



State capture and development: a conceptual framework

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Abstract

This article argues that the concept of state capture helps to structure our understanding of patterns of grand corruption seen around the world in varied contexts, and increasingly even in countries once regarded as secure democracies. This article seeks to lay the groundwork for future empirical research into state capture in three areas. First, it situates the concept within a wider literature on corruption and describes how it relates to other similar terms, including regulatory capture and kleptocracy. Second, it elaborates on three pillars of activity that are subject to capture, and a variety of mechanisms through which state capture occurs. This provides a structure for the gathering of evidence on how capture plays out in different cases, and raises questions about the interactions among mechanisms and variation in sequencing. Third, the paper considers the impact of state capture on economic and social development, by outlining the ways in which it skews the distribution of power and potential long-term consequences for the allocation of rights and resources.

Keywords Development · Grand corruption · Money laundering · Regulatory capture · State capture

Introduction

State capture is a type of systematic corruption whereby narrow interest groups take control of the institutions and processes through which public policy is made, directing public policy away from the public interest and instead shaping it to serve their own interests. Hellman et al. (2000) introduced the concept in the 1990s to describe patterns of behaviour observed during the first decade of transition in parts of the former Soviet Union (FSU) and Eastern Europe (Hellman et al. 2000). They defined it as improper influence over the *formation* of laws and policy, contrasting

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it with ‘administrative corruption’, in which improper influence was exerted over the *implementation* of laws and policy, i.e., at a later stage in the policy process. The captors of the state were businesspeople, soon to be known as ‘oligarchs’, who purchased influence over policy formation through direct kickbacks or promises of favours, using personal connections to the individuals and parties holding political power. This framing of business as the captors of politics probably always overstated the separation between the two spheres, when in many transition states, the distinction between the public and private sector was in fact blurred—sometimes intentionally. In the early years of post-Soviet transition in Russia, Wedel described the phenomenon of “institutional nomads” (Wedel 2003), i.e., individuals who strategically moved between public-sector and private-sector roles, depending on where they could best access advantages or avoid regulation. By shifting their shape and surfing on the rules that applied to different sectors, they were able to either influence the rules or evade them, effectively operating outside legal frameworks.

In the past 10-15 years, the concept of state capture has been used to describe practices that have emerged in many more countries, including some that were once viewed as resilient democracies or, at least, on a secure path towards democratisation. The term has been used to describe governance in South Africa under Jacob Zuma, for example, and in Hungary under Viktor Orbán, as well as in Turkey under Recep Tayyip Erdogan, in Serbia under Aleksandar Vucic, Angola during the Dos Santos regime, the Rajapaksa family’s Sri Lanka, and the closely entwined business-political relationships unearthed by the Lava Jato scandal in Brazil and other parts of Latin America (Bhorat et al. 2017; Fazekas and Tóth 2016). In many of these cases, the process appears to be driven by political elites more than business interests (Chipkin and Swilling 2018; Ganev 2009; Grzymala-Busse 2008; Innes 2014; Pavlović 2021). With this ‘politics-led’ capture, the individual leaders who engage in grand corruption are often referred to as ‘kleptocrats’, emphasising that they rule through theft. Holding on to power becomes important to such leaders not only to retain access to opportunities for theft, but also to lock in the privilege of impunity—since if they or their allies were ousted, they would become far more exposed to prosecution.

Because it changes laws and institutions, state capture shapes the rules of the game under which the whole society must operate, with a much wider and longer-lasting impact than forms of corruption that simply distort one-off transactions. In political economy terms, the collusion between narrow political and economic groups in state capture leads to a skewed and concentrated distribution of economic power, and lends the captors an advantage in influencing future political elites, enabling them to consolidate their dominance further (Acemoglu and Robinson 2006). Captor elites are likely to design institutions primarily for the purpose of facilitating extraction, and allocate state resources to narrow groups rather than dispersing more widely, with minority groups particularly likely to be disadvantaged.

Grand corruption is facilitated and exacerbated by the globalisation of the world economy, allowing captor elites to hide or spend their corrupt gains offshore or outside their home country. An industry of ‘professional enablers’—including legal advisers, accountants, public relations firms, and banks—helps corrupt actors to mask the illicit nature of their actions and/or launder corrupt proceeds through



offshore secrecy havens where ownership cannot be easily traced (Dávid-Barrett 2022; de Willebois et al. 2011; Vogl 2021). The latter further harms economic development by removing large sums of money from the local economy. Moreover, the ease with which corrupt gains can be hidden may encourage high-level corruption since prospective perpetrators assess the risks of being caught and punished as minimal, particularly when set against the promise of lucrative gains. Kleptocrats also strategically use the legal systems of countries with stronger rule of law than their own to fight off challenges. In this context, which Bullough calls ‘Moneyland’, individuals who have accumulated huge wealth through criminal and corrupt activities can effectively buy impunity (Bullough 2018a, b).

