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# The grand pattern in the triplet of political capitalism, state capture and crony capitalism

Martin Paldam, Aarhus University[1]

Jamel Saadaoui, Paris 8 University[2] [3]

Abstract:

Political capitalism, state capture, and crony capitalism are a triplet of much discussed concepts that are difficult to distinguish in practice. They describe an economic system where political insiders use their power to make money. This means collusion, corruption, and coercion, so it requires some control over the opposition, media, and legal system. Hence it is hard to combine with democracy. The state capture index tries to measure the triplet, which 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 strongly intercorrelated as they have similar transitions. That is, they have an underlying long-run relation to income. Countries develop from poor authoritarian with political capitalism and corruption to wealthy democracies with market capitalism and honesty.

Keywords: Political capitalism, state capture, crony capitalism, corruption, democracy.

JEL: H1, K2, P51.

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[1] Department of Economics and Business, Universitetsbyen 51, DK-8000 Aarhus C, Denmark.
Phone: 45-87175545 email: mpaldam@econ.au.dk, home page: http://www.martin.paldam.dk.

[2] Dionysian Economics Lab, 2 rue de la Liberté, Saint-Denis, 93526, France, email: jamelsaadaoui@gmail.com, home page: https://www.jamelsaadaoui.com.

[3] The paper has been presented at the Aarhus-Kiel workshop in December 2025c, will be presented at the Baltic Public Choice workshop in January 2026, and the European Public Choice Meeting in Madrid March 2026. We are grateful to the discussants.

# 1. Introduction: Political versus market capitalism

The paper deals with political versus market capitalism in the private sector, which is the sector producing goods and services to be sold on the market. A handful of closely related concepts deal with political capitalism, it is state capture, crony capitalism, kleptocracy, and stationary banditry. The terms are increasingly derogatory. Section 2 shows that (at least) the first three form a *triplet* that are hard to distinguish in practice. Table 1 defines the triplet in two steps. Both steps come in different sizes. There are always political insiders and some political capitalism, but its importance may be small or large.

Table 1. A two-step definition of the triplet of political capitalism, state capture and crony capitalism

| |
|---|
| **Political insiders** are politicians, administrators, **and** businessmen with some power over the political system. |
| **The triplet** occurs when a significant part of GDP is acquired by political insiders using their power. |

The *SC*, the ***state capture index*** is a measure of all three members of the triplet. The paper uses four additional variables. They are listed in bold in the introduction One is ***income*** defined as the (natural) logarithm to *gdp*. It is the real GDP/GNI per capita in PPP prices (from the Maddison Project). The remaining three are institutional indices.

The triplet involves collusion, corruption, and coercion, which may be exposed by the media and opposition, and punished by the legal system. Thus, it thrives better in authoritarian systems where the insiders are above the law and can punish journalists, political opponents, police, and judges. In such systems it is tempting for the ruler to collude with business and become seriously rich.[4] This explains the large (negative) correlation of *SC* and *V*, the ***democracy index*** (polyarchy from the V-Dem project).

The alternative to the triplet is market capitalism where production is made by private firms in fair competition.[5] Economic theory predicts that with perfect competition such systems are optimal – with well-known qualifications – as regards efficiency. The best attempt to

[4] 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.

[5] Some of the firms in the market may be public. However, managers of public firms easily become political insiders using their power in their business. So, we assume that the firms are private, with limited political power.

measure the closeness to this ideal is *EF*, the ***economic freedom index*** (from the Fraser Institute). If we had perfect measures for the two kinds of capitalism, they should have a correlation of -1. However, institutional indices are imperfect, and *SC* is a relative index with values around a constant international level, while *EF* is an absolute index that includes substantial international trends, but even then, the *SC* and *EF* indices have a correlation -0.7.

The key mechanism whereby political insiders make money is by giving monopolies to create rents to business 'friends'. They pay for the favor, so *mutually* profitable collusion is built. 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 and coercion, giving the large positive correlation between *SC* and *T*, the ***corruption index*** (from Transparency International).

The triplet harms efficiency, but the main effect is the redistribution to political insiders from the rest of the population, which it dislikes. This explains why the family of related terms has increasingly negative connotations. Kleptocracy is surely bad! The analysis below is positive, but there is no reason to hide that the authors want *SC* and *T* to decline and *EF*, *V* and *y* to rise, see section 4.4 on the normative aspects of the analysis.[6]

The four indices are imperfect approximations to theoretical concepts. However, they are independently compiled, and large cross-country data samples are available. Table 4 in section 3.1 shows that the five variables are highly correlated in a way that makes sense.

Section 2 considers the definitions of the concepts, and section 3 reports some descriptive statistics. Section 4 looks at the relation of the *SC*-index – and the *EF*, *T* and *V* indices – to income, while section 5 considers the relations of *SC* to corruption and democracy, and section 6 concludes. The Appendix table surveys variables and sources.

