

## **Crony Capitalism: Rent Seeking, Institutions and Ideology**

Paul Dragos Aligica and Vlad Tarko\*

### I. INTRODUCTION

The notion of “crony capitalism” has become increasingly salient in recent years, in policy analysis (Mazumdar 2008; Roberts 2010; Mitchell 2012; Henderson 2012), in scholarly studies (Wade 1998; Haber 2002; Kang 2002a; Li 2009), in popular books on economics (Zingales 2012; Meltzer 2012), as well as in mass media and in public and political life (both Occupy Wall Street and the Tea Party have made “crony capitalism” their target). Yet the notion of “crony capitalism” seems paradoxically ambiguous. On one hand, it seems an intuitively clear concept conveying both a descriptive image and a normative assessment. On the other hand, its theoretical nature seems malleable up to the verge of losing any substantial content. The concept and its associated theoretical conjectures are also difficult to place in the context of various schools of thought. Ethical, political, economic and social criteria and approaches combine in a confusing manner, bestowing the notion of “crony capitalism” with both its intuitive appeal and its analytically frustrating nature. The topic is thus surrounded by an entire array of questions: Is “crony capitalism” a technical term or merely a common language notion that tries to pass as a technical term? What are the elements of its conversion from a common language notion to a political economy one? Is this effort worthwhile? Do we really need a new label or is it merely duplicating other terms, such as “rent-seeking”, which are already well-developed and fully functional in the scholarly literature? What is its relationship to other key concepts used in the analysis and assessment of various business environments and economic systems?

This paper is an attempt to respond to the challenge raised by such questions by offering a systematic and innovative approach. The literature so far has identified three distinct types of rent-seeking societies: classical mercantilism in Western Europe from the 16th to the 18th centuries (Baysinger, Ekelund, and

\* Paul Dragos Aligica: George Mason University, Mercatus Center, 3301 N. Fairfax Dr., Ste. 450, Arlington, VA 22201, USA; Tel.: +1 703 993 34933; Fax: +1 703 993 4935. Email: daligica@mercatus.gmu.edu. Vlad Tarko: George Mason University, Economics Department, Mercatus Center, 3301 N. Fairfax Dr., Ste. 450, Arlington, VA 22201, USA

Tollison 1980; Ekelund and Tollison 1981; Nye 2007), real-life socialism (Levy 1990; Shleifer and Vishny 1992; Boettke and Anderson 1997), and state capitalism (Aligica and Tarko 2012). Our thesis is that crony capitalism is yet another type of rent-seeking society, distinct of those three, and that its key distinguishing feature is that the prevailing rent-seeking structure is legitimized by means of a populist ideology. The other types of rent-seeking societies were legitimized by significantly different ideologies: mercantilism by religion (Le Goff 1992) and military concerns (Viner 1948); real-life socialism by utopian socialism (Boettke 1990); and state capitalism by nationalism (Zheng 1999; Calahan 2004; Hughes 2006; He 2007). Previous analyses of crony capitalism have not gone very far beyond the mere application of the rent-seeking perspective to countries labeled “crony capitalist”.

Going beyond the common background of rent-seeking and populism, our analysis also explores the distinct manifestations of crony capitalism in various countries depending on their level of development and the presence or absence of rule of law. Another micro-level concept related to rent-seeking, i.e. the idea of “crony relations”, and the institutional focus on the importance of property rights hold the key for understanding these differences. We point out that in developed countries with rule of law, such as United States, crony relations play the role of restricting the entry and competition for gaining politically granted rents, thus preventing rent dissipation. Hence, crony capitalism is not mere rent-seeking, it is a meta-rent-seeking mechanism for securing the rents at consistently high levels. By contrast, in developing countries such as South American states, crony relations are a mechanism for securing property rights in the absence of rule of law, by creating an overlap between those who have the power to confiscate property and the owners of large firms who have property that could be confiscated. Due to such a crony and personal overlap, some property rights in those countries remain relatively safe. This type of analysis allows us to explain the interesting observation that in developed countries corruption is a complement to the official economy, rather than a substitute, while in the developing countries the situation is reversed (Schneider, Buehn & Montenegro 2010).

On the analytical level the emerging result is a framework with three facets: (a) microeconomic (dealing with the basic economics of rent-seeking and crony relations), (b) institutional and social (dealing with the specific structures and configurations of institutions, policies and processes in their context), and (c) ideological (dealing with the ideas, rhetoric, beliefs, doctrines and other forms of legitimization and justification of the specific policies and institutions). This framework helps us chart the phenomenon of interest in a pioneering way and to articulate some tentative answers to the questions surrounding the nature and structure of “crony capitalism”. The analytical avenues thus opened are important not only for the efforts to disentangle the normative-ethical angle from the

economic-institutional one, but also for the further development of the notion of “rent-seeking society” as an instrument for the analysis of the business-government relationships.

## II. CRONYISM IN THE LITERATURE: A TENTATIVE TAXONOMY

An overview of the relevant literature shows that the concept of “crony capitalism” or “cronyism” is closely connected to the idea of rent-seeking and corruption, in both the popular and the scholarly discourse. In other words, the concept of crony capitalism incorporates both an ethical judgment and a purely positive description of a feature or form of an economic process. For instance, some authors use the expression simply as a morally loaded synonym for rent-seeking (e.g. Krueger 2002), while others use it as a quasi-technical label meant to describe a political system rife with corruption (Huber 2002; Haber 2002). We are especially interested in the use of the term as an economic system descriptor, either directly in connection to rent-seeking, or indirectly, as an associated variable. Once alerted to the need to separate the normative from the descriptive use of the term, a closer look at the relevant literature reveals that the term “crony” is used in largely three distinct manners, all of which have some relevance for our effort in clarification and analysis.

### *II.1. Cronyism as a social relation*

First, the term is used to identify a certain type of social relationships. Mostly it refers to the impact of personal and family ties on hiring and promotion decisions. For instance, Khatri & Tsang (2003) define the term as “favoritism shown by the superior to his or her subordinate based on their relationship, rather than the latter’s capability or qualification, in exchange for the latter’s personal loyalty”. As such, the connection between this concept and the economic system is only indirect, via culture, as crony hiring and promotion decisions may be more prevalent in some countries and cultures than in others (Khatri, Tsang & Begley 2006). The connection to corruption is a matter of context and interpretation and may be in the end a mere definitional issue. More importantly, this approach is not intrinsically related to rent-seeking. Yet, it is important to keep it in mind not only because many authors have used the label “crony” in such a manner, but also because it is useful for understanding a relevant *mechanism* driving rent-seeking phenomena. As detailed latter in section 4, the idea of crony *relations* is important for understanding the commitment problem faced by politicians in crony capitalist developing countries.