The article has three parts. First, it situates the concept of state capture in the broader literature on definitions of corruption, regulatory capture and kleptocracy, and argues that future empirical research requires us to specify the mechanisms through which policy is improperly influenced. Second, the article suggests that state capture today typically occurs through three pillars: that is, it involves a captor group improperly influencing not just the formation of policy, but also its implementation, as well as disabling the institutions that seek to hold them to account. This part elaborates on the specific mechanisms of control in each of these three pillars. Third, the article identifies channels through which state capture is likely to hinder economic and social development and argues that globalisation, particularly the ease and frequency with which corrupt proceeds can be taken offshore, is likely to exacerbate this harm. The article offers a framework for identifying state capture as a basis for future comparative and empirical research which is greatly needed to explain why and how capture occurs, to inform efforts to prevent it and quantify its impact.

Defining state capture

Corruption is commonly defined as ‘the abuse of entrusted power for private gain’, a definition which focuses on the responsibilities of those with entrusted power, often interpreted as holders of public office (Dobson Phillips et al. 2021). Yet in instances of corruption, there is often a third party who incentivises the power holder to abuse their office, by providing the ‘private gain’ to the officeholder in the form of a bribe or kickback, for example. The presence of such a third party—a ‘corrupting influence’—is not necessary for corruption to occur, but it is a common source of the private gain which pushes the officeholder off course, diverting them from their public duties. In practice, it may also be an officeholder who themselves initiates a corrupt transaction, e.g., by withholding a service as a way of creating pressure for a third party to pay a bribe and offering to speed things up if an informal payment is provided.

In state capture, the focus is more on the role of the third party. Hellman et al.’s definition—improper influence over the *formation* of laws and policy—makes the role of the captor group central, although it is an officeholder who is improperly influenced to abuse their office. Thus, state capture is a sub-category of corruption: the concept elaborates on the specific way in which entrusted power is abused



(shaping policy to benefit a narrow interest group rather than public interest) and emphasises the role of the interest group in incentivising that abuse (they influence in an ‘improper’ way, suggesting that, at least in principle, it might have been possible for them to influence in a proper way, through legitimate lobbying). Finally, the benefit which the captor group uses to incentivise the officeholder need not be monetary or even explicit. Indeed, in state capture that is driven by political interests, there may not be a clear third party: the officeholders both abuse their power to shape the formation of law and policy but do so in a way that they themselves are the direct beneficiaries.

State capture borrows from another concept used in the public policy literature, that of regulatory capture. Carpenter and Moss (2013: 13) define regulatory capture as “the result or process by which regulation, in law or application, is consistently or repeatedly directed away from the public interest towards the interests of the regulated industry, by the intent and action of the industry itself”. If we situate regulatory capture within the definition of corruption, we can see that it focuses particularly on regulators as the holders of entrusted power, and that the way they abuse their power is by regulating in a way that diverts regulation away from the public interest and towards the interests of the regulated. Moreover, the captor, specifically the intent and action of the captor, is a key part of the definition, which distinguishes regulatory capture from regulation that is negligent, ill-conceived, or inadequate.

State capture is similar to regulatory capture but broader in scope. What is captured is not just regulation but core state functions, including the ability to shape the rules of the game through constitutional and legislative reform, but also the power of patronage which facilitates appointments to key power-holding or scrutiny bodies, and the power to distribute state assets and public money, and powers to regulate the space in which other oversight bodies such as the media and civil society act. State capture occurs when those who are entrusted with these powers abuse them consistently to shape the rules, appointments, allocation of state funds and rights in ways that make them less public-interest serving and more tailored to benefit narrow interest groups. Moreover, as with regulatory capture, it is important to show some kind of intent and action on the part of the captor group, which distinguishes state capture from cases of governance that are merely incompetent.

The captor group’s intent is often assumed to vary according to whether it represents an economic or political elite. Where capture is driven by economic elites, this is often characterised as a scramble for state assets and self-enrichment. Where politicians appear to lead or drive the process, as in Hungary under Orbán or Russia under Putin, the intent is often assumed to be one of maintaining political power or securing impunity, and such politics-led capture is increasingly described as kleptocracy. Yet most detailed case studies of state capture find significant blurring between political and economic elites. In South Africa, for example, it is a business group—the Guptas—who are seen to capture the state, but President Jacob Zuma facilitates this partly because he is driven by a need to gain and preserve impunity after being implicated in past corruption scandals. In Russia, capture started as a process led by an economic elite, the oligarchs capturing the privatisation process, but upon assuming office, Putin used his political power to control which oligarchs benefited and which were excluded from the spoils of capture. State capture, if anything, seems



to work by blurring lines between political and economic power and building links among elites that lock them in to a collusive process. Indeed, the term ‘kleptocracy’, or rule by thieves, implies that political elites abuse their power or shape the way that they govern *in order* to better carry out theft.

How then to evidence capture? Carpenter and Moss (2013) are highly critical of the lack of empirics in the regulatory capture literature. They contend that many scholars follow the lead of Stigler, who argued that inferences about the original purposes of regulation can be made by observing how regulation operates in practice and what effects it has—in other words, one should identify the ‘winners’ of a particular policy, and then assume that this was the *intended* effect of the regulation and therefore evidence of capture (Stigler 1971). This is a major assumption running counter to a large literature acknowledging that public policy often has significant and far-reaching unintended consequences (Behagel and Le Barbanchon 2015; Margetts and Hood 2012). There is a similar tendency in some of the literature on corruption in lobbying, to observe the winners of public policy, and then infer that the winning group or organisation influenced policy in that direction. Carpenter & Moss argue that this approach is deeply flawed. They insist instead on the need to bring evidence that the outcome *results from* the action and intent of the regulated industry to shift policy away from the public interest and towards the industry interest. This requires looking not just for outcomes but also for *mechanisms of influence*, as well as evidence that the outcomes beneficial to the regulated industry were *caused* by those mechanisms. A similar approach could be taken to identifying state capture, providing we can isolate the mechanisms of influence; the next section seeks to do just that.