[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 five concepts discussed are the triplet of political capitalism, state capture, and crony capitalism, as well as economic freedom, and corruption. Table 2 shows that these concepts deal with issues that have been greatly discussed. The triplets are propagated by different groups, who reached their concept from different avenues, and with different theoretical frameworks in mind. There are few cross-concept references. However, all three describe important and closely related phenomena.

Table 2. Google hits, the 18th of September 2025

| Triplet concepts | Hits | Different concept | Hits |
|---|---|---|---|
| Political capitalism | $13 \times 10^3$ | Corruption | $19 \times 10^7$ |
| State capture | $51 \times 10^4$ | | |
| Crony capitalism | $12 \times 10^5$ | Economic freedom | $21 \times 10^4$ |

The large discussion has led to many related definitions of the concepts, making them a bit woolly. Empirical analysis requires simple and robust definitions – this section chases the definitions. We report some of the most prominent definitions and framed overviews of the definitions made by Google's Gemini AI program (14/8/2025). They include examples or alleged consequences of high/low values of the indices. Such extras are in {}-brackets.

### *2.1. SC index. The triplet 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.}

Kaufmann (2024) defines the SC index and the concept of state capture, 'it occurs when individuals in government or corporations actively shape laws and institutions to serve their own interests.' It uses a set of 18 indicators published by different agencies/NGOs. The indicators differ from the ones used for *EF*, *T*, and *V*. 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, and is often achieved through illicit means, such as bribery and other forms of corruption.}

Crony capitalism is defined by Rubin (2014) as 'an economy in which success in business depends on close relationships between businesspeople and government officials. It may be exhibited by favoritism in the distribution of legal permits, government grants, special tax breaks, or other forms of state interventions.' The AI overview 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. It is hard to think of something that is covered by one triplet and not by the other two.[7] It follows that the *SC*-index also measures political capitalism and crony capitalism. This is assumed from now.

### *2.2 EF index. Fraser Institutes index for economic freedom*

Economic freedom is closely related to market capitalism. It is defined as the freedom to go about your own honest business as you please. It implies law and order, including well protected property rights. Google's 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 *EF* 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.

### *2.3 T and TI indices. Transparency International honesty and corruption: T = 10 – TI*

The *TI* index measures honesty, and the *T* index measures corruption, both indices are defined

[7] Each triplet is *owned* by a group, who rarely refer to the other two. However, when you read e.g., the lucid survey of Rubin (2015) and exchange his triplet (crony capitalism) with any of the other two triplets it makes no difference to the rest of the text. Still Rubin only mentions his triplet. The same applies to Kaufmann (2024). At present the history of the concepts will not be discussed.

on the interval [0, 10]. The TIs definition is '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 from agents to principals 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 TIs definition and includes examples. Embezzlement and fraud may or may 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 embezzlement 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.[8] The *T* index does not distinguish types of corruption. The TI organization collects 13 primary cross-country measures of corruption, calibrates them to be comparable, and then calculate an average (and a standard deviation) for each country. The calibration makes it problematic to analyze the development over time. A revision of the compilation method in 2013 should reduce the problem.[9] Still, there has been no trend since 2003. We take it to be a relative index as the *SC*-index.

TI only publishes the index if it has three or more primary sources, and the standard deviation of the calibrated indicators is about 0.5 point for the average country. As the average of all 4,419 observations of the *T* index is 5.69, the said standard deviation speaks of a measurement uncertainty of 10%. It is less well-known, but all institutional indices has substantial measurement uncertainty. The choice of components contains choices and most components are assessed. And there is no reason to assume that the scales are linear.

[8] Some regimes may tolerate a little corruption as a semi-legal supplement to the low wages of civil servants. Corruption may be political when kickbacks from public contracts are used to finance political activity such as election campaigns.

[9] The *T*-index has some small movements over time, but not significant trends. However, the standard deviation across countries is falling. See Paldam (2025c).

## 3. The *SC* index, a description

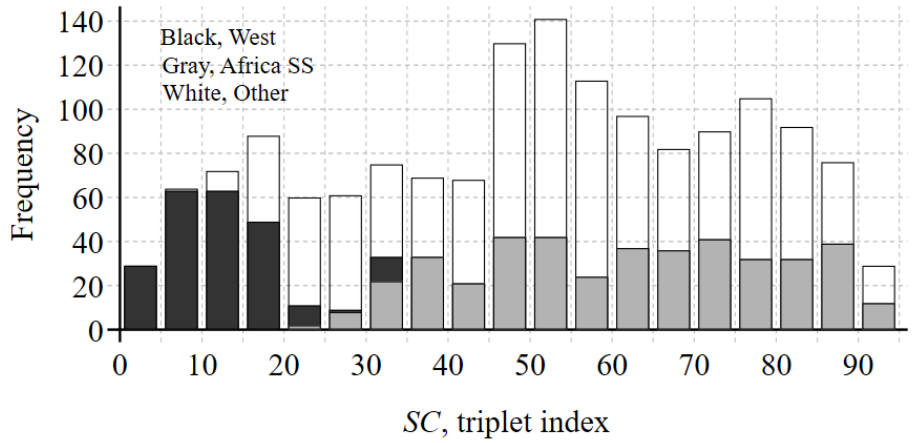
*The SC* index covers the 25 years since 1997, every third year until 2021, for 172 countries. Thus, there are 9 x 172 = 1,548 *SC* data. The OPEC group of 18 countries is analyzed elsewhere, see *ibid*,[10] so they are deleted at present. Some countries are missing observations for one of the other indices. Thus, the sample used has 1,051 observations for 137 countries and five variables.