Some authors make a step further and introduce an analytical distinction between “corrupted” behavior based on a family ties or close connections,

often over a long period of time (cronyism) and corruption that involves a more direct payment for specific services (bribery). In the light of this distinction, Khatri, Tsang & Begley (2006) explain why “cronyism . . . is a form of corruption with different dynamics from other forms”. There are several important consequences that stem from the cronyism vs. bribery distinction when seen from the perspective of social stratification (Harstad and Svensson 2011).

- (1) Crony exchanges are based on trust, loyalty, family and long-standing social networks. The most significant and consequential form of cronyism usually involves relationships among members of the upper echelons of society or between large firms and the political class. Bribery, although not absent at high political levels, is used as a term to characterize especially the relationships between the lower strata of the society or smaller firms and the lower members of the administrative apparatus.
- (2) A crony change of laws at the top as a result of lobbying and crony relations affects the entire industry, whereas bribery tends to be firm-specific and with much smaller spillover effects on reducing competition. Moreover, a bribe provides only a temporary fix for a firm, while a change in laws can have a much longer term effect. Given that bribes are illegal, they are also not enforceable in court, while a large firm can use a law designed to its advantage by suing competitors.
- (3) A politician deciding on whether to push forward with a legislative change that favors a particular firm faces a different kind of incentive structure from a low level bureaucrat who decides whether or not to accept a bribe. Thus, the political dynamics of corruption is very different in the two cases. This example also illustrates the conceptual transition from an approach to cronyism as an interpersonal and cultural social phenomenon to cronyism as a structural and systemic feature: crony capitalism.

## *II.2 Cronyism as a system*

Second, the term “crony” is used for describing the political-economic system as a whole in various developing nations (mainly in South America, South-East Asia, and Eastern Europe). We are now truly talking about “crony capitalism”. Haber (2002: p. xii) defines crony capitalism as “a system in which those close to the political authorities who make and enforce policies receive favors that have large economic value”. The system works along standard rent-seeking lines: “The favors allow politically connected economic agents to earn returns above those that would prevail in an economy in which the factors of production were

priced by the market”, thanks to government interventions such as preferential subsidies providing cheap capital and credit, monopoly or quasi-monopoly grants and preferential licenses, and protection from international competition by means of tariffs and licenses. With this use of the term we are getting closer to structural-systemic conceptualization: Crony capitalism is seen as a modern version of a rent seeking society, a form or neo-mercantilism.

Consequently, crony capitalist countries should be added to the population of cases of rent-seeking societies, alongside the types of economic systems that have been explicitly modeled so far in the literature as rent-seeking societies (classical mercantilism, real-life socialism, and state capitalism). This can lead to additional insights into the rent-seeking society model. Countries that have been described as crony capitalist economic regimes are East Asian countries (especially South Korea, Indonesia and Philippines) (Wade 1998; Kang 2002a; Kang 2002b), India (Mazumdar 2008), and post-communist transition economies (Gustafson 1999; Li 2009; Redding and Witt 2007). Using the rent-seeking conceptual apparatus to classify and analyze such societies seems to be a promising and productive direction both for understanding the economic-political mechanisms at work in specific case studies, and for better understanding the family of rent-seeking societies and elaborate our overarching theory.

### *II.3. Cronyism as a systemic trend*

Thirdly, the term “crony capitalism” has also been used to describe an evolution or tendency in Western nations, especially the United States (Li 2000; Henderson 2012; Meltzer 2012; Mitchell 2012; Zingales 2012). Cronyism is seen as a public choice side-effect of the increasing number of regulations. These regulations are often pushed forward from a public interest perspective (Jordana and Levi-Faur 2004; Braithwaite 2008), but, once the government interventionist machinery is put in place, it often gets hijacked by private special interests. The result is “cronyism”: “the government rigs the market for the benefit of government officials’ cronies” (Henderson 2012). Thus, even if one grants the good will of the reformers pushing forward various regulations, one can still worry about this kind of side-effect.

This third usage of the term draws our attention to an interesting phenomenon anchored in rent-seeking. Although it is related in some respects with the crony capitalism in developing nations, it is still quite different from them. The main difference, which is explored in more detail in section 4, is this: unlike crony capitalism in high-income countries such United States, crony capitalism in developing countries works in the absence of a reliable rule of law and a well predictable and formalized checks and balances political and administrative

system. Because of this, it performs a different function in the context of that institutional environment. This is an important observation. The functional and structural varieties of rent-seeking are determined by the institutional and administrative political environment. Rent-seeking works differently under different property rights regimes.

#### *II.4. In brief*

To sum up, this brief overview of the literature reveals two things: (1) the diversity of phenomena denominated under the label of “cronyism”, and (2) even if we try to use rent-seeking as the unifying conceptual anchor, significant differences requiring other descriptive and analytical strategies, going beyond the simple reference to rent-seeking, persist. However we have also managed now to put some order in the ways “cronyism” and “crony capitalism” are used in the literature, and we have put the spotlight on a system-focused perspective. We are now in the position to make a step further and discuss the three components shaping crony capitalism: the basic microeconomic foundation of rent-seeking, the institutional-structural component of the embedding environment in which rent-seeking happens, and the ideological component providing legitimacy to the associated structures and processes.

### III. THE BASIC MICROECONOMIC FOUNDATION OF RENT-SEEKING SOCIETIES

The concept of rent-seeking was developed for the purpose of explaining why economically inefficient policies are introduced, even when they are clearly reducing social welfare, and then kept in place even long after economists have pointed out their problems. The general idea is that, although a policy may be inefficient from the point of view of general welfare (i.e. it misallocates resources and distorts actors’ incentives by means of political restrictions of the market) it may also provide increased and preferential profits to certain interest groups (Buchanan, Tollison, and Tullock 1980; Ekelund and Tollison 1981; Tollison 1982; Rose-Ackerman 1997; Schneider and Wagner 2001; Tullock 2005; Lee and Tollison 2011). The inefficient policy limits the competition for the privileged group and creates a “rent” defined as “that part of the payment to an owner of resources over and above that which those resources could command in any alternative use . . . an allocatively unnecessary payment not required to attract resources the resources to the particular employment” (Buchanan 1980: p. 3). The simplest case is when a government creates a monopoly right for a particular seller, which creates of course a deadweight loss, but, nonetheless, benefits the seller thanks to the higher prices. We can also have many other cases

of “[g]overnment licenses, quotas, permits, authorizations, approvals, franchise assignments [and] each of these closely related terms implies arbitrary and/or artificial scarcity created by the government” (Buchanan 1980: p. 9).