How to capture the state: a three-pronged approach

Carpenter & Moss recognise that regulatory capture can occur at different stages of the regulatory process. ‘Statutory capture’ occurs when regulation is being drafted, whereas in ‘agency capture’, the interest group influences only the implementation of the regulation, rather than shaping or changing the rules. This distinction recalls Hellman et al.’s differentiation between state capture (improper influence over the *formation* of law and policy) and administrative corruption (improper influence over the implementation of policy). This article builds on this prior work to suggest that, in many contemporary cases of states capture, captor groups have expanded the scope of their influence beyond the formation of policy and into two additional pillars. First, state capture extends to the *implementation of policy*, which is controlled largely through appointments or budgetary allocations to state-owned enterprises, the civil service, and quasi-independent regulatory bodies; this equates to agency capture. Second, state capture often extends to a third pillar, the *accountability ecosystem*. This comprises formal checks and balances such as the judiciary and the supreme audit institution, as well as the broader civil society space including the media.

Within each pillar, there are several mechanisms of influence through which captors subvert public policy to create advantages for themselves (see Table 1). Not all



Table 1 The three pillars, mechanisms of capture and their impact

Pillar of capture and objective	Mechanisms available to captor elites	Impact
<i>1. Formation of constitution/law/policy</i>	Ensure political control over military, police, intelligence services	Undermines rule of law, as military, police and security services abuse their extensive powers to keep elite in office
Secure control over the means of violence, shape the rules of the game as they apply to politics and key economic sectors	Shape laws governing state-owned enterprises in key economic sectors—natural resources, banking and finance, utilities—in ways that retain extensive political control	Economic development is skewed towards sectors that the elite can control, reducing opportunities for other sectors
	Change constitution to extend term limits	Bank lending to politically connected firms leads to high default rates and endangers financial sector stability
	Limit parliamentary scrutiny of law	State assets are allocated to narrow groups, thereby entrenching unequal distribution of economic power
	Set rules of privatization and public procurement to ensure high discretion at implementation stage	Opposition groups find it difficult to raise money and challenge government
	Shape campaign finance laws to allow anonymous donations	Proceeds of corruption taken offshore, creating opportunity cost for local economy
<i>2. Implementation of policy by government bodies/civil service</i>	Block efforts to establish whistleblower protection	State assets, public money and services are distributed to favoured groups
Influence administrative procedures to benefit captor network and disadvantage opponents	Appoint allies to key decision-making roles in state-owned enterprises, the civil service and regulatory bodies	The majority of society, and especially already-disadvantaged ethnic, religious or indigenous groups, become poorer and worse off
	Influence implementation of privatization process to allow allies to purchase key state assets at low prices or with government-backed finance	Companies without political connections cannot win government contracts and go bust, undermining economic development
	Influence public procurement by state-owned enterprises and public-sector agencies to allocate contracts to favoured allies	Some parts of the country become prosperous while others suffer
	Influence industrial policy or grant allocation to distribute resources to loyal areas and punish areas that support the political opposition	



Table 1 (continued)

Pillar of capture and objective	Mechanisms available to captor elites	Impact
<p>3. <i>Accountability institutions, e.g., supreme audit institution, civil society, the media</i></p> <p>Disable and undermine institutions, organizations and individuals that reveal corruption or seek to hold power to account</p>	<p>Reform judicial appointments to allow replacement of independent judges with political allies</p> <p>Replace key law enforcement leaders and prosecutors with allies</p> <p>Dismiss prosecutors or attorneys general who challenge incumbent elite</p>	<p>In terms of politics, the system creates incentives to be loyal to the leadership and not to challenge power</p> <p>Individuals perceive that social and economic success depends not on merit but on connections. More skilled individuals leave the country in search of merit-based opportunities, leading to brain drain, damaging economic development and weakening political opposition further</p> <p>Undermines rule of law by politicizing judicial decisions</p> <p>Undermines rule of law by diverting law enforcement and prosecutors from investigating or prosecuting certain kinds of wrongdoing</p> <p>Reduces ability of audit institution, civil society and the media to reveal irregularities and seek improvements, leading to worsening performance of public administration and poorer public service provision, likely to affect already-disadvantaged groups more severely</p> <p>Undermines higher education leading to less skilled workforce</p>
<p>Reduce budget of supreme audit institution, appoint allies to senior leadership, repress reports</p> <p>Control access to broadcast licences</p> <p>Intimidate journalists who criticize government</p> <p>Fire academics that criticize government, defund universities</p>		



of these mechanisms are utilised in every case that we observe around the world; rather, the pillars represent the strategy space in which captors typically operate, selecting targets within it according to the local context, its institutional vulnerabilities and the nature of their own political and economic power. By elaborating the concept of state capture in this way, we respond to Carpenter & Moss's call for theoretical work that helps us to understand the variation in capture and which promises to inform efforts to prevent or minimise capture. By clarifying the pillars and mechanisms through which capture occurs, we aim to move towards being able to identify the conditions for resisting capture and building more resilient institutions.