*SC* is a percentage score ]0,100[, so the first differences are in percentage points. *EF*, *V*, and *y* are absolute measures with international movements over time However, the *SC* and the *T* indices are relative measures. The *SC*-index is calibrated so that the cross-country average is 50 and its standard deviation 1.87 all nine years.[11] Hence, the index shows relative country differences, but international trends cannot be analyzed. From 1997 to 2021, real GDP per capita in the world doubled, so there would surely have been trends if the measure allowed. How such trends would have looked can be assessed from Figure 6 in section 4.4.

### *3.1. Some descriptive statistics. Relative and absolute indices*

Figure 1 shows the distribution of the 1,548 *SC* observations. The graph singles out the poorest and the richest country group. Table 3 shows averages for the major country groups. The West is the most deviating group as expected from Figure 1.

Figure 1. Frequencies for all 1,548 *SC* data




[10] Paldam (2021, 2024, 2025a and b) and Paldam and Saadaoui (2025) are referred to as *ibid*. These references contain analysis of the variables *T*, *EF*, *V*, and *y*, but *SC* is first mentioned in the last of these papers. They also bring substantial reference lists, and discussion of techniques.

[11] Kaufmann (2024), presenting the index, does 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).'

Table 3. Average *SC* index in the main country groups

| Group | Counts | | *SC*, state capture | Outlier in group | | *y*, income |
|---|---|---|---|---|---|---|
| | *N* | *Nc* | Av (se) | Low | High | Av (se) |
| Africa SS | 423 | 47 | 61.5 (0.9) | Cabo Verde | Eq. Guinea | 7.71 (0.04) |
| Asia | 252 | 28 | 51.7 (1.3) | Japan | North Korea | 8.97 (0.07) |
| Latin America | 216 | 24 | 52.6 (1.3) | Uruguay | Haiti | 9.09 (0.04) |
| MENA | 171 | 19 | 64.7 (1.1) | Tunesia | Syria | 9.66 (0.07) |
| Post-socialist | 261 | 29 | 50.3 (1.4) | Slovenia | Turkmenistan | 9.36 (0.04) |
| West | 225 | 25 | 12.1 (0.5) | Netherlands | Israel/USA | 10.52 (0.02) |
| OPEC | 162 | 18 | 67.3 (1.1) | Kuwait | Eq. Guinea | 9.69 (0.08) |

*N* is number of observations; *Nc* is the number of countries: $N = 9Nc$. The OPEC countries are also in one of the groups – mostly in MENA. Israel and the USA have the relatively largest military-industrial complex in the West. Eq. Guinea is Equatorial Guinea.

Figure 2. Frequencies for the changes in the *SC* data 1997-2021 in 172 countries

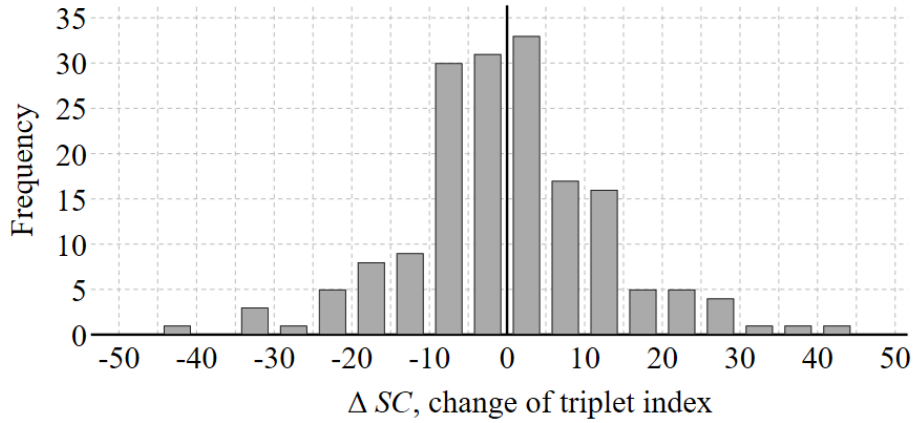



Figure 2 shows the distribution of the changes in the countries. Per construction, the figure is symmetric around zero. In addition, it has an almost normal distribution. The extremes are Venezuela, with a fall in index of 43 points, and Tunisia, with an improvement of 43 points.