The key idea behind the concept of *rent-seeking* is not just the somewhat trivial point that such market restrictions create a gain for the privileged producers at the expense of consumers and the outlawed producers and generating a deadweight loss for society as a whole, but also that producers will spend resources in the attempt to obtain these privileges. These resources are a *further* loss to society, on top of the deadweight loss, and often much larger in size than the deadweight loss itself, because, absent rent-seeking opportunities, they would have been used in productive enterprises.

### *III.1. Mechanisms for increasing the size of rents*

How much will be invested in rent-seeking activities? Consider first the case of a competitive market in rent-seeking with complete free entry. Interestingly, “[i]f the organizing of private monopolies, or of influencing the government into giving you public monopolies, is subject to diseconomies of scale, then the total investment in rent seeking will be less than the total value of the rent derived” (Tullock 1991: p. 601; see also Tullock 1980a and Tullock 2005a: ch. 2). In other words, under diseconomies of scale, even under perfect competition, rent-seeking pays. By contrast, “[w]hen there are economies of scale . . . total investment to obtain the rents is greater than the rents themselves” (Tullock 1991: p. 601; see also Tullock 1980b). In this case, the only way to win is by not playing.

Of great importance for our present concerns is also the situation in which the rent-seeking market itself is subjected to restrictions and it is thus non-competitive. As Tullock has pointed out, “the size of the rent-seeking industry seems too small” (2005a: p. 214). The effect of any restrictions on rent-seeking is to reduce the total social loss, but also to increase the benefits gained by the (fewer) privileged groups. The situation is thus bound to make one feel uneasy from a moral perspective combining two usual normative concerns: one with fairness and one with general welfare. In this case, there is a clear trade-off between the two. As we shall see, this trade-off takes a particularly strong and unsettling form when we analyze crony capitalist developing countries.

What restricts the rent-seeking market? Tullock’s “Rents, Ignorance and Ideology” (2005a: pp. 214–230) deals with voter ignorance and with ideological effects on technology. In another context, he pointed out that logrolling may provide a further explanation (Tullock 2005b: ch. 9): the way in which a particular market restriction is implemented via the legislative process often involves logrolling, but a politician may have only a limited number of favors that he or she can call upon. In the context of our discussion, another type of restriction on rent-seeking becomes much more salient: the fact that in order to

get in the position to ask for privileges, one must have previous personal relations of trust (or even family ties) to the political sector. The necessity of such “crony” relations creates a serious entry cost in the rent-seeking market, and has the role of increasing the size of the rents by making it less competitive.

### *III.2. The meaning of the rent-seeking society*

The microeconomics concept of rent-seeking has an additional value-added at the macro level: it is used to construct the notion of “rent-seeking societies” and to identify them (Krueger 1974). This latter concept is much more vaguely defined in the literature, if defined at all. In a sense, any society is partially a rent-seeking society because all involve a certain amount of rent-seeking. An approach, that does not empty the expression of all specific meaning, is to use a taxonomy of rent seeking already existent in the literature and to convert it into a system wide diagnostic indicator.

Buchanan (1980) distinguishes between three levels of rent-seeking: (1) rent-seeking in order to obtain a certain privilege, (2) counter-rent-seeking in order to avoid the cost that would come associated with some possible market regulation (basically, lobbying in favor of deregulation), and (3) rent-seeking in order to obtain an official position that would allow one to benefit from the first two levels of rent-seeking (e.g. becoming a customs official in order to be able to benefit from bribes).

One may identify a rent-seeking society via a certain threshold. For instance, we may decide that we have a full blown rent-seeking society when the *labor market* is structured by rent-seeking, rather than by the market process of comparative advantage under free entry. The closer a society is getting in saturating the first two levels and moving to the third, the more justified is the use of the term of “rent seeking society” to designate it.

As mentioned earlier, three major types of systems have been modeled so far as rent-seeking societies: classical mercantilism, real-life socialism, and state capitalism, to which we add crony capitalism. An important point that motivates our theoretical endeavor is the realization that in each of these cases the specific differences come not from the basic rent-seeking economic process, which is similar in all cases, but from the structural and ideological forms that have grown around those processes.

## IV. CRONY CAPITALISM FROM A STRUCTURAL PERSPECTIVE

The challenge in this discussion is not mere terminological clarification. We need to capture the functional and structural differences of the phenomena of interest, identifying the processes, structures and functions behind them. As such, turning



our attention to the structural, institutional-social, component is mandatory. Given that by default, the structural component is heterogeneous and contingent, we adopt two analytic strategies for structuring this diversity. First, we use the general classification of countries in developing and developed (advanced industrial democracies) to circumscribe two broad environmental parameters of operation for cronyism. We are thus simply following the conjecture that rent-seeking structures and crony relations will take different forms and play different functions in different environments and we use one convenient way of giving some operational context to it for our immediate purposes. Second, we analyze cronyism following its situational logic. In other words, outlining the different forms it takes in the typical action situations set up by the two different institutional, administrative and political environments.

#### *IV.1. Corruption as a substitute or a complement of the official economy*

We can take as a starting point the idea that the difference between cronyism in developing countries and cronyism in high-income countries can be better illuminated by looking at the relation between corruption and the informal, shadow economy (Dreher & Schneider 2010; Schneider, Buehn & Montenegro 2010). In a nutshell, the thesis is this: In developed countries the triad “corruption/rent-seeking/cronyism” takes place in a logic that makes corruption and rent-seeking a complement of the *formal economy*, the official market. By contrast, in developing countries the logic of this triad makes corruption and rent seeking a complement of the *informal economy*, the black market.

As Schneider, Buehn & Montenegro (2010) point out, in high-income countries, corruption and the official sector are complements because “people . . . bribe in order to be able to engage in more official economic activities”: In those countries “corruption quite often takes place, for example, to bribe officials to get a (huge) contract from the public sector (e.g. in the construction sector).” But once won, this contract “is then handled in the official economy and not in the shadow economy”. Therefore in high-income countries corruption “can be a means to achieve certain benefits which make work in the official economy easier”. Thus, in high-income countries, “only craftsmen or very small firms have (or take) the option of going underground” in order to hide “from tax inspectors and other officials”. This also reflects the fact that, with some exceptions such as Italy or Spain, high-income countries usually have very effective and law abiding tax collecting apparatuses, making it very difficult for larger firms to work in the shadow economy.

