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Captured Institutions and the Free Market: The Paradox of Authoritarian Capitalism

ABSTRACT

The contemporary world witnesses a growing phenomenon of authoritarian capitalism – a system in which a formal market economy exists, but the institutions meant to ensure its proper functioning are captured by political interests. This chapter explores the paradoxical relationship between the free market and authoritarian control by analyzing how political capture of independent regulatory and economic institutions fosters clientelism, stifles competition, and undermines fundamental market rules. Through examples of countries that combine market rhetoric with political centralization and party dominance over key economic flows, this chapter demonstrates that the free market cannot survive without autonomous institutions that guarantee equal conditions. Mechanisms such as selective enforcement of regulations, favoritism toward regime-affiliated enterprises, and political control over the judiciary and regulatory bodies create a façade of a market dominated by political loyalty rather than economic efficiency. The capture of institutions transforms the market into an instrument of control, erodes economic freedoms, and ultimately undermines sustainable development. The chapter

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concludes that preserving institutional independence, transparency, and accountability is crucial not only for democracy but also for a truly free and functional market economy. The analysis is based on four case studies – China, Russia, Hungary, and Serbia – representing different institutional trajectories toward authoritarian capitalism.

KEYWORDS: institutional capture, free market, authoritarian capitalism, political economy, economic freedoms

INTRODUCTION

Institutions represent the backbone of every social, political, and economic system, embodying rules and procedures that make behavior predictable and help create stable legal and business environments. Their role is especially important for both free markets and democratic governance. Yet, many contemporary societies face institutional erosion and capture, where political and economic elites exploit institutional mechanisms to preserve power and control resources.

The paradox of authoritarian capitalism lies in the fact that, despite the formal existence of market elements within the economic system, and democratic elements within the political system, institutions become instrumentalized for political domination and personal gain. The regime of authoritarian capitalism can best be understood as a combination of two characteristics: (1) *institutional weakness*, which fails to provide sufficient democratic safeguards, and (2) *authoritarian political actors* who exploit these weaknesses to acquire and retain power (Bieber 2018, 338). Such capture degrades the rule of law, produces selective enforcement, and undermines economic freedoms – directly shaping citizens' life chances and development prospects.

Therefore, *authoritarian capitalism can be defined as a political-economic system characterized by the coexistence of market mechanisms (private property, price systems, formal competition) with centralized authoritarian political control, where economic institutions are systematically subordinated to political imperatives rather than operating with autonomy*. Although globalization and market logic are often associated with liberal tendencies, recent decades show that market systems and authoritarian rule can coexist and even reinforce each other¹. This

1 The absence of a coherent ideology leads new authoritarian regimes to perceive themselves as corporations and to deny the very notion of the public interest. In this context, market glorification does not weaken authoritarian capitalism but may reinforce it by legitimizing the pursuit of private gain over collective goals (Krastev 2011, 13). Moreover, economic growth under authoritarian rule can paradoxically strengthen predatory elites, allowing them to combine market benefits with autocratic power, intensify repression, and consolidate control, even as

raises central questions: can markets function when institutions that protect competition and property are politically subordinated? Does the “free market” retain meaning when governed by authoritarian mechanisms?

This chapter adopts a qualitative comparative case study approach based on a deliberately structured selection of four cases. The selection follows a two-level comparative logic. First, China and Russia are included as paradigmatic examples of contrasting models of institutional transformation in post-socialist and transitional contexts – gradualism versus “shock therapy” – representing theoretical extremes in the literature on economic and institutional reforms. Despite these differences, both cases converge toward forms of authoritarian capitalism. Second, Hungary and Serbia are selected as cases within the European institutional sphere, sharing broadly similar historical and structural characteristics, but differing in their formal integration into the European Union (EU member vs. EU candidate). This combination allows for a comparison across both different reform trajectories and different institutional environments, with the aim of identifying common mechanisms of institutional capture across diverse contexts.

Modern authoritarian states use markets to legitimize power while restricting autonomy through selective regulation, control over resources, and clientelist networks. Formally competitive systems become “political markets” in which loyalty, not performance, determines outcomes. Equal access, fair competition, and the rule of law are weakened. This chapter examines how political and economic institutions are pressured and abused in authoritarian and hybrid regimes, and the economic consequences of institutional degradation. It highlights tensions produced by the coexistence of captured institutions and nominal markets, and reassesses claims about compatibility between capitalism and authoritarianism. Finally, it emphasizes the importance of domestic reforms, social mobilization, and international cooperation to restore institutional autonomy and build democratic, functional economic systems.