### *3.2. The correlations of the five variables, and some regressions*

The data are a (5, 9, 137) panel of five series, nine years and 137 countries. When the years are stacked, it becomes a (5, 1051) vector, as 9 x 137 – 182 = 1,051 as 182 rows are missing. The vector is the unified data.[12] Section A in Table 4 reports the 10 pairwise correlations on the unified data for *SC*, *T*, *EF*, *V*, and y. This combines long-run between-country and short-run within-country effects. Section B looks at within-country effects. They are smaller, but about half of the correlation survives in the bold cases. Thus, the time span of 25 years gives some of the adjustment, as will be discussed below. This pattern is also found in Table 5.

[12] The elements in the unified vector have no natural order. However, the order is irrelevant for the analyses made or the analyses make an order.

Table 4. The correlation between the five variables

| | | | A: Unified data | | | | | B: Within-country results | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Index | Measuring | Type | *SC* | *T* | *EF* | *V* | *y* | *SC* | *T* | *EF* | *V* | *Y* |
| *SC* | Triplet | R | 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 |

Section A is calculated for all N = 1,051 non-OPEC observations with data for all four variables. Section B for the within-country results are averages of correlation calculated independently for all 131 countries with more than five observations. The data for OPEC are analyzed in Paldam and Saadaoui (2025). Type R (relative) calibrates the index to have a constant average across countries every year. Type A (absolute) has international trends.

Table 5. Explaining the *SC* variable with/without FE, fixed effects for countries

| Eq | Constant | *T* | *EF* | *V* | *y* | FE | $R^2$ adj | $R^2$ adj net of 1 |
|---|---|---|---|---|---|---|---|---|
| 1 | 70.77 (17) | | | | | Yes | 0.945 | |
| 2a | -9.32 (8) | 9.76 (51) | | | | No | 0.712 | -0.233 |
| 2b | 50.01 (11) | 2.56 (8) | | | | Yes | 0.948 | 0.003 |
| 3a | 149.8 (45) | | -15.67 (-32) | | | No | 0.496 | -0.449 |
| 3b | 75.61 (16) | | -1.23 (-2.6) | | | Yes | 0.945 | 0.001 |
| 4a | 93.7 (88) | | | -83.72 (-50) | | No | 0.706 | -0.239 |
| 4b | 86.39 (31) | | | -61.39 (-33) | | Yes | 0.975 | 0.030 |
| 5a | 173.4 (40) | | | | -14.12 (-30) | No | 0.466 | -0.479 |
| 5b | 77.16.(11) | | | | -1.22 (-1.5) | Yes | 0.945 | 0.000 |
| 6a | 27.96 (6) | 6.38 (25) | 0.83 (1.8) | -51.07 (-30) | 0.65 (1.5) | No | 0.849 | -0.096 |
| 6b | 59.20 (9) | 2.15 (8) | 0.30 (0.9) | -59.90 (-33) | 1.64 (2.5) | Yes | 0.976 | 0.032 |

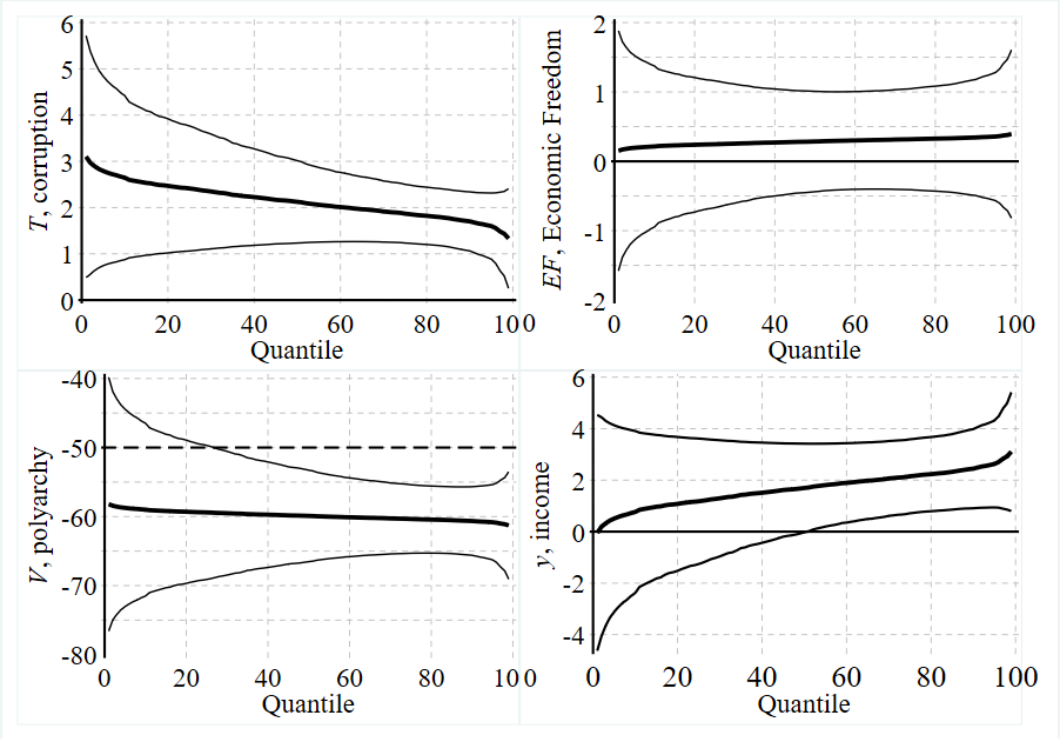
OLS regressions, unified data, *N* = 1,051. *Eq* is equation. Parentheses hold t-ratios rounded to the nearest integer if t > 5. The *net of 1* column shows the difference between the $R^2$ adj relative to regression 1, which only uses FE.