By contrast, in developing countries, which also tend to have large shadow economies, companies rather than using corruption to get contracts in the official economy, use it to escape from the highly regulated and taxed official economy: “Big companies . . . are comparably easy to detect and – in order to escape

taxation and punishment – they have to bribe officials, thereby increasing corruption. Corruption often takes place in order to pay for activities in the shadow economy, so that the shadow economy entrepreneur can be sure not to be detected by public authorities.” Consequently, in developing countries: “the shadow economy and corruption are likely to reinforce each other, as corruption is needed to expand shadow economy activities and – at the same time – underground activities require bribes and corruption”.

In high-income countries, which are societies that have robust rule of law and a relatively efficient administrative apparatus and tax collecting systems, it is best to understand crony capitalism from the perspective of lobbying for specific laws and regulations, rather than from the perspective of tax evasion and underground economies. Even the possibility of bribery, in order to obtain certain government contracts, is less important than the long term benefits that large companies can get thanks to favorable regulations. By contrast, in developing countries, which don't have a well-functioning rule of law etc., it is best to understand crony capitalism from the perspective of the personal relations between politicians and business owners, as a method not just of securing certain government contracts, but also as a means to operating beyond the law, e.g. not being concerned with being prosecuted for tax evasion, while at the same time sending government agents to harass one's competitors. Wallis (2006: p. 25) distinguishes between rent-seeking activities by market actors, which he calls “venal corruption”, and the “systemic corruption” associated with the deliberate creation of regulatory policies by political elites pursuing rent-seeking revenues. Using this classification, we can say that rent-seeking in developing countries tends to be venal, while in developed countries tends to be systemic.

Crony capitalism in both developed and developing countries relies on one form or another of rent-seeking as a core institutional process. Yet, it seems unavoidable that the differences are very important and they matter if one wants to capture the real configuration of the phenomenon. The core rent-seeking observation needs to be supplemented with additional observations in order to reach this kind of insight.

#### *IV.2. Crony relations as a method for securing property rights in rents*

Let us make now a step further on the analytical line opened by the distinctions between the specific context of developed and developing countries. Given that in developing countries corruption is used to escape from the official economy by otherwise highly visible economic actors, these actors need to establish a certain relation of trust with the political class. We are thus identifying a typical “credible commitment and trust” problem familiar from economics, industrial

organization and management textbooks. In low trust environments mere bribery cannot work.

The situation of Russian “oligarchs” is in this sense revealing, as it showcases what happens when crony personal relations, and the trust relations they engender, fail. As Aslund (2007: p. 265) has noted, “[n]ow, oligarchs are extorted by the Kremlin rather than being entitled to buy its services. The problem with Russia is . . . that the oligarchs have proved too weak to resist the large-scale renationalization undertaken since 2003 in Russia by President Vladimir Putin.” In a nutshell, the Russian oligarchs who went against Putin broke the trust relations, and they were consequently punished for it as their economic position depended on the continuation of their crony relations with government.

This leads us to the more general issue of the commitment problem of the political class. In the case of high-income liberal democracies, the commitment problem concerns the issue of whether a politician, who, e.g., received campaign donations, would respect his or her promises once in office. On one hand, the rational ignorance of voters, as well as their relative economic ignorance and biases (Caplan 2001; 2007), shield politicians to some extent from the negative consequences, in terms of re-election prospects, of promoting policies that are not welfare enhancing for the general voting population. On the other hand, the competition from other rent-seeking actors threatens the interests of currently favored special groups. As such, they are caught in an unprofitable dynamic: they have paid for their privileges, but they have to continue to pay for them in order to be sure that they are maintained. In a sense, rent-seeking works on a subscription model precisely because the rent-seekers have no means to secure in perpetuity property rights in their privileges. Crony relations create a certain amount of trust between the political sector and the lobbying firms, creating *de facto* property rights in rents.

The situation in developing countries is even more interesting. Stephen Haber and collaborators provide a hypothesis for the reason why crony capitalism exists in South American and South Asian countries characterized by poor rule of law and weak constitutional limits on government (Haber, Maurer, and Razo 2002). Haber’s summary answer to the question “Why do governments grant such favors and create such entitlements?” is the following: Crony capitalism is a solution, albeit a second-best one, to a problem facing all governments: “Any government strong enough to protect and arbitrate property rights is also strong enough to abrogate them” (see also Nye 1997). This creates a dilemma. “Unless the government can find a way to tie its hands, asset holders will not invest”. No investment, no economic growth. “And if there is no economic growth, the government will be unable to finance its needs because there will be insufficient tax revenue” (Haber 2002: pp. vii-viii).

The Western solution to this commitment problem is what Haber considers the “first-best solution” limited government and rule of law (Hayek 1960;

Buchanan 1975; 1999; Buchanan & Brennan 1985). However, most countries lack limited governments. Yet, the commitment problem has to be solved somehow. And this is where crony capitalism enters the picture. It allows the government “to guarantee a subset of asset holders that their property rights will be protected”. The reality is that in practice, for the asset holder “whether property rights are universal or particular is irrelevant”. What matters is to have the assets protected. What matters is the protective function and not the particular formal or informal institutional structure by which this function is achieved. “As long as their assets are protected, these asset holders will continue to invest as if there were universal protection of property rights. Thus, economic growth can occur, even though the government is not limited” (Haber 2002: p. xiv).

What solves this commitment problem *over the relatively long run* in the absence of limited government and rule of law? In other words, what provides the guarantee that the government will not “unilaterally [change] the rules once the asset holders have invested their wealth in productive assets”, or downright confiscate the foreign capital? The crony capitalist solution is for the “members of the government itself, or at least members of their families, . . . [to] share in the rents generated by the asset holders” such that any unexpected change of policies would “have a negative effect on the wealth and happiness of crucial members of the political elite” (Haber 2002: p. xv). Thus, the system of property rights remains stable as long as the political elites do not change and the commitment problem is solved if they are sufficiently integrated with the economic sector.

Such “integration” between the economic and political elite is indeed one of the key features of what has been called “cronyism”. But now one may note that there are some functional benefits to that: “Economic activity, then, can be sustained under conditions of political instability if governments can integrate sufficiently to give favored actors confidence that their interests will be protected (Haber, Maurer, and Razo 2002: p. 28). This explains not just how these systems work internally, but also why multi-national companies and Western governments often support corrupt political elites despite qualms about their democratic legitimacy. To put it bluntly, a stable corrupt system can be more beneficial for those Western interests than an electoral democracy without rule of law and limited government.