1. BEHIND THE FAÇADE OF THE FREE MARKET – THEORETICAL HORIZONS OF CAPTURED INSTITUTIONS

Many states promote free-market principles while undermining the institutional foundations required for markets to function. Behind competition rhetoric, patterns of institutional capture turn markets into instruments for reproducing political power. Economic exchange is never detached from political and social context; understanding capture is crucial for analysing modern market systems.

decentralized predation gradually erodes the regime’s long-term institutional foundations (Pei 2006, 165).

A key concept in analyzing such systems is *the idea of “captured institutions”* – institutions that formally exist but do not function in accordance with their intended purpose. Political elites appropriate them to pursue particular interests, weakening autonomy, professionalism, and neutrality (Krastev 2011; Diamond 2002; Levitsky and Way 2002, 2010, 2020; Djankov et al. 2002). Instead of guaranteeing equal rules, protecting property rights, and ensuring transparency, such institutions become tools for maintaining and expanding political influence². A market without equal conditions ceases to be genuinely free.

Institutional capture takes multiple forms: partisan staffing of supposedly independent bodies, politicized regulation, interference in the judiciary, and media control (Levitsky and Way 2010, 358–359)³. Economic actors become unequal: investment security declines as predictability disappears, and success depends on access to power, rather than market performance. This dynamic is central to authoritarian capitalism – systems combining market mechanisms with centralized political control. Markets become sources of fiscal and political benefit, monitored and adjusted whenever they threaten elite interests (Pei 2006; McGregor 2010). A rentier logic emerges: profits come through connections, subsidies, preferential finance, and state contracts. Innovation is displaced by opportunism; resources concentrate among loyal elites; the market becomes a façade.

Understanding the paradox of authoritarian capitalism requires engagement with contemporary theoretical debates at the intersection of institutional economics, state capture literature, and studies of authoritarian regimes.

Institutional economics argues that institutions – formal and informal rules – shape long-term development. Institutions reduce transaction costs and support predictability (North 1990; Bjornskov and Foss 2016, 303). The distinction (Acemoglu and Robinson 2012) between *inclusive institutions* (supporting competition and innovation) and *extractive institutions* (favouring

2 Governance varies across countries and evolves over time, shaped by resources and historical-institutional legacies (Kaufmann et al. 1999, 8, 13). In contexts of captured institutions, governance fails to fulfill its intended functions and instead reinforces elite power, often manifested through corruption – from routine bribes to broader state capture. Such practices indicate a systemic breakdown, where both rulers and actors interacting with them disregard the rules governing their relationships (Kaufmann et al. 2002, 6).

3 Competitive authoritarian regimes combine formal democratic institutions with systematic abuse of state power that gives incumbents an unfair advantage over their opponents (Levitsky and Way 2010, 5). Within this context, modern societies face two major institutional threats: institutional chaos, marked by the privatization and selective enforcement of rules, and institutional dictatorship, in which elites instrumentalize institutions to entrench power – both of which are reflected in pervasive corruption and clientelism (More details in Djankov et al. 2003, 598).

elites) is crucial: markets cannot function in a vacuum; they depend on institutional quality (Tmušić 2023). This perspective differs from the idea of a “developmental state”, as the state is seen not only as a facilitator but also as a potential source of problems. While the state can function as a “helping hand” by defining and protecting effective property rights, it can simultaneously act as a “grabbing hand”, expropriating the wealth of its citizens.

State capture literature highlights how actors distort the “rules of the game” themselves – laws, regulations, and decrees – rather than merely bribing to bypass existing rules. Hellman defines *state capture* as a form of political corruption in which private actors, through non-transparent and illicit influence, shape laws and rules themselves to serve their own interests, unlike administrative corruption, which involves violations of existing rules⁴. Furthermore, a distinction is made between “state capture” and the broader phenomenon of institutional influence, which does not necessarily involve private payments, but can arise from a firm’s economic power, ownership ties to the state, or repeated interactions with public officials (Hellman et al. 2000, 3). This phenomenon leads to the erosion of trust in institutions, the strengthening of clientelism, and the weakening of the legitimacy of the economic order (Kaufmann 2003). Although *state capture* can also occur in democracies, in authoritarian regimes it becomes systemic due to the absence of effective control and accountability mechanisms, resulting in the selective implementation of formal rules (Levitsky and Way 2002, 53–54). Nevertheless, some scholars argue that even limited and manipulated democratic institutions in authoritarian systems can, in the long run, undermine such regimes (Krastev 2011, 10).