Table 5 compares regressions without and with FE, fixed effects for countries. The fixed effects catch the cross-country differences, which we consider to be mainly due to income differences and thus the long run. The first row in the table is for fixed effects alone. They explain 94.5% of the variation (i.e., the adjusted $R^2 = 0.945$). When one of the four variables is added, $R^2$ increases marginally from 0.001 to 0.032. Thus, the cross-country differences explain nearly everything. Another sign that tallies with this interpretation is that the FE makes the nice coefficient on income in (4a) disappear in (4b). The relative income differences change little over the 25 years.

### *3.3 An alternative estimate using panel quantile regressions with fixed effects*

Figure 3 extends the four analyses in Table 5, which explains the *SC*-variable by fixed effects and one of the variables: *T*, *EF*, *V*, and y. It is now done using panel quantile regression with fixed effects (Rios-Avila, 2020).

Figure 3. Asymmetries in explaining the *SC*-variable for state capture




The medians (50% quartile) on the four graphs are close to the result with FE in Table 5, as they should. The slopes give additional information. The 95% confidence intervals indicate that the coefficients are significantly different from zero, except for *EF* and for the lowest quantiles of *y*. The two graphs on the left-hand side are both significant at all quartiles, and the median tallies with the results in Table 5. The curves estimated have negative slopes, but they are not significant. The two graphs at the right-hand side are more dubious as they are mostly insignificant.

### *3.4. Effect of population size*

Table 6 shows a few experiments with the effect of country size. ***Pop*** is the natural logarithm to population (in thousand).

Table 6. Explaining *SC* by *Pop*, population, for all $N = 1{,}449$ observations

| | Cons | *Pop* | *y* | OPEC | Africa | West | FE | $R^2$ adj |
|---|---|---|---|---|---|---|---|---|
| 1 | 19.64 (3.0) | 1.85 (4.6) | | | | | No | 0.014 |
| 2 | 133.3 (19) | 1.13 (3.6) | -11.31 (-26) | | | | No | 0.331 |
| 3 | 70.37 (3.7) | 0.48 (0.4) | -0.67 (-1.0) | | | | Yes | 0.946 |
| 4 | 21.21 (4.3) | 1.93 (7) | | 13.11 (9) | 7.29 (6) | -40.02 (-29) | No | 0.475 |
| 5 | 143.2 (19) | 0.72 (2.7) | -11.23 (-20) | 24.18 (1.7) | -10.31 (-8) | -24.54 (-17) | No | 0.587 |
| 6 | 70.37 (3.7) | 0.48 (0.4) | -0.67 (-1.0) | -7.12 (-1.1) | 2.67 (1.1) | -48.21 (-13) | Yes | 0.946 |

See Table 5. OPEC, Africa, and West are binary dummies. Pop is the natural logarithm to the population/1000. FE is fixed effects for countries.

The coefficient to *Pop* is mostly significant, but it contributes only about 0.01-0.02 points to the $R^2$ adj, and it vanishes when FE for countries is included. The relative sizes of country income and population change marginally over 25 years so the FE's are correlated to both *Pop* and *y*. West is the only explanatory variable remaining in regressions (2) and (5) that includes FE. Thus, there is a small positive effect – small countries have slightly more market capitalism than large countries. In other words, there is more competition in the markets of small countries. This is due to the stronger globalization in small countries.