This focus on the enabling role of institutional environments is also found in the literature on kleptocracy, i.e., rule by thieves. Acemoglu et al. argue that kleptocracy emerges in weakly institutionalised polities, but by their own admission they do not consider what makes a society possess weak institutions in the first place. The concept of state capture, by contrast, allows us to pinpoint how institutions are sometimes systematically and intentionally weakened, in order to facilitate kleptocracy. Some of the most common mechanisms of capture in each pillar are outlined below, with reference to key cases that scholars have identified as examples of state capture.

Pillar I: Influencing the formation of law and policy

In pillar one, the formation of law and policy, the key targets of capture are elections, the constitution, the military and police, intelligence networks, strategic economic assets, and the work of the legislature. Controlling elections is critical to getting into power and staying in power in all countries that claim to be democratic, but it is far easier for incumbents to rig elections than for opposition parties or candidates. Incumbents often abuse their control over state-owned assets or public procurement to award contracts to allies in exchange for campaign or political party donations, or to manipulate campaigns (Cheeseman and Klaas 2018). Once in office, re-writing the constitution is the most secure way of consolidating power. In many democracies, changing the constitution requires a two-thirds majority, but providing this is achieved, it can be a shortcut to sweeping reform. In Hungary and Sri Lanka, when the Orbán and Rajapaksa regimes respectively returned to power following a period in opposition, they immediately used their supermajorities to undertake wide-ranging constitutional reforms that entrenched their power and weakened checks and balances (Bozóki 2012). In Hungary, Orbán restricted the jurisdiction of the constitutional court and changed the way judges are appointed (Bánkuti et al. 2012; Magyar 2016; Martin 2020). In Serbia, the security services were first a target of capture and then a driving force in the further capture of the state (Petrovic 2021). In Sri Lanka, the Rajapaksa government removed the constitutional status of the country's anti-corruption agency (the Bribery Commission) and removed its power to initiate investigations, as well as abolishing two other important regulators: the national procurement commission and the audit service commission (Fonseka et al. 2021; Gomez 2022).

Captor elites need access to resources—physical, economic and institutional—which they can distribute to themselves as well as to cronies or clients, to buy loyalty



of various kinds in a classic clientelist arrangement (Hicken 2011). Many captor groups seek to enlist the physical support of the military or police since—as the legitimate instruments of physical violence over the territory—co-opting them or controlling them considerably enhances a leader’s ability to push his or her agenda. Jair Bolsonaro, as president of Brazil in 2019–2022, for example, appointed a number of former military leaders to key government positions. Indeed, military capture more commonly forms part of state capture in lower-income countries, where there is greater political control over military and police. But in higher-income countries, leaders have also exploited national security concerns or the Covid-19 pandemic to justify the imposition of martial law or use of emergency powers (Fonseka et al. 2021), often using populist messages based on nationalist or post-colonialist ideology, or exaggerated threats of terror or crime, to build support for such moves. Capture of prosecution authorities and law enforcement helps captor elites to ensure that their illicit actions are not subject to punishment.

In some countries, economic activity is concentrated in sectors which are so dominant or critical that control brings licence to shape the rules of the game for the rest of the economy. Capture of natural resources is widely recognized as a target for corrupt elites, and there is an extensive literature on the resource curse which shows how extractive industries can be used to embezzle funds and build up a power base, such that the public sees very little benefit from their country’s rich endowment (Auty 1994; Robinson et al. 2006; Sala-i-Martin and Subramanian 2008). Equally strategic though can be capture of utilities, on which the economy and society rely, or capture of the banking system (Calomiris and Haber 2016), the engine of the economy which, through decisions about how to dispense credit, can expand or constrain the power of individuals and groups. In South Africa, the Gupta brothers were awarded a number of dubious contracts from state-owned enterprises including the state railway company, Transnet, electricity company, Eskom, and the aerospace and military technology firm Denel (Bhorat et al. 2017; Godinho and Hermanus 2018; Prelec 2022). In Angola, the oil boom fuelled rapid growth of the banking sector in a way that was “elite-controlled”, with the Dos Santos regime establishing and exerting influence over banks before using them to consistently channel benefits to insiders and to move more than \$300m out of the country (Ferreira and Soares de Oliveira 2019).

In states with assets to privatise, the process of selling them off presents a major opportunity to distribute resources to cronies, often accelerating capture. Moreover, where privatisation is linked to transition or regime change, it often occurs in a context where checks and balances on government power are only weakly developed, the market value of many assets is unclear, and there is limited foreign demand to purchase companies. As such, the privatisation process can easily become a major target for capture, leading to the creation of powerful oligarchs who amass control over large swathes of the economy in a very short time (Freeland 2000).