Studies of authoritarian regimes show how regimes can combine markets with political control. Markets do not disappear; they are redesigned to reproduce power and legitimacy through party networks, controlled resources, and managed competition (Pei 2006; McGregor 2010; Kurlantzick 2013).

A key analytical lens is the distinction between formal (*de jure*) and actual (*de facto*) institutions. Formal rules may look democratic and market-oriented,

4 Hellman shows that *state capture* in post-communist and hybrid regimes does not occur through the rejection of market reforms, but rather through their selective implementation and manipulation. The main obstacles to economic reform do not come from the so-called losers of transition, but from its early winners, who formally support reforms while reshaping them to serve their own interests. This results in a “partial reform equilibrium”, in which the market develops only to the extent that allows a narrow elite to preserve its privileges, while the broader society bears the costs of this selective transformation (Hellman 1998, 204–207). Partially reformed economic and political institutions create fertile ground for official corruption, as institutional rules in such an environment are either unclear or politically unenforceable. The ruling elite is unaccountable and immune to punishment for wrongdoing. Consequently, it faces no constraints in adopting predatory policies and practices (Pei 2006, 12).

while actual practice is shaped by real power relations (Helmke and Levitsky 2004). Changes in formal institutions do not necessarily change outcomes if *de facto* power remains intact (Acemoglu and Robinson 2006). In authoritarian systems, the gap between formal rhetoric and real practice is especially wide: access and enforcement depend on proximity to power. This directly implicates the rule of law, which requires consistent and impartial application of rules. In captured systems, enforcement is selective; legal certainty becomes conditional. Independent regulators, courts, central banks, and administrations are meant to guarantee equal treatment and predictability; when captured they become extensions of political power – protecting regime firms and suppressing competition (O'Donnell 1998, 117–119). In this way, economic space is transformed into a political field dominated by loyalty to power rather than market efficiency.

International frameworks can sometimes counterbalance capture through conditionality and rule transfer, but reforms often remain superficial when domestic political will is absent. EU candidate states may imitate formal institutional designs without adopting their substance – producing “shallow” compliance that coexists with informal power networks (Schimmelfennig and Sedelmeier 2004; Dimitrova 2010). More precisely, the uncertainty about standards can be an incentive towards institutional isomorphism (Grabbe 2006, 68–71). When there is uncertainty about standards (as is the case with EU accession), candidate countries do not know exactly what will be sufficient, so they “copy” the formal institutions of other successful countries – but only superficially. They adopt the appearance of institutions without their essence – which is why we get “captured institutions” that look democratic/market-oriented, but function in an authoritarian manner.

Overall, the paradox stems from the market-institution relationship: *markets may exist without democracy, but they cannot survive long-term without autonomous institutions*. Authoritarian capitalism is a hybrid where market rules are instrumentalized to preserve political dominance while undermining the institutional conditions for genuine market efficiency.

2. SILENT OCCUPATION OF INSTITUTIONS: HOW POWER CAPTURES THE MARKET

In authoritarian and hybrid regimes, capture often unfolds gradually through informal dominance over key economic institutions. This reshapes economic space to secure long-term dominance and suppress challengers. The process of capturing economic institutions in authoritarian regimes unfolds through several mechanisms that support their independence, professionalism, and ability to ensure market efficiency:

1. *Politicization of regulatory bodies* – Institutions meant to ensure neutral oversight (competition commissions, telecom regulators, energy

agencies) become extensions of executive power (Bieber 2018, 348). Enforcement becomes selective; monopolistic positions of regime-linked firms are protected; entry barriers grow – creating a formally open, but practically closed system (Hellman 1998; Tmušić 2023; Perry and Keil 2018; Bankuti et al. 2012; Dal Bo 2006; Chipkin and Swilling 2018). In this way, the market is formally maintained but, in practice, functions as a closed system of privilege.