Kang’s analysis of South Korea and Philippines corroborates the analysis of South American countries. He points out that (Kang 2002a: p. 3) “there are certain conditions in which [corruption and cronyism] can actually be beneficial” for economic growth:

Developing countries typically have weak institutional structures. In that case, *if there is a balance of power among a small and stable set of government and business elites, money politics can actually reduce transaction costs* and make long-term agreements and investments more efficient, even while enriching those fortunate few who collude together.

Other authors add to this basic narrative concerning property rights and transaction costs several other aspects. For example, focusing on India, Mazumdar (2008) points to the legacy of European colonialism, which created the institutional mechanisms for government privilege which persisted after independence.

#### IV.3. *In brief*

The problem of cronyism can be explored from an institutional perspective by using rent-seeking as a basic tool of analysis and then looking at the structure of property rights arrangements that shape the social function of rent-seeking. Rent-seeking arrangements take different forms and have different functions depending on contextual factors such as the presence or absence of reliable rule of law or of an efficient tax collecting apparatus. The most important insight seems to be that while crony capitalism in high-income countries can indeed be considered a “pathology” (Mitchell 2012), in developing countries it may be considered a second-best substitute for the rule of law and limited government. “Failed states” are doing even worse than the crony capitalist countries in South America, South East Asia and Eastern Europe, precisely because they have *no* mechanism for securing property rights and thus no means of attracting foreign investment. Cronyism may be a functional mechanism in this respect.

Nonetheless, this approach focusing on the structural features of the system has not yet exhausted the domain of “cronyism”. What people say and believe, and the way in which a system of regulations and privileges is legitimized and justified has further implications. We thus also need to chart and explore the ideological issues surrounding the “crony capitalism” phenomenon.

### V. CRONY CAPITALISM FROM AN IDEOLOGICAL PERSPECTIVE

A decisive differentiating factor within the class of “rent-seeking societies”, and which makes “crony capitalism” distinctive, is not concerned with the political economy or structural mechanisms *per se*, but with the ideological dimension. What makes the topic of “crony capitalism” particularly interesting is the type of associated narrative that aims to give and maintain legitimacy to the system. While the structural component highlighted important *differences* between crony capitalism in high-income and developing countries, we now turn to the ideological dimension as a *unifying* characteristic: the remarkable fact that the justificatory discourse is very similar in both cases.

#### V.1. *Ideology and economic systems*

For the purposes of this analysis, the notions of ideology and belief systems, public rhetoric and public opinion will be used in a very loose sense. The

argument does not require a detour in the more sophisticated theories and debates from the field of ideology studies. The argument is based on the simple observation that ideas about how to understand or justify and legitimate the purpose of government, of institutions and of specific public policies in the light of certain assumptions about society, the state and the market are a constant presence in the life of an economic system and constant feature in any economic system. In fact, traditionally, comparative economic systems studies were dominated by this ideological perspective.

The public's expectation about the specific functions that the state would perform is a constant feature in any economic system. Before discussing rent-seeking systems, and more specifically crony capitalism, let's note that traditional ideologies, such as socialism, offered justifications and legitimacy to certain types of government interventions on the market, but also constrained the kinds of interventions that were seen as legitimate. Ideas in any of their forms are thus important parts of a regulative framework. They are an important part of an economic system because they define the contours of what is or isn't desirable, what is or isn't legitimate, what is or isn't a problem, and what are the limits regarding how a particular problem should be addressed.

In the case of rent-seeking societies such as mercantilism, socialism and state capitalism the main institutions of the system (which are intrinsic to the conditions for rent-seeking and privilege) have been or are still advocated in a direct fashion as genuinely good institutions, desirable and legitimate, from one normative perspective or another. Their advocates have assumed or are still assuming that these institutions are in various ways superior to the alternative ideal of democratic capitalist institutions (be they of the neoliberal or social democratic flavor). For example, mercantilism was advocated from the perspective of the complementarity between "power and plenty" (Viner 1948) and religion was employed as a legitimacy-granting device for the power elites (Mises 1996 [1949]:145–147; Le Goff 1992: Introduction); socialism was advocated as more economically efficient and more socially just than capitalism (Boettke 1990; Levy and Peart 2011; White 2012: chapters 2, 7, and 10); and state capitalism is currently being advocated as more stable, less prone to be bogged-down in political conflicts and better able to provide an efficient rule by experts (Bremmer 2010; *The Economist* 2012), in combination with nationalism as a legitimizing tool (Zheng 1999; Calahan 2004; Hughes 2006; He 2007).

By contrast, no one directly advocates "crony capitalism". To the extent that a system rife with cronyism has a certain degree of legitimacy among the general public, this legitimacy seems to exist only thanks to a certain amount of stealth behavior and deception on the part of the privileged economic groups and politicians complicit in providing those privileges. Those privileges are not argued for directly, explicitly and openly. In this regard, crony capitalism seems to be an outlier among rent seeking societies and economic systems.

Crony capitalism thus confronts us with the following puzzle: Is it really a system *without* an ideological component? Is it paradoxically feasible, successfully operating without an ideological cover? Could we simply say that what makes crony capitalism special among rent-seeking societies and economic systems in general is that it lacks the ideological dimension?

## *V.2. Populism and the imperfection of opinion falsification*

This conclusion, however, would be premature. A closer examination of the ideological operating environment of crony capitalism reveals that it has its own rhetoric of legitimization: the rhetoric of “pragmatism” and “middle of the road” moderation, and, when more sophisticated, with a programmatic rejection of classical ideologies and public philosophies. This is a relatively recent phenomenon and most of it comes in the aftermath of the collapse of socialist block. As Buchanan (1999) has pointed out, the “loss of faith in politics” accompanied by the post 1989 transformation has not been “accompanied by any demonstrable renewal or reconversion to a faith in markets” (Buchanan 1999: p. 186): “We are left, therefore, with what is essentially an attitude of nihilism toward economic organization”. Both the market and the state are rhetorically and ideologically vulnerable.

