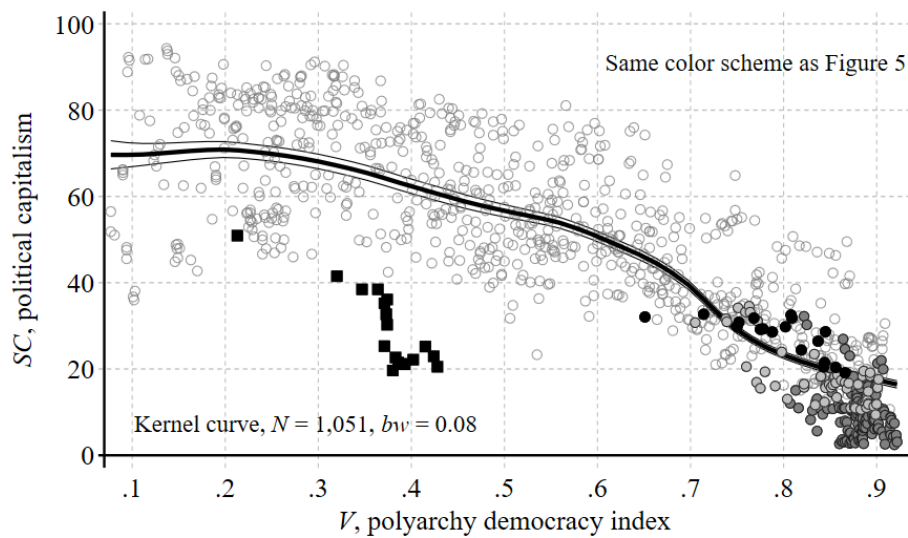
6. Conclusions

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 consequently an equally good measure for political capitalism and crony capitalism. The index is a relative index where everything is seen relative to a constant international level. Thus, it cannot be used to study the development over time in the world. But it gives some insights into 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.

The main reason is that all four have 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 measures:
SC	State capture index, range]0, 100[, from Kaufmann (2024)
	Source: https://governanceactionhub.org
T	Corruption, $T = 10 - TI$, where TI is Transparency internationals 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 lpoly in stata using the defaults

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