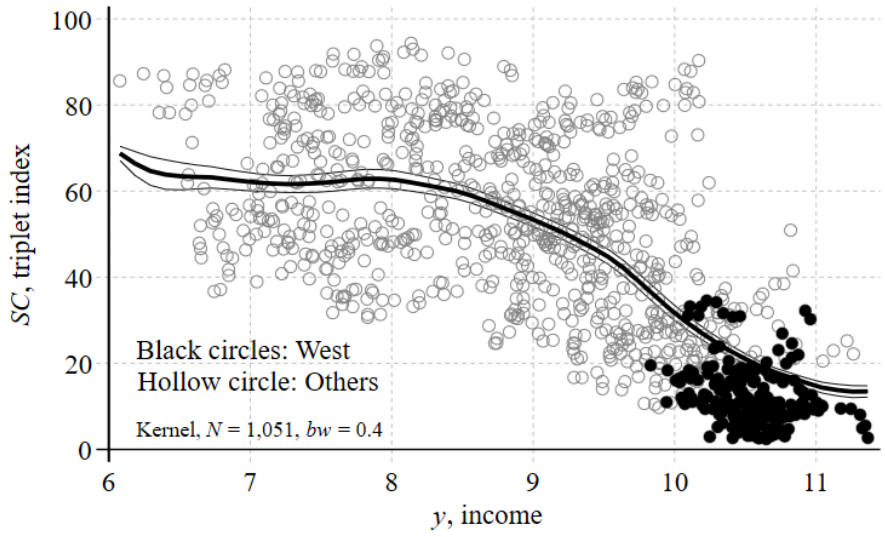
## 4. The effect of income: Transitions

Socio-economic variables have transitions, so that they change systematically from one level in poor traditional society to another in modern wealthy society. This includes the institutional indices for democracy, economic freedom and corruption, *V*, *EF*, and *T*. Standard economic time series are easier to analyze than indices for institutions that react slowly. They often depend upon political actions, which, in the transition perspective, are endogenous but give stochastic lags. 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, ibid.* This section looks at data for the Main sample, where the OPEC countries are excluded*, ibid*.

### *4.1. The transition in the SC index*

The (non-OPEC) *SC* data are depicted in Figures 4 as a function of income. Two outlier groups from Table 3 are indicated: The black circles are for the West. The kernel curve is a perfect transition curve. It shows a late transition, as further analyzed in the next section. The observations for the OPEC countries omitted – they are to the northeast on the graph, *ibid*.

Figure 4. Scatter of the *SC* index over income, with kernel average




The transition curve is overlaid with a great deal of fuzziness in the short run. The gray OPEC diamonds are above the transition curve, while the black circles for the West are close together at the southeast corner of the graph as expected from Figure 1 and Table 3.

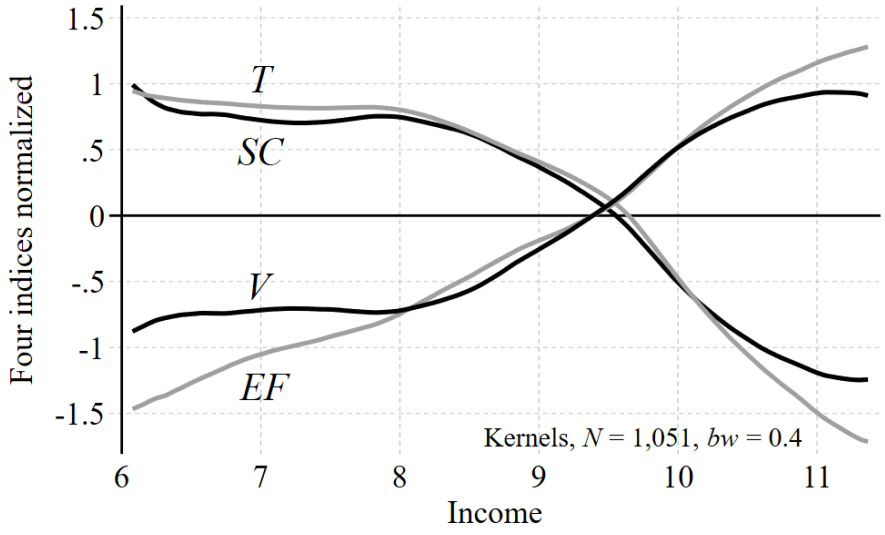
*4.2. The transition in the nexus of the four series: SC, T, EF, and V*

Figure 5 compares the transition in *SC*, *T*, *EF*, and *V*, for political capitalism, corruption, economic freedom, and democracy, respectively. The data for each index is normalized to average zero and standard deviation one.

Figure 5 shows that the four indices have highly confluent transitions. The series change by two standard deviations – from −1 to +1 – when income moves from $y$ = 8 to 11. 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 changes are strongest for $y$ = [9, 10]. At the high end around $y$ = 11, the *V*-curve has flattened, the *SC* and *EF* curves are almost flat, while *T* is still falling.[13].

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 three to four decades. 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 have 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. The late adjustment suggests that the main causal direction is from income to the nexus.

Figure 5. Comparing the transition in the four variables *SC*, *T*, *EF*, and *V*




The series are normalized to average zero and standard deviation one as explained in text. The 95% confidence intervals for *SC* are shown in Figure 4. The other three transitions have similarly narrow confidence intervals.

[13] When all available data are used the transition in the *T*-index does bend after $y$ = 10 to become flat like the SC-curve, *ibid*.

