



Crony Capitalism

For Prelims: Crony Capitalism, Parliamentary Committee, Chief Justice of India (CJI), Gross Domestic Product (GDP), Anti-corruption laws, Corporate Social Responsibility,

For Mains: Issues Associated with Crony Capitalism, Ways to Address Crony Capitalism.

Why in News?

Parliament witnessed sharp exchanges over the **Adani-Hindenburg issue** and the opposition is accusing it of **crony capitalism** and raising demands for a probe by a **Joint Parliamentary Committee** or a **Chief Justice of India (CJI)-designated committee**.

What is Crony Capitalism?

▪ About:

- **Crony capitalism** is a term used to describe a **capitalist economic system** in which **individuals or businesses with close ties to political leaders and government officials** use their **political connections to gain an unfair advantage** in the marketplace.
- In the **Crony Capitalism Index 2021** published by **The Economist**; India was ranked at **7th position where crony sector wealth accounted for 8% of Gross Domestic Product (GDP)** of the country.

▪ Issues Associated with Crony Capitalism:

- **Unfair Advantage in Marketplace:** Crony capitalism can lead to corruption as **businesses use their political connections to gain an unfair advantage** in the marketplace, often by bribing government officials.
 - This can **undermine the rule of law and erode public trust** in government institutions.
- **Distorted Market Competition:** When some businesses are given an unfair advantage through their political connections, it **distorts market competition** and makes it difficult for smaller businesses and entrepreneurs to succeed.
 - This can lead to a **concentration of wealth and power in the hands of a few individuals or corporations**.
- **Reduced Innovation:** The dominant position of large businesses often erodes competition and **discourages them to further innovate** or improve their products/services.
 - This can **stifle innovation in the overall economy** and lead to a **decline in competitiveness**.
- **Public Distrust of Government and the Economy:** Widespread crony capitalism can lead to a **loss of public trust in government institutions** and the economic system.
 - This can make it difficult for policymakers to implement reforms and for businesses to operate effectively.

How can India Address the Issues Related to Crony Capitalism?

- **Improving Transparency and Accountability:** India can improve transparency and accountability in its **political and economic systems** by implementing measures such as **open data initiatives, increasing the independence of regulatory agencies, and improving the transparency of government contracts** and subsidies.
- **Encouraging Competition:** India can encourage competition by **reducing barriers to entry for smaller businesses and entrepreneurs**, such as **reducing [red tape](#) and streamlining regulations**.
 - This can make it easier for new entrants to compete with established businesses and **reduce the concentration of wealth** and power in the hands of a few individuals or corporations.
- **Towards Corporate Ethical Responsibility:** India can promote responsible business practices by implementing measures to ensure that **businesses act ethically and sustainably**, in lines of **[corporate social responsibility](#)** and sustainability initiatives.
 - This can **increase public trust in the economic system** and encourage businesses to act in the best interests of society as a whole.
- **Encouraging Responsible Political Behaviour:** India can encourage responsible political behaviour by **increasing the transparency of political donations and lobbying activities**.
 - This can reduce the potential for corruption and ensure that elected officials are held accountable for their actions.

[Source: BS](#)

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