Finally, control of the process of law-making allows captors to enact laws that systematically advantage—or disadvantage—certain sectors, companies or groups. Capturing a legislature or the legislative process is a high-impact way of changing the balance of power, since laws remain in place for a long time and shape the context in which everyone acts. If a law can be manipulated to favour a particular



group, then that advantage gets baked into the system, making it harder for other groups to gain power. However, it is important here to distinguish between proper and improper influence over law-making. Lobbying can play an important role in a democratic process, because it is very difficult for law-makers to anticipate all of the effects of new policy and there are often unintended consequences which need to be corrected. Therefore, lobbying should allow affected interest groups to make the legislators aware of any adverse impact they expect to suffer or are suffering, to allow them to amend or adapt law accordingly. In practice, it can be difficult to achieve a fully fair system of public consultation, as inevitably some groups will be better skilled and resourced to advocate for their cause. However, lobbying is more likely to be seen as corrupt if the interest groups advocating for their cause rely on monetary incentives over rigorous evidence, or hold conversations with policy-makers behind closed doors.

Capture of the legislature is often facilitated by weak rules around party and campaign finance, which facilitates the buying of influence over laws and regulation. Similarly, if lobbying is weakly regulated, this creates opportunities for narrow interest groups to have undue influence over policy formation. Laurence Lessig has argued that campaign finance and lobbying rules in the United States are so weak that they have undermined Congress's ability to carry out its legitimate purpose, leading to "institutional corruption" (Lessig 2012). In other situations, political elites abuse the extensive power of governments to control the legislative agenda to push through laws that favour narrow interest groups, or exploit loopholes in parliamentary procedure to rush through laws without sufficient scrutiny, undermining the key role of parliament as a check on executive power (Bräuninger et al. 2015; Cozzolino 2018; Tsebelis 2002).

Pillar 2: Influencing the implementation of policy

The implementation of public policy provides many more opportunities for captors to ensure that state funds are allocated to their preferred recipients. The key targets of capture here are budget allocations, appointments to public bodies and the award of government contracts. The practice of influencing the budgeting process by earmarking funds for particular ministries or projects where the captor group has influence and hence will later be able to control the allocation of funds has been termed "budgeted corruption" in a recent study of the practice in Kenya (AfriCOG 2020). Patronage power, meanwhile, can be used to install loyal allies in key decision-making roles to maintain influence over implementation decisions in the future (Piattoni 2001; You 2014). If the appointed allies seek to stray from the loyal path and behave independently, they risk being fired from their positions; the threat is often sufficient to incentivise loyalty. In some states, it is common practice to appoint individuals to public roles only in an 'acting' capacity, which allows the patron to exercise more control over them as the individual seeks to demonstrate loyalty to remain in post. Where patronage works efficiently, elites do not need to directly persuade their appointees to take the 'right' decisions in their work, but rather the appointees



anticipate the needs of their patrons and shape policy implementation accordingly, making it harder for anyone to evidence improper influence.

One area of implementation that offers ample opportunities for captor elites to allocate resources to cronies is public procurement. For OECD countries, public procurement accounts for on average 30% of public spending, while the share is often much higher in lower-income countries. Public procurement presents therefore ongoing opportunities to channel state funds to loyal allies through favouritism, and is one of the primary tools of state capture (Fazekas and Tóth 2016; Innes 2014; Søreide 2002). By influencing the award of public procurement contracts, eg through requiring certain advisers to be used, appointing allies to evaluation committees, or directly exerting pressure on procurement officers, captor groups can gain access to vast shares of public spending. Elites block reform of the legal and institutional framework of the procurement process so as to better control it (Seth Jones and Cheung 2013) or focus on influencing the implementation phase through appointments and decision-making (Charron et al. 2017; Dávid-Barrett and Fazekas 2020; Mwenda 2005; Williams-Elegbe 2018).

The capture of the procurement process is by no means limited to authoritarian or low-income countries. In 2011, an inquiry into corruption in Canada's province of Quebec found that municipal governments had been awarding contracts to construction companies which, in turn, illegally financed political parties. The construction companies colluded to increase the base price of contracts, and bribed contracting authorities to favour some projects over others, permit lucrative contract modifications, or influence members of the selection committee (Hudon and Garzón 2016). In Brazil, meanwhile, the Lava Jato investigation provided a detailed picture of how machine politics worked there and in many other Latin American countries over several decades (Odilla 2016). In this classic case of machine politics, Centrao, an influential coalition of parties that often played a decisive role in securing a majority, provided legislative support to the President and he in turn permitted the coalition to decide on appointments to key ministries, state agencies and state-owned enterprises, including multinational petroleum company Petrobras. Centrao then used this patronage power to influence the decisions of these bodies, so that they granted over-priced state contracts to construction company Odebrecht. The company in turn paid kickbacks to the civil servants that made the decisions and to politicians and political parties in the Centrao coalition. Recent research has revealed how formal these relationships were: Odebrecht developed an internal governance structure which mirrored that of the government, in which the CEO negotiated directly with the Brazilian president, while his subordinates maintained relationships with their equivalents in the government hierarchy (Gaspar 2020). Moreover, beyond Odebrecht, political leaders had similar relationships with a host of other strategic economic actors, including in the telecommunications and banking sectors.