This “attitude of nihilism toward economic organization” is ripe for the growth of populism, which rationalizes state interventions, but not from a coherent ideological perspective. As mentioned, standard ideologies come with clear cut restrictive and regulatory principles. Yet populism, lacking the ideological coherence of classical ideologies finds a formidable strength precisely in the flexibility and polymorphism allowed by its “nihilism”. Under such an ideological regime, one may offer justifications and legitimacy to any types of government interventions on the market. Yet, at the same time, the constraints to the kinds of interventions that were seen as legitimate have disappeared. A rent-seeking oligarchy or any rent-seeking group finds in populism a wonderfully malleable and effective instrument. Ideas and attitudes still matter even when they don’t form a coherent system, and populism is a case in point.

The key feature of populism is that it is a type of political legitimization that manages to circumvent the standard ideological expectations of basing one’s arguments in a coherent and unitary system of thought. Imperfect and inconsistent as they were, classical ideological frameworks were striving for consistency and prescriptive predictability. We can even say that, in a paradoxical way, such “pragmatism” is militantly anti-ideological, as having any particular ideological backing is frowned upon as evidence of “bias”. The only recognized legitimacy is the appeal to the current state of popular opinion: “Populists see themselves as true democrats, voicing popular grievances and opinions systematically ignored by governments, mainstream parties and the media” (Canovan 1999), a fact that

precludes a substantial ideological formation. As Stanley (2008) put it, populism is a “thin ideology”. Populism is open to an eternal improvisation depending on what is considered the “true” voice or interest of “the people”. Ironically, although populism acts as a legitimizing cover for elite interests and rent-seeking, populists define the interests of the people in opposition to the interests of some malign elite. Acemoglu, Egorov & Sonin (2011) analyze the incentive structure created by populism at the level of the political sector, and note that we can understand departures from the median-voter model by the fact that “[w]hen voters fear that politicians may be influenced or corrupted by the rich elite, signals of integrity are valuable”. Populism is used by political actors as a tool for trying to signal their integrity.

Dornbusch & Edwards (1992) review the earlier literature on populism and note that, in terms of economic policies, it “emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive nonmarket policies” (p. 9). Acemoglu, Robinson & Torvik (2013) argue that the desire for populist redistribution determines voters to dismantle constitutional checks and balances on political power, voters effectively deciding to tolerate a certain amount of corruption in order to benefit from a certain amount of redistribution. Dornbusch & Edwards (1992) also note that populist policies unavoidably end up in failure over the long term due to their inherent macroeconomic unsoundness and unsustainability of their policies (see also Buchanan & Wagner 1977).

It is evident that cronyism finds an ideal environment in such circumstances. State interventions supporting the interests of various rent-seeking groups find an excellent instrument to cover and legitimize. Moreover, this can create a self-reinforcing “political vicious cycle”: “Countries can . . . fall into ‘idea traps’, where bad growth, bad policy, and bad ideas mutually reinforce each other” (Caplan 2003). The general idea of the “dynamics of intervention” (Mises 1996 (1949): pp. 855–861; Kirzner 1985; Ikeda 1997; 2005) and of Caplan’s “idea traps” is that the implementation of misguided economic policies, rather than solving problems, generates additional problems, but these problems are interpreted from the perspective of the pre-existing misguided ideas, thus creating a popular demand for even further misguided interventions. In other words, under imperfect democracies, opinion falsification, in response to bad social-economic outcomes, is not entirely reliable. Populism as a political strategy works precisely thanks to this imperfection and failure of opinion falsification.

Zingales describes this vicious cycle created by the combination of rent-seeking and populism in the following way (2012: p. xxii):

[P]opulism really becomes a threat to the survival of the free-enterprise system when markets lose legitimacy as a way of allocating rewards – in other words, when the system looks unfair to growing numbers of people. . . . [W]hen voters lose the confidence in the economic system because they perceive it as corrupt, then the sanctity of private property becomes threatened as



well. . . . In response to the uncertainty stemming from today's populist backlash, companies have begun to demand special privileges and investment guarantees. . . . Such privileges and guarantees stoke the public anger that generated the populist backlash in the first place by confirming the sense that government and large-market players are cooperating at the expense of taxpayers and the small investors. . . . No longer certain they can count on contracts and the rule of law, legitimate investors then grow scarce. This, in turn, leaves troubled businesses little recourse but to seek government assistance, thereby reinforcing crony capitalism.

Zingales points out to examples showcasing that this vicious cycle is not inevitable, but insofar we have only anecdotic evidence about the way in which the problem has been avoided. Thus, gaining a better understanding of this process becomes an important task for political economy. It is important because Western democracies are becoming increasingly more regulated (Jordana and Levi-Faur 2004; Braithwaite 2008), and also because the problems of the developing world largely stem from corruption and "extractive institutions".

Perhaps the most striking and disturbing aspect of the cycle described by Zingales, especially keeping in mind that he is talking about United States, is how similar it sounds to Haber's theory described in section IV of the function played by crony capitalism in developing countries lacking a reliable rule of law. Zingales is basically describing a process by which United States is gradually turning into a crony capitalist country of the South American variety. This interesting observation is however a topic in itself. For now, what is important to note is that the ideological piece of the puzzle has been fixed in its place, and one can see how the ideological, structural and microeconomic facets of crony capitalism converge into a robust analytical and interpretive framework. We have not only identified and charted an important phenomenon, but we are also starting to be able to explore in a more systematic way its significance and implications.

## VI. CONCLUSIONS

In trying to pinpoint the phenomenon of crony capitalism we have emphasized that, despite the central role played by the concept of rent-seeking, we need to consider two additional dimensions: First, at the structural level, rent-seeking activities take many forms, are embedded in, and are embedding a large range of institutional arrangements and processes. We have explored the connection between corruption and the shadow economy in high-income and developing countries, and the use of cronyism in developing countries as a second-best solution to the problem of property rights. Second, from an ideological point of view, we need to pay attention to the legitimizing discourse used to justify the regulations in the eyes of the general public, thus, engendering a certain level of voluntary compliance and public support. Our paper has identified the specific ideological dimension of crony capitalism, its opportunistic but very effective use of populist rhetoric.

We have argued that the notion of crony capitalism helps us identify an important new layer to the existing theory of rent-seeking society. Besides the legitimation of the interventionist system in terms of the “thin ideology” of populism, we can point to distinct functions of cronyism in developed versus developing countries. In developed countries, cronyism provides a mechanism for restricting the competition on the rent-seeking market, thus increasing the rents. In developing countries, crony relations provide a second-best solution to the problem of insecure property rights (due to a lack of rule of law and of limited government).