2. *Personnel selection based on loyalty rather than competence* – Appointments in central banks, tax administrations, and other key institutions prioritize political alignment (Tomić and Pavlović 2022; Baerg et al. 2021; Cukierman 1993; Abbas et al. 2017). This reduces credibility and professional capacity, subordinating economic policy to regime objectives at the cost of stability and predictability.
3. *Instrumentalization of the judiciary and erosion of legal certainty* – Courts become tools of political control. Proceedings and rulings favour the ruling elite; legal protection becomes a privilege (Elbasani 2017; Levitsky and Way 2002, 55–56; Bankuti et al. 2012). This discourages investment, increases risk, and drives capital withdrawal.
4. *Party-based staffing in public enterprises and clientelist management* – Public enterprises become patronage hubs: recruitment, investments, and contracts build loyalty networks (Tomić and Pavlović 2022; Quaresima 2019). Market efficiency is displaced by political utility.
5. *Selective application of laws and regulations creating unfair competition* – Regime-linked enterprises are tolerated; unconnected firms face fines, inspections, and administrative obstacles (Dal Bo 2006; Laffont and Tirole 1991; Rakić 2018). Discretionary state control over resources becomes a tool to punish opponents and reward allies, deepening institutionalized discrimination (Levitsky and Way 2010, 66–67).

These mechanisms show that institutional capture is systematic: market institutions are transformed into political instruments, producing the appearance of a free market while authoritarian control governs outcomes. Long-term consequences include inefficiency, declining trust (among citizens and investors), and stalled sustainable development.

3. DEMOCRATIC FORM, AUTHORITARIAN PRACTICE – SEVERAL SPECIFIC EXAMPLES

Before turning to individual cases, it is important to clarify the logic of case selection and the differences in their institutional origins. While Hungary and Serbia experienced a period of democratic institutionalization followed by gradual erosion, China and Russia developed authoritarian capitalist systems through fundamentally different trajectories – either gradual state-

led transformation or rapid systemic restructuring. The structure of the case selection therefore combines theoretical contrast (China vs. Russia) with institutional proximity (Hungary vs. Serbia). This approach allows for a more nuanced understanding of how different reforms paths and institutional environments can lead to similar outcomes of institutional capture and authoritarian capitalism. While the concept of state capture is traditionally applied to contexts where formally autonomous institutions are subsequently appropriated, this chapter extends the analytical framework to include systems where institutions are constructed under conditions of political dominance from the outset. In both cases, the functional outcome remains similar: economic institutions become subordinated to political power, and market mechanisms are distorted.

Authoritarian capitalism is best illustrated through country cases where market forms coexist with institutional capture. A particularly useful perspective is the so-called “imitation argument”, according to which authoritarian leaders seek to emulate democratic institutions and adopt democratic discourse in order to enhance their domestic and international legitimacy. Proponents of this argument (Krastev 2011, 10) note that such selective and partial adoption of democratic procedures inevitably exposes authoritarian regimes to institutional risk, creating channels through which the opposition and society can exert influence and provoke political change.

In this section of this chapter, we begin with two specific country cases that, during their periods of institutional reform, applied different models of institutional transformation, i.e., transition: the People’s Republic of China, which opted for a model of gradual institutional changes (gradualist model), and Russia, which implemented a model of rapid institutional reforms (“shock therapy”). Nearly three decades later, despite different starting assumptions and varying initial (political and economic) conditions, the outcome of the reform is, in fact, the same: captured institutions under authoritarian capitalism. This convergence despite fundamentally different starting points reinforces the argument that authoritarian capitalism is not path-specific, but rather a robust outcome of institutional subordination to political power.

China (Party-State Capitalism) – China represents a paradigmatic form of authoritarian capitalism: market mechanisms coexist with strict party control over key sectors, finance, and strategic resources. Formal institutions exist, but party influence shapes outcomes across state enterprises, regulators, courts, media, education, and even parts of the private sector. Political survival guides reform design: reforms proceed only insofar as they do not threaten elite control over rents and key sectors. This produces impressive growth and managed competition, yet constrains autonomy, long-term innovation, and freedom (McGregor 2010; Kurlantzick 2013). On the other hand, the phenomenon of *zhengling buchang* – translated as ineffective and unenforceable government policies – encompasses the open disregard of central government laws and policies by local authorities, intentional violations of regulations by state

officials, and local protectionism that hampers the enforcement of contracts, court decisions, and national laws. This specific characteristic of the Chinese political system is most accurately described by the term “fragmented authoritarianism” (Pei 2006, 13). Political loyalty becomes more important than market performance, while regulatory institutions serve the interest of the regime rather than the neutral protection of market competition.