Pillar 3: Disabling the accountability institutions

Regulatory theorist Dal Bo modelled regulatory capture as a principal-agent problem, an approach also adopted by many theorists of corruption (Dal Bo 2006;



Rose-Ackerman and Palifka 2016). According to such models, principals are unable to control their agents because they face an asymmetric information problem—they cannot observe the agents' behaviour sufficiently to hold them to account. As such, many approaches to tackling corruption hold that the best way to detect—and therefore to prevent—corruption is by increasing transparency around decision-making in public administration. It is necessary to distribute state power among a range of institutions which have some autonomy from one another—a separation of powers—so that they are able to hold one another to account, gathering evidence about alleged abuses of power and sanctioning breaches. In addition, a complex ecosystem of non-state actors in civil society and the media play an important role in checking that power is exercised legitimately and exposing wrongdoing, to inform the wider population. Such institutions of horizontal and social accountability pose a threat to captor networks, and hence captor elites often seek to disable and undermine the power of key actors in this accountability ecosystem, including the judiciary, law enforcement and prosecution, Supreme Audit Institutions, the media, civil society organisations and academia.

The judiciary is a particularly important target of capture, because of its role as a check on the executive, able to undertake judicial review of government decisions and annul them where due process has not been followed. Given its centrality too in the enforcement of the law, capturing the judiciary can be a way of privileging certain individuals or interest groups, overlooking misconduct or criminal behaviour and undermining the rule of law. The executive can encroach on the independence of the judiciary through its control of budgets, appointments and other matters such as the allocation of cases. In Hungary in recent years, new rules on appointments have been used to stuff the highest courts with political appointees, while Orbán also changed rules so that politicians had the ability to allocate cases to particular judges, opening up the possibility that sensitive cases could be channelled to friendly adjudicators.

Appointments to leadership roles in law enforcement and the public prosecution are also frequently used to install allies who will 'bury' investigations into members of the captor group and thereby grant them effective impunity. Indeed, in the few cases where state capture has been halted in its tracks, actors in the judicial branch have played a critical role. Most notably, in South Africa, the office of the independent Public Protector under Thuli Madonsela called out and provided the first rigorous accounts of state capture under Zuma. The Zondo Inquiry, a public inquiry investigating allegations of state capture and collecting evidence from witnesses led by Justice Zondo, has subsequently allowed for a very thorough examination of what went wrong, forming a basis from which to seek to design more resilient institutions.

With powers and expertise to check how government policy has been implemented, and as one of the few institutions where there is solid evidence of anti-corruption effectiveness (Rocha Menocal and Taxell 2015), supreme audit institutions also pose a threat to captors. They can be weakened through government cuts to their budget, undermining their capacity to scrutinize government conduct, by the use of patronage power to appoint political allies to leadership roles, as well as through blatant executive interference in the auditing process to alter their investigation strategies or suppress their reports (Wang and Rakner 2005). In Zuma's South



Africa, the captors also found it necessary to discredit and disarm the powerful tax authority, South Africa Revenue Service, lest it seek to investigate the growing gap between declared income and spending.

A free media represents a major threat to a captor network because of its ability to uncover corruption and inform the public, potentially triggering electoral accountability. In particular, transnational networks of investigative journalists have emerged which conduct in-depth corruption investigations and communicate their findings in ways that reach wide audiences. Transnational cooperation among such journalists often traces illicit financial flows across borders, essentially functioning as a new global governance institution in the fight against grand corruption (Cueva Chacón and Saldaña 2020; Dávid-Barrett and Tomic 2022; Moyo 2019). Controlling the media is thus a priority for most captor groups, and they seek to do so through a variety of means, including manipulating the allocation of broadcast frequencies or licences to exclude critical media and withdrawing government advertising revenue, removing a key funding source for media outlets that do not toe the government line, intimidating journalists who criticize the government, and awarding contracts to existing or new media in exchange for them running favourable stories about the governing elite (Petrova 2008; Stiglitz 2017). The methods of control have adapted as the media industry has digitalized and access to former revenues has dwindled. The reduced economic gains of owning a media company create a risk that acquisitions will be more ideologically-motivated, while dependence on philanthropy for funding can also lead to conflicts of interest (Schiffrin 2018).

Civil society organisations perform a watchdog role over government, and those specializing in anti-corruption work often have considerable technical expertise to compile and communicate evidence about corrupt practices. Captor groups clamp down on them by changing the laws that allow them to access funding (e.g. by banning foreign donations), making the rules for their registration restrictive and burdensome, and seeking to smear their reputations or undermine their reports (Toepler et al. 2020). Some captor networks also seek to purge academics that criticize the government, by defunding universities that do not support the government line or explicitly criminalizing dissent. In Turkey, Erdogan's government has instrumentalised counter-terrorism laws to suppress dissent as part of a wider series of moves towards authoritarianism (Baser et al. 2017).

The impact of state capture on development

Economic impact of capture

Corruption impedes economic development in various ways, including through deterring foreign direct investment (Jensen 2002; Mauro 1995). A particular feature of state capture is that economic activity tends to become skewed towards the sectors that the elite can best control, reducing opportunities in other parts of the economy and constraining the economic diversification which is generally regarded as important for long-term development. Over time, the economy may become unnecessarily dependent on commodities, for example, which are more easily captured



and controlled. An increase in natural resource rents pushes down aggregate income when institutions are subject to state capture (Mehlum et al. 2006).

