

## ECONOMIC THEORY AND HISTORY OF ECONOMIC THOUGHT

**Miriasov Y.O.,**

Candidate of Economic Sciences, Associate Professor,  
Senior Lecturer at Department of Economics and  
Economic Management Methods,  
V.N. Karazin Kharkiv National University

### CRONY CAPITALISM IN THE CONTEXT OF NEW INSTITUTIONAL CONTRACT THEORY

Crony capitalism describes an economic system, in which the profitability of firms in a market economy is dependent on political connections. The criteria of nature of interaction between economic agents and capital concentration allow identifying several levels of the economic system. The lowest level of any system forms the informal economy where relational contracts play a primary role in the transaction. Classical and neo-classical arrangements generally applied at the market level with a large number of firms and low concentration of market power. Large firms that are significantly less in quantity interact with each other mainly on the basis of relational contract. Unlike firms that are small and with limited ability to influence the external conditions on which their success depends, large firms

can and do seek to shape those conditions to suit their interests, and the competition between them only reinforces this tendency. Since the state, what it does or does not do, necessarily has an important role in determining those external conditions where they have to use their strengths and to colude, active intervention in the process of public decision-making is a part of the normal mode of doing business for large firms. Key element of relational contract is a local trust, which exists in the general system of institutional trust. When the institutional trust and formal rules are poorly developed, the state can interfere as a third party in the relational contract as well. This mutual influence allows selecting a few basic models of interaction that can be described as crony capitalism.