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What is Crony Capitalism?

- Crony capitalism is an economy in which businesses thrive due to their proximity to the ruling government and influential people. Unlike Capitalism, which works on merit & competition, crony capitalists get undue advantage by the patronage of politicians and authorities.

Impact on India :-

- Crony capitalists get an advantage over their competitors due to support from the government. Simple examples of the undue advantage they get may be in the form of easier loan sanctions, loan approvals despite adverse credit ratings, easier land acquisition, out of turn property registration, tender approvals without any past record of performance, etc.
- This ruins the reward system of the markets. A monopoly gets established in the markets which prevent new players from entering the markets. This leads to lesser entrepreneurial activity in the country. Decreased entrepreneurial activity leads to lesser job opportunities and borrowing.
- Also, the crony capitalists are able to get away with just about anything. They enjoy the full support of money and the government in all their endeavors. Their decisions may even cause the economy to suffer adversely.
- As can be seen in the Indian context, crony capitalism has led to India having the world's worst non-performing loan ratio. Lenders gave away loans to unworthy entities over the years despite knowing their credit backgrounds. The current amount of bad debts is approximately equal to INR 9 lakh crore and are expected to increase by INR 2 Trillion next year. The banks are left to no other options but to take huge haircuts (sometimes even as high as 65%) on the loans recovered. Taxpayers money is often used to bail out these banks in order to save the economy.
- An atmosphere of decreased lending is created and, in turn, the economy gets slowed down. As can be seen in India, entrepreneurial activity is extremely low. Job opportunities are extremely low today. India is experiencing the highest levels of unemployment in the last 4 decades. The Indian economy has been posting 7%+ GDP

repeatedly but yet the common people are suffering while the rich are getting richer.

Conclusion :-

These problems are inherent in the Indian economy and an urgent overhaul is required to save the country from a further economic slowdown. The government has been taking steps to bring better transparency and prevent distortionary practices in the economy. But, how things will turn out is yet to be seen.

Your Turn...

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