When the public procurement process is captured, not only is public money wasted on suppliers who provide substandard goods, works and services, or fail to fulfil their contracts at all, but there are also indirect impacts on the development of the economy arising from the way that this undermines competition. Cingano and Pinotti (2013) provide evidence that political connections in procurement in Italy between 1985 and 1997 resulted in a 20% reduction of public goods provision (Cingano and Pinotti 2013). Since suppliers with the right connections are favoured while those that lack links to the captor network win fewer or no contracts, over time companies that lack political connections are likely to go bankrupt while companies without connections are deterred from entering the market, as Rijkers et al. (2017) detail in Tunisia (Rijkers et al. 2017). The overall effect is that there is even less competition in certain sectors, and wealth is further concentrated in the hands of the group that is politically well connected.

Capture of the banking sector specifically can have wide implications on access to credit. Improper influence over banks tends to lead to an increase in bad loans, granted to individuals on the basis of political connections rather than any true assessment of creditworthiness, and subsequently to a reduction in available credit as borrowers begin to default. One study in Pakistan, for example, found that ‘well-connected’ firms borrowed 45% more between 1996 and 2002 and had 50% higher default rates than non-connected firms (Khwaja and Mian 2005). Diwan and Schiffbauer (2018) found that politically connected firms in Egypt had 92% of the outstanding net loans in the Orbis database despite only employing 11% of formal sector workers. Meanwhile less-connected individuals are hindered from accessing credit that might allow them to start enterprises or invest in education.

While state capture seems likely to exacerbate inequality, the causality may also run in the other direction. Jong-sung You argues that high levels of inequality create incentives for elites to engage in capture—in both the formation and implementation pillars—so as to defend their wealth from demands for redistribution, and that the poor face individual incentives to participate in clientelism as a means of survival, which undermines the potential for collective action to challenge corrupt leaders (You 2014). You and Khagram also suggest that inequality adversely affects social norms about corruption and people’s beliefs about the legitimacy of rules and institutions, making the poor more likely to tolerate corruption as acceptable behavior (You and Khagram 2005). Others argue that the sequencing of different reforms affects the impact of corruption: in countries in which the ‘political marketplace’ becomes concentrated before universal suffrage is introduced, less harmful types of corruption occur than in countries where mass voting rights are introduced, while political competition is more fragmented and chaotic (Hellmann 2017).

State capture may be even more damaging today because ill-gotten gains are frequently taken offshore. Globally, about 10% of GDP is held offshore but there is substantial variation among regions: continental Europe has 15% of GDP offshore, Russia an estimated 60% (Alstadsæter et al. 2018). However, these headline figures are difficult to interpret as some of these funds are reinvested back into the source country, with the offshore transfer used to conceal money from an untrusted



regime or evade political control rather than because it is necessarily corrupt. It is very difficult to estimate what proportion of these stocks arise from ‘illicit financial flows’ (IFFs) (Collin 2019). Indeed, funds obtained through state capture may not be *illegally* obtained, because the very essence of state capture is that the rules of the game have been changed and subsequent benefits are not illegal. This ambiguity lies behind Owen et al.’s (2022) description of the Putin regime in Russia as dependent on a mix of ‘legalized illicit financial flows’ and ‘corruptly acquired licit flows’ (Owen et al. 2022).

Andersen et al. (2017) estimate political rents from petroleum—i.e., the proceeds of capture-type corruption in a particularly vulnerable sector—by using a dataset on cross-border banking from the Bank for International Settlements (BIS) and looking at how deposits in offshore secrecy havens change when oil prices increase. Their methodology assumes that, while an increase in oil prices will yield an increase in profits for all petroleum-rich countries, this will only be associated with an increase in offshore wealth holdings in countries where the political elite is making illicit gains which it needs to hide. A doubling of the oil price causes a 22% increase in haven deposits owned by individuals or companies from oil-rich autocracies but there is no such effect on deposits owned by oil-rich democracies. Overall, they suggest that around 15% of windfall gains accruing to countries with autocratic rulers are diverted to offshore accounts. These estimates highlight the additional economic damage that may be caused by state capture because kleptocrats frequently take the proceeds of corruption out of the economy and hold it offshore, leading to significant losses over time.

Social and political consequences of state capture

State capture undermines the social contract because it subverts the state’s purpose of serving the public interest. Where elites use the military as an instrument of their corruption, or threaten to do so, state capture can become violent and enable severe repression of the population. Whereas in a pluralist democracy, all interest groups should have a chance to influence policy, captured state institutions face little pressure to take account of a wide variety of interests. Opposition groups find it difficult to raise money and challenge the government, undermining political competition and meaning that, even if elections are held, the opposition is at a disadvantage. Over time, it may become more difficult to recruit skilled people into opposition politics because the chances of success are slim, meaning that the individuals choosing to enter politics are more likely to be motivated by personal greed than by serving the public interest.

