

POLITICAL CAPITALISM

Problems associated with cronyism, corporatism, and policies that favor the elite over the masses have received increasing attention in recent years. *Political Capitalism* explains that what people often view as the result of corruption and unethical behavior are symptoms of a distinct system of political economy. The symptoms of political capitalism are often viewed as the result of government intervention in a market economy, or as attributes of a capitalist economy itself. Randall G. Holcombe combines well-established theories in economics and the social sciences to show that political capitalism is not a mixed economy, or government intervention in a market economy, or some intermediate step between capitalism and socialism. After developing the economic theory of political capitalism, Holcombe goes on to explain how changes in political ideology have facilitated the growth of political capitalism, and what can be done to redirect public policy back toward the public interest.

Randall G. Holcombe is DeVoe Moore Professor of Economics at Florida State University. Dr. Holcombe is also Senior Fellow at the James Madison Institute, a Tallahassee-based think tank that specializes in issues facing state governments. He served on Florida Governor Jeb Bush's Council of Economic Advisors from 2000 to 2006, and is past president of the Public Choice Society and the Society for the Development of Austrian Economics.

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Political Capitalism

How Economic and Political Power Is Made and Maintained

RANDALL G. HOLCOMBE

Florida State University



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For Lora, Ross, Mark, and Connor

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Preface

The Industrial Revolution, which began in the mid-1700s, brought about the largest ever increase in the material well-being of mankind. Prior to the Industrial Revolution, most people barely scraped by at a subsistence level of existence. As Thomas Robert Malthus noted, the size of the population was regulated by its ability to produce enough food to support itself, and starvation was a constant threat. In the twenty-first century, people who live in capitalist economies are more concerned about obesity than starvation, and even those below the poverty level enjoy amenities unimaginable a few decades earlier, such as mobile phones, microwave ovens, flat-screen televisions, and indoor plumbing. People who live in economies that are primarily market-oriented enjoy high standards of living, while those who do not are much poorer. Judged by its ability to produce material well-being, capitalism is an undeniable success.

Capitalism has its critics who point to periodic failures such as the Great Depression and the financial collapse that began in 2008, and, more generally, depict it as a system that leads to income inequality and allows some to use their privileged positions within the economic system to gain advantages over others. Regarding these more general criticisms, capitalism is well named, because it is the ownership of capital that conveys advantages to the economic elite. Capitalism, as an economic system, has taken the bulk of the criticism for the cronyism and favoritism that allows some to exploit the system for their own benefit.

The analysis that follows concludes that political capitalism, in which the political and economic elite control the system for their own benefit, is not market capitalism and should be analyzed as a separate economic system. The study of economic systems, a major area of inquiry in the twentieth century, when there was a vigorous debate on the merits of capitalism versus socialism, has fallen out of favor in the twenty-first, so economic

analysis no longer focuses on economic systems themselves. Rather, economists analyze market economies with varying degrees of government production, intervention, and oversight. Markets lay the foundation for economic analysis, and policy questions involve how much and what kind of government control should be exercised over a market economy.

This volume returns to an emphasis on economic systems, concluding that political capitalism is not some variant or intermediate step between capitalism and socialism, and is more than just government control or oversight over market activity. It is a distinct economic system and should be analyzed as such. This is the novel part of the analysis, but a substantial part of the book is devoted to demonstrating that the building blocks for a theory of political capitalism already exist in a variety of well-established academic concepts. They have just not previously been assembled to build the theory of political capitalism. The analysis that follows does not break with past academic traditions that have analyzed political and economic systems. Rather, it shows that when these well-accepted lines of analysis are viewed together, they produce a coherent picture of political capitalism as a distinct economic system.

The problems with political capitalism, often labeled as cronyism, favoritism, corporatism, clientelism, and related terms, are well-recognized, but what are primarily recognized are the symptoms of political capitalism, not its causes. Proposed solutions often suggest cleaning up corruption or additional government regulation and oversight to prevent cronyism, but when the causes are understood to be the incentive structure inherent in political capitalism, this analysis suggests that those solutions will be ineffective and will often make the problems worse. There is widespread agreement on the symptoms, but a poor understanding of the causes, and, as a result, widespread disagreement on the solutions. This volume hopes to shed some light on the causes with the hope that if political capitalism is better understood, there will be more agreement on how it should be addressed.

I appreciate the assistance of Karen Maloney and Stephen Acerra at Cambridge University Press, and the encouragement of Peter Boettke, on this project. Andrea Castillo worked with me on a separate project on cronyism, which provided some foundation for the work in this volume, and Rob Bradley was extremely helpful in focusing my attention on relevant literature and ideas. My wife Lora has been a constant source of support, and the book would not have been written without her encouragement. I dedicate the book to her and to our three sons, Ross, Mark, and Connor, with the hope that the ideas in this book can, in some small way, make the world they and all of us inhabit a better place.