Based on these insights we conclude that “crony capitalism” is not just a redundant term, a mere substitute for “rent seeking” or just a vague, ethically charged label. It designates a *sui generis* phenomenon, a polymorphic, elusive but powerful reality. Its features suggest that it has a real potential for expansion, consolidation, and relevance in the contemporary world. As such, it may be emerging as one of the most important challenges to democratic market capitalism (be it in the neoliberal or social democratic form). Hence, the endeavor to better understand its nature, structure, functioning and dynamics as well as the variety of its ideological disguises, becomes an important and challenging task.

## REFERENCES

- Acemoglu, Daron, Georgy Egorov and Konstantin Sonin (2011). A Political Theory of Populism. NBER Working Paper No. 17306, National Bureau of Economic Research.
- Acemoglu, Daron, James A. Robinson and Ragnar Torvik (2013). Why Do Voters Dismantle Checks and Balance? NBER Working Paper No. 17293, National Bureau of Economic Research.
- Aligica, Dragos P. and Vlad Tarko (2012). State Capitalism and the Rent-Seeking Conjecture. *Constitutional Political Economy*. 23(4): 357–379.
- Aslund, Anders (2007). *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia*. Cambridge University Press.
- Baysinger, Barry, Robert B. Ekelund and Robert D. Tollison (1980). Mercantilism as a rent-seeking society. in *Toward a Theory of the Rent-Seeking Society*, edited by James M. Buchanan, Robert D. Tollison and Gordon Tullock. Texas A&M University Press.
- Boettke, Peter J. (1990). The Political Economy of Utopia: Communism in Soviet Russia, 1918–1921. *Journal des Economistes et des Etudes Humaines*. 1(2): 91–138. Also included in Boettke (2001: chapter 7).
- Boettke, Peter J. (2001). *Calculation and Coordination: Essays on socialism and transitional political economy*. London and New York: Routledge.
- Boettke, Peter J. and G. Anderson (1997). Soviet Venality: A Rent-seeking Model of the Communist State. *Public Choice*. 93(1–2): 37–53. Also included in Boettke (2001: chapter 8).
- Braithwaite, John. (2008). *Regulatory Capitalism: How it Works, Ideas for Making it Work Better*. Edward Elgar.
- Bremmer, Ian (2010). *The End of the Free Market: Who Wins the War Between States and Corporations?* Portfolio.
- Buchanan, James M. (1975). *The Limits of Liberty: Between Anarchy and Leviathan*. Indianapolis: Liberty Fund, Inc.

- Buchanan, James M. (1980). "Profit seeking and rent seeking" in Buchanan, Tollison & Tullock (1980: pp. 3–15)
- Buchanan, James M. (1999). *The Logical Foundations of Constitutional Liberty*. Indianapolis: Liberty Fund.
- Buchanan, James M. and Geoffrey Brennan (1985 [2000]). *The Reason of Rules: Constitutional Political Economy*. Liberty Fund.
- Buchanan, James M., Robert D. Tollison and Gordon Tullock, eds. (1980). *Toward a Theory of the Rent-Seeking Society*. Texas A&M University Press.
- Buchanan, James M. and Richard E. Wagner (1977). *Democracy in Deficit: The Political Legacy of Lord Keynes*. Indianapolis, IN: Liberty Fund.
- Calahan, William A. (2004). National Insecurities: Humiliation, Salvation, and Chinese Nationalism. *Alternatives*. 29(2): 199–218.
- Canovan, Margaret. (1999). Trust the People! Populism and the Two Faces of Democracy. *Political Studies*. 47(1): 2–16.
- Caplan, Bryan (2001). Rational Ignorance versus Rational Irrationality. *Kyklos*. 54(1): 3–26.
- Caplan, Bryan (2003). The idea trap: the political economy of growth divergence. *European Journal of Political Economy*. 19(2): 183–203.
- Caplan, Bryan (2007). *The Myth of the Rational Voter: Why Democracies Choose Bad Policies*. Princeton University Press; New edition.
- Dornbusch, Rudiger and Sebastian Edwards (1992). The Macroeconomics of Populism. pp. 7–14 in *The Macroeconomics of Populism in Latin America*, edited by Rudiger Dornbusch and Sebastian Edwards. Chicago: University of Chicago Press.
- Dreher, Axel and Friedrich Schneider (2010). Corruption and the Shadow Economy: An Empirical Analysis. *Public Choice*. 144: 215–238.
- Ekelund, Robert B. and Robert D. Tollison (1981). *Mercantilism As a Rent-Seeking Society: Economic Regulation in Historical Perspective*. Texas A&M University Press.
- Gustafson, Thane (1999). *Capitalism Russian Style*. Cambridge University Press.
- Haber, Stephen, ed. (2002). *Crony Capitalism and Economic Growth in Latin America: Theory and Evidence*. Hoover Press.
- Haber, Stephen, Noel Maurer and Armando Razo (2002). Sustaining Economic Performance under Political Instability: Political Integration in Revolutionary Mexico, in: Stephen Haber (ed.), *Crony Capitalism and Economic Growth in Latin America*, Hoover Press: 25–74.
- Harstad, Bard and Jakob Svensson (2011). Bribes, lobbying and development. *American Political Science Review*. 105(1): 46–63.
- Hayek, Friedrich. (1960). *The Constitution of Liberty*. University of Chicago Press.
- He, Yinan. (2007). History, Chinese Nationalism and the Emerging Sino-Japanese Conflict. *Journal of Contemporary China*. 16(50): 1–24.
- Henderson, David R. (2012). "The Economics and History of Cronyism." Mercatus Center, George Mason University.
- Huber, Evelyne, ed. (2002). *Models of Capitalism: Lessons for Latin America*. Pennsylvania State University Press.
- Hughes, Christopher R. (2006). *Chinese Nationalism in the Global Era*. London and New York: Routledge.
- Ikeda, Sanford (1997). *Dynamics Of The Mixed Economy*. London and New York: Routledge.
- Ikeda, Sanford (2005). The Dynamics of Interventionism. *Advances in Austrian Economics*. 8: 21–58.
- Jordana, Jacint and David Levi-Faur, eds. (2004). *The Politics of Regulation: Institutions and Regulatory Reforms for the Age of Governance*. Edward Elgar.
- Kang, David C. (2002a). *Crony Capitalism: Corruption and Development in South Korea and the Philippines*. Cambridge University Press.