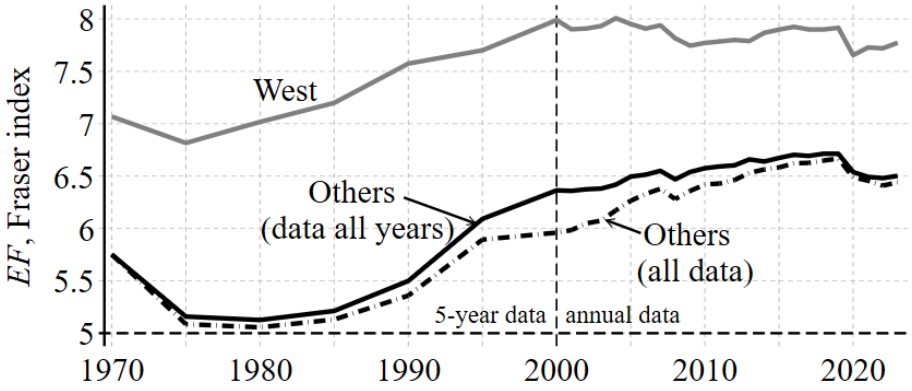
### *4.3 A brief historical note on the path of the triplet*

It is easy to point to historical factors that increased the triplets in the LDCs. Nearly all LDCs have a past as colonies of European countries. Spain and Portugal in Latin America until the Napoleonic wars. France and UK in Africa and South Asia until 1960, and Russia/USSR in Central Asia and Eastern Europe until 1989. When the colonies became politically independent, there was an urge for economic independence as well. That is, they wanted national control over industry, banking and trade, notably foreign trade. This gave political leaders control over the economy and made many politicians rich.

In addition, there were widespread beliefs in the infant industry argument/import substitution industrialization, which caused a further increase in the political element in the economic system, and large-scale rent seeking. These policies peaked in the 1980s, when it became increasingly clear that they had failed.

Figure 6 shows these trends for the *EF*-index. It was at its lowest in 1975/80. Then it turned upward and from the late 1980s many countries – notably LDCs – become more market oriented. The wave became weaker after 2000, and there has been a little backsliding in 2019/21 in connection with the Covid crisis. But still most countries have some kind of capitalist system, but as we have seen much capitalism is political capitalism. This even applies to countries as China, Laos, and Vietnam that, in principle, are socialist.

Figure 6. The development of the *EF*-index of economic freedom 1970 to 2023




It is likely that if the *SC*-index had been designed to include trends, it would have looked like a reversed version of Figure 6. This would surely increase the negative correlation between the *SC* and the *EF* indices. However, the *EF* index has the strongest movements outside the period from 1997 to 2021 that is covered by the *SC*-index.

### *4.4 Some normative aspects*

Figure 5 considered the nexus of *CS*; *EF*, *T*; *V*. We believe that a great majority agree with the authors that the outcomes of democracy, honesty, and market capitalism are good, while the reverse outcomes of authoritarianism, corruption and political capitalism are bad. The figure says that good outcomes go together in the long run. It also shows that income is strongly correlated with the nexus. Two stories about causality between income and the nexus, can be told. They have strong normative implications.

(A) The nice story is that virtue is rewarded. If a country is honest, democratic, and the political insiders resist the temptation to become rich, the country becomes wealthy. This is the primacy-of-institutions view.

(B) The reverse interpretation is that when a country becomes wealthy the other good outcomes follow, it says that those who have will be given more. This is the transition view, which the authors claim is supported by most evidence, *ibid*. It tallies with the old claim that the structure of consumption is demand driven. Democracy, honesty, and economic freedom are goods with a positive income elasticity, so that income rises cause an increasing demand for these goods.

It is possible that the nexus has complex internal dynamics that change over time. When democracy gradually leads to a free press and an independent legal system, this reduces collusion and corruption. This may support the growth of incomes.. These simultaneous effects seem to be strongest at a relatively high income. Such complexity softens the distinction between (A) and (B).

The main problem with the transition view is that it does not explain where development comes from, but only its (largely) good consequences. Thus, it leaves us with the old question of finding the key to development from which everything follows.

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

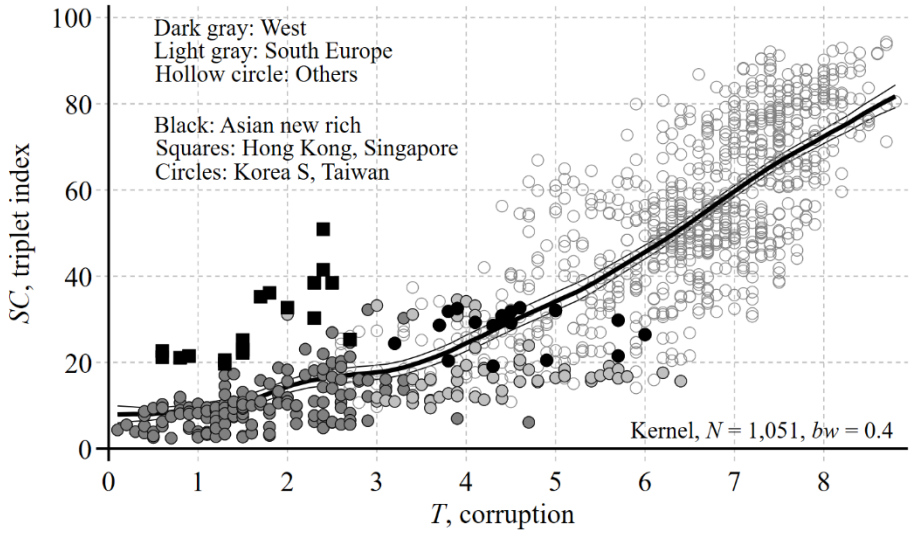
Tables 4 and 5 showed that *SC* is strongly connected to *T* and *V*. The two connections are analyzed in Figures 6 and 7. The end of section 4 suggested that it is worth separating latecomers from old HICs. The latecomers are in two groups: The South European group is Cyprus, Greece, Israel, Italy, Malta, Portugal, and Spain. The Asian group of new rich countries is Hong Kong, Singapore, South Korea, and Taiwan.