A defining *paradox of the Chinese model of authoritarian capitalism* is the coexistence of remarkable economic growth with comprehensive political control. This success derives from the state’s ability to direct resources toward strategic priorities, but its long-term sustainability is uncertain as the need for innovation increasingly conflicts with political oversight. China thus represents the most institutionalized form of authoritarian capitalism, in which a clearly articulated ideology legitimizes party supremacy over the economy, delivering strong results while remaining constrained by its own control mechanisms.

Russia (Oligarchic Authoritarianism) – Russia combines a formal market and formal democratic structures with weak, captured institutions. The regime is moderately repressive – Putin’s authoritarianism is often described as “vegetarian” (Krastev 2011, 8). Post-Soviet transition – specifically privatization – produced extreme concentration of wealth, entrenched corruption, and weak rule-of-law capacity – creating a system where *de facto* decisions depend on political-business ties (Stiglitz 2002, 133–166; Boycko et al. 1993; Tmušić 2022, 189–191). Later, the reassertion of state control over strategic sectors expanded discretionary power and stabilized authoritarian governance. Formal constitutional rules matter less than organizational capacity and elite resources (Levitsky and Way 2010, 190; Treisman 2011).

A central *paradox of the Russian model of authoritarian capitalism* is that the rhetoric of private enterprise coexists with a reality in which major business activity requires Kremlin approval, leaving oligarchs wealthy but politically dependent. This model reflects a form of authoritarian capitalism grounded in the reassertion of state control after the chaotic privatization of the 1990s, highlighting the reversibility of economic liberalization under highly centralized political power.

While earlier cases may be shaped by their imperial legacies and historical specificities, Hungary (an EU member state) and Serbia (a country aspiring to join the EU) are particularly relevant examples for this analysis. They exemplify “democratic authoritarianism”, where formal democratic institutions endure but operate in practice through concentrated power and entrenched clientelism.

Hungary (Democratic Backsliding and Market Capture) – Hungary demonstrated how authoritarian capitalism develops within an EU member state. After 2010, a parliamentary supermajority enabled sweeping institutional redesign: weakening checks, reshaping constitutional constraints, and politicizing oversight structures. Media pluralism narrowed through politicization and capture, and the political playing field was redesigned to

entrench dominance (Levitsky and Way 2020, 60; Bankuti et al. 2012, 139–140). Although Hungary was long considered a stable democracy, since 2010 the ruling Fidesz party under Viktor Orbán has used its parliamentary supermajority to reshape the political landscape in its favor. The government packed the Constitutional Court, restricted opposition access to media, and redrew electoral districts to entrench its dominance, while a divided EU responded only weakly to these authoritarian tendencies.

A key *paradox of the Hungarian model is that authoritarian capitalism* has taken shape within a formally democratic system and under EU constraints, showing how procedural democracy can coexist with a gradual erosion of market autonomy. Its distinctiveness lies in the incremental capture of institutions, illustrating how competitive-authoritarian dynamics can emerge from within rather than through a sudden break or historical legacy.

Serbia (Clientelism and State Capture) – Serbia maintains formal democratic institutions and EU candidate status while exhibiting systematic capture. Political power is highly centralized, and institutions often function through selective enforcement and clientelist patterns (Vuković and Stefanović 2024; Vuković and Spaić 2022; Jovanović 2021). Parties and informal networks shape access to jobs, contracts, subsidies, and administrative resources, while public enterprises operate as instruments of patronage and political mobilization (SeConS 2016). Regulatory bodies and media oversight are widely viewed as politically constrained (Moratti et al. 2024; Srećković et al. 2022, 21; Dragojlov 2025); elections are competitive in form, but distorted through resource advantages and unequal conditions (Pavlović 2024; Jović and Bursać 2025). This pattern has deep historical roots, from the Kingdom of Yugoslavia through socialism to the post-socialist period. Across these phases, weak or formally egalitarian institutions enabled elites to reproduce power – culminating in the 1990s “blocked transformation”, when former nomenklatura converted political into economic capital⁵ – and clientelist networks have persisted even after post-2000 reforms, despite formal institutional change (Babović et al. 2016; Stanojević et al. 2016). Serbia’s distinctive trajectory lies in the intensification of inherited clientelist networks: institutional capture is not created from scratch but consolidated and systematically instrumentalized. External balancing among multiple international partners further reduces accountability pressures. Despite deep institutional capture, moments of sharp public resistance can emerge when governance failures become undeniable.