- Kang, David C. (2002b). "Transaction Costs and Crony Capitalism in East Asia." Working Paper No. 02-11. Available at SSRN: <http://ssrn.com/abstract=310592>, Tuck School of Business, Government Department, Dartmouth College.
- Khatri, Naresh and Eric W.K. Tsang (2003). Antecedents and Consequences of Cronyism in Organizations. *Journal of Business Ethics*. 43(4): 289–303.
- Khatri, Naresh, Eric W.K. Tsang and Thomas M. Begley (2006). Cronyism: A cross-cultural analysis. *Journal of International Business Studies*. 37(1): 61–75.
- Kirzner, Israel M. (1985). The perils of regulation. in *Discovery and the capitalist process*. Chicago: University of Chicago Press.
- Krueger, Anne (1974). The Political Economy of the Rent-Seeking Society. *American Economic Review*. 64(3): 291–303.
- Krueger, Anne O. (2002). Why Crony Capitalism Is Bad For Growth. pp. 1–23 in *Crony Capitalism and Economic Growth in Latin America*, edited by Stephen Haber. Hoover Press.
- Le Goff, Jacques, ed. (1992). *The Medieval World*. Collins & Brown.
- Lee, Dwight R. and Robert D. Tollison (2011). Rent Seeking and Inefficiencies Resulting from Pecuniary Externalities. *Kyklos*. 64(4): 579–588.
- Levy, David M. (1990). The bias in centrally planned prices. *Public Choice*. 67(3): 213–226.
- Levy, David M. and Sandra J. Peart (2011). Soviet growth and American textbooks: An endogenous past. *Journal of Economic Behavior & Organization*. 78(1–2): 110–125.
- Li, Kelly (2000). Recommendations for the Curbing of Corruption, Cronyism, Nepotism, and Fraud in the European Commission. *Boston College International and Comparative Law Review*. 24(1): 161–176.
- Li, Peter P. (2009). The Duality of Crony Corruption in Economic Transition: Toward an Integrated Framework. *Journal of Business Ethics*. 85(1): 41–55.
- Mazumdar, Surajit (2008). "Crony Capitalism and India. Before and After Liberalization." Working Paper 2008/04, Institute for Studies in Industrial Development, New Delhi.
- Meltzer, Allan H. (2012). *Why Capitalism?* Oxford University Press.
- Mises, Ludwig. (1996 [1949]). *Human Action: A Treatise on Economics*. 4<sup>th</sup> ed. San Francisco: Fox & Wilkes.
- Mitchell, Matthew (2012). "The Pathology of Privilege: The Economic Consequences of Government Favoritism." Mercatus Center, George Mason University.
- Nye, John V.C. (1997). Thinking About the State: Property Rights, Trade, and Changing Contractual Arrangements in a World with Coercion. in *Frontiers of the New Institutional Economics*, edited by John N. Drobak and John V.C. Nye. Academic Press.
- Nye, John V.C. (2007). *War, Wine, and Taxes: The Political Economy of Anglo-French Trade, 1698–1900*. New Jersey: Princeton University Press.
- Redding, Gordon and Michael A. Witt (2007). *The Future of Chinese Capitalism: Choices and Chances*. Oxford University Press.
- Roberts, James M. (2010). "Cronyism: Undermining Economic Freedom and Prosperity Around the World." Backgrounder #2447, The Heritage Foundation.
- Rose-Ackerman, Susan (1997). The political economy of corruption. pp. 31–60 in *Corruption and the global economy*, edited by K.A. Elliott. Washington, DC: Institute for International Economics.
- Schneider, Friedrich, Andreas Buehn and Claudio E. Montenegro (2010). New estimates for the shadow economies all over the world. *International Economic Journal*. 24(4): 443–461.
- Schneider, Friedrich and Alexander F. Wagner (2001). Institutions of Conflict Management and Economic Growth in the European Union. *Kyklos*. 54(4): 509–531.
- Shleifer, Andrei and Robert W. Vishny (1992). Pervasive Shortage Under Socialism. *RAND Journal of Economics*. 23(2): 237–246.
- Stanley, Ben (2008). The thin ideology of populism. *Journal of Political Ideologies*. 13(1): 95–110.
- The Economist (2012). "State Capitalism: The Visible Hand." Special Report. January.

- Tollison, Robert D. (1982). Rent Seeking: a Survey. *Kyklos*. 35(4): 575–602.
- Tullock, Gordon (1980a). “Efficient Rent Seeking.” in Buchanan, Tollison & Tullock (1980: pp. 97–112).
- Tullock, Gordon (1980b). “Rent-Seeking as a Negative-Sum Game.” in Buchanan, Tollison & Tullock (1980: pp. 16–36).
- Tullock, Gordon (1991). Rent Seeking. pp. 604–609 in *The New Palgrave The World of Economics*, edited by John Eatwell, Murray Milgate, and Peter Newman. New York and London: W.W. Norton.
- Tullock, Gordon (2005a). *The Selected Works of Gordon Tullock: Vol. 5. The Rent-Seeking Society*. Indianapolis: Liberty Fund.
- Tullock, Gordon (2005b). *Public Goods, Redistribution and Rent-Seeking* Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
- Viner, Jacob (1948). Power and Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries. *World Politics*. 1(1): 1–29
- Wade, Robert (1998). From ‘miracle’ to ‘cronyism’: explaining the Great Asian Slump. *Cambridge Journal of Economics*. 22(6): 693–706.
- Wallis, John Joseph (2006). The Concept of Systematic Corruption in American History,” in *Corruption and Reform: Lessons from America’s Economic History* edited by Edward L. Glaeser and Claudia Goldin. University of Chicago Press.
- White, Lawrence H. (2012). *The Clash of Economic Ideas: The Great Policy Debates and Experiments of the Last Hundred Years*. Cambridge University Press.
- Zheng, Yongnian (1999). *Discovering Chinese Nationalism in China*. Cambridge University Press.
- Zingales, Luigi (2012). *Capitalism for the People: Recapturing the Lost Genius of American Prosperity*. New York: Basic Books.

#### SUMMARY

This paper elaborates the notion of “crony capitalism” and advances an innovative approach to the analysis of the phenomenon in case, seen as a type of rent-seeking society. The argument leads to a pioneering attempt to elaborate an original theory of crony capitalism as a sui generis system and with that end in view it combines three complementary perspectives: microeconomics (dealing with the basic economics of rent-seeking), institutional or structural (dealing with the specific structures and configurations of institutions, policies and processes via which rent seeking gets materialized), and ideological (dealing with the ideas, rhetoric, beliefs, doctrines and other forms of legitimization and justification of the specific policies and institutions). The paper identifies significant functional differences between crony capitalism in high-income and developing countries and advances a novel interpretation of the special nature of crony capitalism by focusing on the distinctive features of its ideological component.