Where government jobs are distributed and promotions awarded on the basis of clientelist connections rather than meritocracy, the appointed ‘clients’ tend to make and implement policy in ways that benefit themselves and their patrons, to the detriment of others (Charron et al. 2017). Extensive use of patronage powers creates a large group of people who are dependent on the state and the dominant elite, and hence are interested in maintaining them in power (Hutchcroft 1998). Public-sector employment can become a way of buying votes, leading to a very



bloated public sector (Mavrogordatos 1997; You 2014). Meanwhile, the lack of meritocracy in recruitment discourages many intelligent people from joining the civil service, eroding its capacity over time. And by reducing the ability of the supreme audit institution, civil society and the media to reveal irregularities and seek improvements, capture tends to worsen the performance of the public administration and erode public service provision. This is likely to affect already-disadvantaged groups, which are more reliant on public services, more severely.

In a captured society, the life chances of the population depend greatly on connections rather than merit. This constraint on social mobility combined with globalization making it much easier for individuals to emigrate and look for better opportunities elsewhere, means that the best educated and younger people in a captured state are likely to ‘vote with their feet’ and seek work abroad. State capture wholly undermines the principle that an individual can improve their social standing through merit, by studying or working hard, or through being talented, hence exacerbating the ‘brain drain’ of the most intelligent and able individuals, and stifling domestic innovation (Mungiu-Pippidi 2015). In many cases captor elites also hinder the ability of diaspora groups to vote in elections, disenfranchising those who have left because they dislike the regime, which further weakens the chances of opposition parties to dislodge the incumbents (Prelec 2019). Crackdowns on university autonomy and critical thinking also undermine higher education, potentially leading to an underskilled workforce and lack of investment in certain disciplines.

Where state services and support are distributed mainly to narrow interest groups, already-disadvantaged ethnic, religious or indigenous groups tend to become poorer and worse off. In some systems, parts of the country that are loyal to the captor elite may become prosperous while others are punished for supporting the opposition by being denied transfers of funds from the central budget. This creates further incentives to participate in patronage and demonstrate loyalty to the leadership or refrain from challenging its power. By politicizing judicial decisions and the way that the law is enforced, state capture undermines the rule of law and hinders the positive effect of rule of law in reducing inequality (Bennett and Nikolaev 2016). Judicial institutions come to be used as political weapons by the captor elites, leaving ordinary people with little access to justice or redress, hitting underrepresented minorities particularly hard.

These indirect impacts also tend to prevent or slow the emergence of a middle class, which is critical to a society’s ability to exert pressure on the executive and thereby curb corruption and capture. Loayza et al. (2012) find that the quality of governance regarding democratic participation and corruption improves when the size of the middle class increases, measured as the proportion of people with income above 10 US dollars a day in purchasing power parity (PPP) terms (Loayza et al. 2012). Neudorfer (2018: 185) finds that higher wealth helps to prevent corruption but this is mediated by the political system. The size of the middle class affects the corruption level in both democracies and autocracies, but the effect is stronger in the former. Moreover, her overall conclusion is stark: “if a country does not have a middle class, no political system can prevent corruption: poor democracies and poor autocracies are roughly equally corrupt” (Neudorfer 2018).



Conclusion

This article argues that the concept of state capture adds clarity to our efforts to understand and track patterns of grand corruption that we see in many places around the world, and offers a conceptual framework for the analysis of state capture in future empirical research. It argues that the concept of state capture offers clarity compared to other similar terms because it encourages scholars to pay greater attention to: first, the intentional nature of interest group actions to increase their grip on power; second, the three pillars and numerous mechanisms within them through which capture is systematically pursued; and third, the importance of autonomous and high-capacity institutions in building resilience against capture. Further comparative analysis using this framework and the mechanisms within it might help us to identify the conditions for capture to occur and inform the design of resilient preventive institutions and frameworks.

Not all captor elites engage in all of the techniques set out here. Rather, the three pillars represent the strategy space in which captor elites make choices, seek to spread their influence and push boundaries to consolidate their power. The pattern and sequencing in which the mechanisms are used varies from country to country. In more democratic settings, captor groups may find it necessary to disable or at least weaken accountability institutions before seeking to change the constitution, for example. This is less necessary in an authoritarian system where there are in any case fewer checks on power. Carpenter and Moss (2013) argue for distinguishing between different degrees of regulatory capture on the basis of outcomes, regarding it as strong where it completely blocks entry to the market; in 'weak' capture, by contrast, the net benefits of regulation are still positive overall, but diminished compared to regulation that better served the public interest. Network analysis might be helpful for distinguishing degrees of state capture. Capture could be regarded as strong where the network of those benefiting from the status quo, and thus with an interest in maintaining the captor group in power, is wide and complex. In weaker cases of capture, the interest group that benefits might be narrower, or concentrated in one part of a country or one sector; in this case, capture would be easier to tackle, for example by finding sub-groups that stand to gain from a move to a cleaner equilibrium, in line with Khan et al's work on the political economy of anti-corruption (Khan et al. 2019).

Overall, the use of these mechanisms to capture the state allows narrow interest groups to gain excessive control over the distribution of state assets and resources, baking in advantages in ways that skew future political and economic development. The way in which state capture concentrates economic and political power in a narrow interest group, while also removing considerable resources from the local economy, impedes the emergence of an educated middle class with the capacity and interest to exert pressure on the executive branch. Instead, state capture is likely to reinforce incentives to seek individual social mobility through exploiting political connections, perpetuating clientelism, or leaving the country. This makes it even harder for the rump captured state to thrive.



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