A kernel regression is always a member of a pair, as the kernel for $x = x(y)$ can 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 that implies causality (ibid). In the case at hand, the kernel pairs [$K^{SC}(T, 0.4)$, $K^{T}(SC, 4)$] and [$K^{SC}(V, 0.4)$, $K^{V}(SC, 4)$] are similar.[14] 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 7 shows 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.

Figure 7. Explaining the triplets by corruption




[14] The reverse kernels to the ones of Figures 4, 7 and 8 are available from the authors.

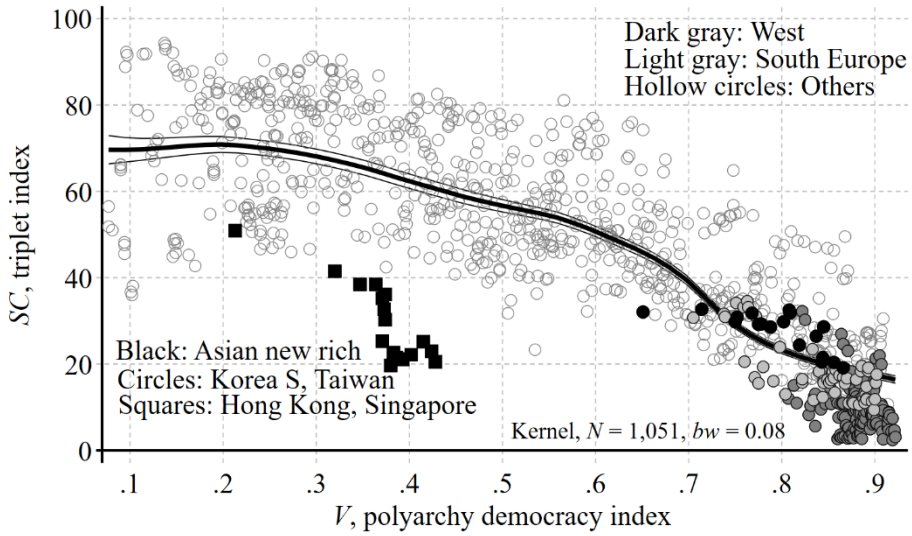
The two latecomer groups are both close to the old West. We speculate that they will get closer in the next couple of decades. Thus, the latecomers point to long lags of institutional adjustment. The two extreme cases are Hong Kong, which has moved from being a British colony to becoming a Chinese province, and Singapore, which has been slow to democratize. They have the normal level of corruption for wealthy countries, but the SC level is higher as they have authoritarian regimes. However, Figure 8 shows that they have lower SC levels than other countries with similarly authoritarian regimes. Thus, the two factors explaining the *SC*-level – income and democracy – both work in the two countries. This suggest that causality is from the two factors to SC, but it is surely a weak suggestion as it is based on two countries with a similar history for more than a century.

### *5.2. The kernel $K^{SC}(V, 0.4)$ analyzing the relation between SC and V*

Figure 8 demonstrates the non-linear path of the relation between *SC*, state capture, and *V*, democracy. Once again, Hong Kong sticks out, due to the political regime.

The West is close together at the preferable end for high democracy and market capitalism. It is nice to see that most East Asian high-income countries and South European countries already have democracy levels that are close to the old West.

Figure 8. Explaining the triplets by democracy



## 6. Conclusions

The paper started with a review of the definitions. The triplet of political capitalism, state capture, and crony capitalism have overlapping definitions. All three have long roots and a group of researchers that uses only one of them. It is possible that each may be defined in a way that makes it separate, but as of now it appears that the literature dealing with one equally well addresses the others, so that they are indistinguishable in practice. It would be an improvement to the literature if authors using one of the three concepts would refer to the other two or find a definition that is clearly distinct.

As of now the *SC* index for state capture is 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 provides some insights into the relative movements of the triplet in 172 countries.

The paper 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 are highly correlated. The main reason is that all four have strong transitions. When income increases from the traditional low-income level to the modern high-income level, *SC* and *T* decrease, while *EF* and *V* increase.

Economic growth is a process that change counties profoundly. Countries develop from having authoritarian political capitalism with high corruption to becoming democratic market economies with low corruption.

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Appendix Table: Variables with sources

| | |
|---|---|
| | Measures for the triplet of political capitalism, state capture and crony capitalism |
| *SC* | State capture index, range ]0, 100[, from Kaufmann (2024) |
| | Source: https://governanceactionhub.org |
| *T, TI* | 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 ][ brackets refer to open intervals, where the limits are extremes/ideals that have not been/cannot be reached.