5 Economic liberalization and political change occurred at a time of regime change and violence many of the former Yugoslav countries. This opened doors for political and economic elites to take a dominant position in both realms, thereby ensuring that economic and political “liberalization” would be framed in a way that would suit their interests and not threaten their position (Perry and Keil 2018, 6).

A *paradox of the Serbian model of authoritarian capitalism* is that it maintains EU accession candidate status and formally democratic institutions while relying on pervasive state and societal capture, where clientelist networks, informal control, and selective rule violations allow political and economic elites to consolidate power despite formal adherence to democratic and EU norms.

Despite differences in historical trajectories and institutional frameworks, all four cases exhibit similar patterns of institutional capture. In each case, formal market structures coexist with mechanisms of political control that distort competition, privilege regime-linked actors, and weaken the rule of law. The key variation lies not in the existence of capture, but in its form and intensity: China represents a highly institutionalized model of party-state control, Russia reflects oligarchic dependence on political authority, while Hungary and Serbia illustrate gradual institutional erosion within formally democratic settings. This comparison demonstrates that authoritarian capitalism is not tied to a single institutional pathway, but represents a broader pattern of subordination of economic institutions to political power across different contexts.

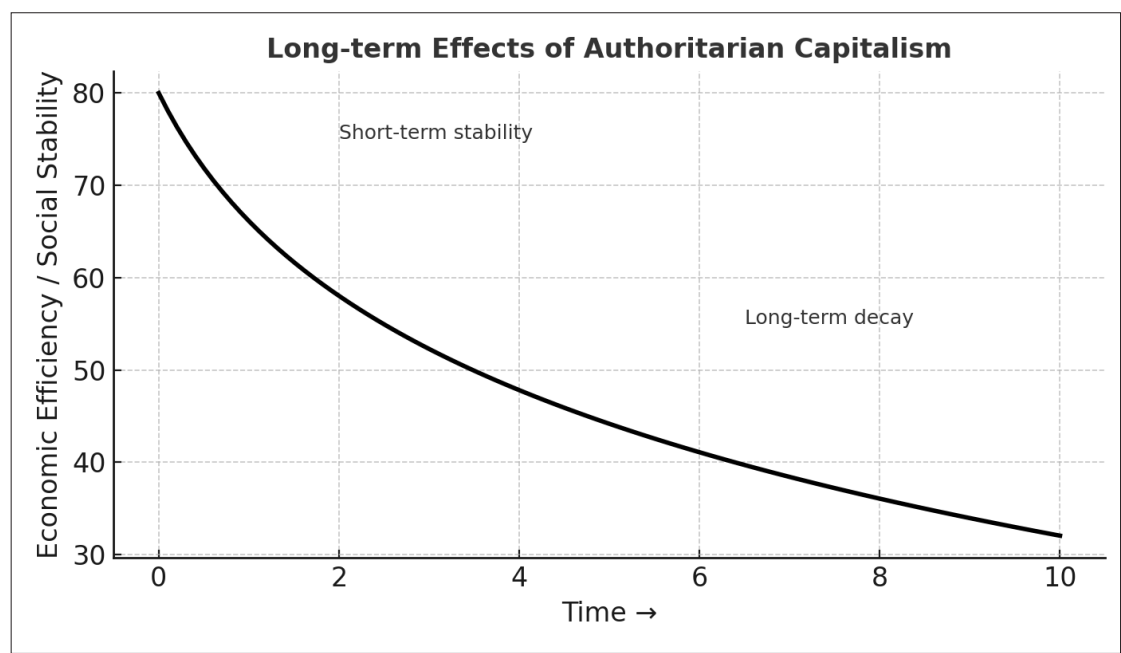
4. CONSEQUENCES OF CAPTURED INSTITUTIONS FOR THE MARKET ECONOMY AND DEVELOPMENT

The capture of institutions in authoritarian capitalist systems has far-reaching consequences for market functioning, economic growth, and sustainable development. Although the rhetoric of a free market is formally maintained, the actual dynamics of the economy are largely determined by political control and loyalty, which seriously undermines the efficiency of resource allocation. There are numerous negative consequences, of which we will highlight several fundamental ones:

1. *Reduced market competition and dominance of “connected” actors* – Preferential treatment for regime-linked firms creates monopolistic/oligopolistic structures, raises prices, lowers quality, discourages entry, and incentivizes rent-seeking (Pei 2006; McGregor 2010; Brašić 2016; Bukvić 1995).
2. *Reduced efficiency of resource allocation* – Investment decisions follow political priorities rather than market signals. Innovation-capable sectors are neglected while protected sectors absorb resources, lowering productivity and growth potential (Levitsky and Way 2010, 368; Galbraith 2008).
3. *Concentration of economic resources in politically connected hands* – Clientelist networks and party appointments redirect flows toward

- elites, producing systemic inefficiency and widening stagnation outside regime priorities (Grzymala-Busse 2010; Vuković and Stefanović 2024).
4. *Weakening of institutional trust and social cohesion* – Perceptions that rules are unequal erode trust and increase tensions. Informal institutions – corruption, patronage, intimidation – expand as substitutes for failing formal rules (Chipkin and Swilling 2018; Levitsky and Way 2010, 27–28).
 5. *Unpredictable business environment and declining investment* – Selective enforcement and weak legal certainty increase risk, reduce domestic and foreign investment, and constrain diversification and technological progress (Tmušić and Rapaić 2022; Tmušić 2023; Babin et al. 2020; Andrijić 2024; Chen et al. 2020; Banerjee, Dutta 2022).
 6. *Brain drain and talent loss* – When connections matter more than merit, skilled individuals leave, reducing human capital, innovation, and long-term development capacity (Stanojević and Stokanić 2015, 224).
 7. *Reduction of economic freedoms* – Captured systems tend to weaken rule-of-law protections, property rights security, and competitive neutrality – shrinking real economic freedom (Heritage Foundation 2025; Gwartney et al. 2018).
 8. *Macroeconomic imbalances and vulnerability to shocks* – Politicized investment choices and clientelist governance raise fiscal and financial risks. Growth may exist, but it is often unsustainable and dependent on political stability, leaving economies exposed to external shocks (Pei 2006, 167–168; Murillo and Sardon 2024).

In the long term, economic dynamics become dependent on political decisions rather than market performance, creating a *“trap of authoritarian capitalism”* – *an illusion of growth with limited potential for sustainable development*. The subsequent graph provides an integrated overview of the aggregate economic outcomes associated with authoritarian capitalism, demonstrating how entrenched institutional capture and discretionary state intervention may yield short-term growth, but ultimately produce long-term stagnation and a gradual decline in overall economic performance.



Source: Author’s conceptual model.

This graph presents a conceptual model of authoritarian capitalism, showing how short-term stability and growth achieved through selective liberalization give way to long-term economic decline as political control intensifies. It illustrates the core paradox that political stability is sustained at the cost of economic efficiency and institutional quality over time (Table 1).

Table 1. Economic and political effects of authoritarian capitalism

Phase	Description	Economic and Political Effects
I – Short-term Stability	initial liberalization, growth, capital inflows	increase in GDP, greater public confidence in the regime
II – Controlled Equilibrium	consolidation of power, selective market control	innovation stagnation, rising inequality
III – Long-term Decay	political rigidity, institutional breakdown	declining efficiency, loss of trust, instability

Therefore, authoritarian capitalism is not a stable economic model. Its initial efficiency stems from political control, yet the same control ultimately erodes the market and institutional foundations necessary for sustained growth.

CONCLUSION

Authoritarian capitalism is a distinct political-economic formation: markets exist, but they operate as controlled mechanisms that reinforce political power rather than maximize efficiency. It challenges the assumption that economic liberalization leads to political liberalization, showing instead how institutions can be subordinated and selectively enforced to preserve regime stability. At its core, authoritarian capitalism is defined by subordination of institutions to political authority. Courts, regulators, banks, and other pillars of market order act as extensions of control. Rules are applied selectively: loyalty is rewarded and dissent punished. Competition remains formal, but substantively constrained, and economic success depends increasingly on political connection.

Understanding what authoritarian capitalism is also requires understanding what it is not. *It is not state socialism*, because private ownership and markets persist. *It is not mere kleptocracy*, because it operates through structured institutional redesign rather than only *ad hoc* corruption. *It is more than crony capitalism*, because favouritism becomes systematic and institutionalized. *Nor is it simply 'capitalism without democracy'*; it is capitalism deliberately instrumentalized to advance authoritarian objectives.

Although authoritarian capitalist systems can deliver short-term stability and growth – often following initial liberalization and managed competition – their long-term trajectory is constrained by internal contradictions. Political control suppresses innovation, distorts investment, erodes trust, and limits deep, sustainable integration and development. The central dilemma is structural: sustaining political dominance requires institutional subordination that undermines economic performance, while improving performance requires institutional autonomy that threatens political control.

This chapter identifies four phases in the development of authoritarian capitalism:

1. *State capture (Phase 1)* – capture can appear even in democracies; in transitional contexts it often begins through manipulation of reforms and rulemaking.
2. *Captured state (Phase 2)* – elites consolidate power using political, social, and economic instruments to extend influence across institutions.
3. *Authoritarian capitalism (Phase 3)* – nominal market institutions mask informal control networks, transforming capitalism into a tool for political reproduction.
4. *Corrosive institutions (Phase 4)* – captured institutions can evolve into structures serving corrosive capital, especially in transitional economies heavily dependent on foreign investment, facilitating supranational influence and extraction beyond domestic public interest.

In the end, *the paradox of authoritarian capitalism* is clear: authoritarian regimes can host markets, but they cannot sustain the institutional environment that

enables markets to generate long-term prosperity. Preserving institutional independence, transparency, and accountability is therefore not only a democratic imperative, but also an economic necessity – so that markets serve public welfare rather than political consolidation.

This chapter contributes to the literature by integrating insights from institutional economics, state capture theory, and studies of authoritarian regimes, demonstrating that authoritarian capitalism can emerge through different institutional trajectories while producing similar economic and political outcomes. By combining cases with contrasting reform paths and institutional settings, the analysis provides a more unified framework for understanding how market mechanisms can coexist with – and be subordinated to – authoritarian political control.

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ZAROBLJENE INSTITUCIJE I SLOBODNO TRŽIŠTE: PARADOKS AUTORITARNOG KAPITALIZMA

APSTRAKT

Savremeni svet svedoči o sve izraženijem fenomenu autoritarnog kapitalizma – sistemu u kom formalno postoji tržišna privreda, ali su institucije koje treba da obezbede njeno pravilno funkcionisanje zarobljene političkim interesima. Ovo poglavlje istražuje paradoksalan odnos između slobodnog tržišta i autoritarne kontrole, analizirajući kako političko zarobljavanje nezavisnih regulatornih i ekonomskih institucija podstiče klijentelizam, guši konkurenciju i podriva osnovna pravila tržišta. Na primerima zemalja koje kombinuju retoriku slobodnog tržišta sa političkom centralizacijom i partijskom dominacijom nad ključnim ekonomskim tokovima, poglavlje pokazuje da slobodno tržište ne može opstati bez autonomnih institucija koje garantuju jednake uslove za sve učesnike. Mehanizmi poput selektivne primene propisa, favorizovanja preduzeća povezanih sa režimom i političke kontrole nad pravosuđem i regulator-

nim telima stvaraju privid tržišta kojim ne dominiraju ekonomska efikasnost i konkurencija, već politička lojalnost. Zarobljavanje institucija pretvara tržište u instrument kontrole, urušava ekonomsku slobodu i, konačno, podriva održivi razvoj. U zaključku se ističe da su očuvanje institucionalne nezavisnosti, transparentnosti i odgovornosti od ključnog značaja ne samo za demokratiju, već i za istinski slobodnu i funkcionalnu tržišnu privredu. Analiza se zasniva na četiri studije slučaja – Kine, Rusije, Mađarske i Srbije – koje predstavljaju različite institucionalne putanje ka autoritarnom kapitalizmu.

KLJUČNE REČI: zarobljavanje institucija, slobodno tržište, autoritarni kapitalizam, politička ekonomija, ekonomske slobode