

## **Impact on Crony Capitalism on Indian Economy**

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***Objectives of the study:** The objectives of Crony Capitalism will make to study of its impact on Indian Economy. This paper aims to identify the factors which caused effects of paradigm in India.*

***Methodology:** The article is extensively depends upon secondary sources. The data and information for this effort have been collected from different things which were printed in monthly, weekly and daily news papers and from internet also.*

***Findings:** With the LPG in 1991, The FDI & FII's are increased continuously in India and leads to strengthen the crony capitalism. The issue of crony capitalism in politics in India is multifaceted. Some of the questions that arise about this are : why is Crony Capitalism arised in Politics? What role does it play? Where does it come from, or how is it generated? Answers to these and similar questions are not always specific or clear-cut, and are often interlinked.*

*Crony Capitalism is a scenario where in the success of the business depends on close relationships between business people and government. officials. There were several scams in the corporate history of the world. Cronyism is thinly distinct from corruption. The liberalization process has encompassed the financial sector as well as the external sector, with the loosening of controls on trade and capital flouws, both direct and port folio. One example of crony capitalism is the 2G scam. The major impact of crony capitalism is on the economic growth of the country. Crony Capitalism favors a few business as and therefore promotes unfair competition and kills transparency.*

***Application:** There has been a paradigm shift towards a more transparent and corruption free auction process through open bidding and also in reducing the Crony Capitalism wealth as a share of GDP.*

***Keywords:-** Quid pro Quo, Imperfection, Nutshell, Favoritism, Transparency, Market-Oriented*

*“Ethics must be Global, Not Local. To build a truly great, global business, business leaders need to adopt a global standard of ethical practices” by Bill George.*

*The values of moral behavior is one of the important personal skill that a business man must possess in addition to competence, confidence, integrity and objectivity.*

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A company (or) industry or firm or business can never succeed if it ignores the values. Unethical practices creating problems to business man and business units. The values creates investor friendly atmosphere and minimizes risk. The social responsibility of a business requires the observing of business values. A business man should not ignore the business values while assuming social responsibility. When companies behave in an moral way, it results in a number of benefits to the company as a whole.

In the quid pro quo way crony capitalism is the name given to a situation when the market forces in an industry become powerful enough to secure their interests from harm by any means possible; it could mean a back door agreement on price hike or lobbying for tax exemptions and in the worst cases, bribing the government to tweak policies to suit corporate interests. Crony capitalism is a scenario where in the success of the business depends on close relationships between business people and government officials. It may be exhibited by favoritism in the distribution of legal permits, government grants (or) subsidies, special tax breaks, or other ways of state interventions.

There is no doubt that crony capitalism is harmful for common man. Usually it is taken to mean, because of its name, that crony capitalism is a direct result of capitalism. As a matter of fact, crony capitalism is encouraged by lack of transparency, it is only possible when the consumers are unaware that such a nexus exists. As left-wing systems are inherently more unclear they are unlikely to counter act this problem.

#### Various reasons of crony capitalism

1. Scandals in the business world occur due to corruption, bribery, fraud, or other greed.
2. Top level personnel commit accounting frauds to conceal true business performance, to preserve personal status and control and to maintain personal income and wealth.
3. Organizational criminals falsify financial statements to obtain loans.
4. If fallaciousness take place where there is imperfection in the system.

**Illustrations:-** Crony capitalism has taken place in the economy, the collapse various companies has revealed that how these companies manipulated their success.

1. Enron was a very US company considered as an innovator and technology powerhouse. It shocked the world being "America's most innovative company" to America's biggest bankruptcy at its time with crony capitalism.
2. Satyam computer services limited, one of the biggest outsourcing company employing a workforce of 53,000 and having operations in 66 countries. Satyam means "truth" in ancient Indian Language Sanskrit, had inflated profits over a period of last several years. It is possible only with crony capitalism.

Another example of crony capitalism is the 2G scam. The 2G scam was an example of how major market forces can influence. The government to sing the industrialists tune. India found itself in the centre of protests in 2010-11 over the scam in 2G spectrum allocation to telecom companies. By magnitude of loss to excheques over Rs. 1,80,000 crores this scam was reported to be the biggest in India. The scam blurred the ethical lines between corporate houses, corporate lobbyists, journalists, bureaucrats, and politicians. In a nutshell, it showed up one of the worst sides of contemporary capitalism. The 2G scam went a long way to show the Indian Economy one of the fastest growing the world, is dominated by a small set of lightly connected power forces.

The accusation of crony capitalism can be used politically. Politics is all about opinions and if industrialists can be painted as negative then politicians have a lot to gain

S.NO.	Percentage of People	Concentration of Financial Wealth in hands ( in %)
1	Top 1 percentage	42% of Finance wealth
2	Next 4 percentage	30 % of Finance wealth
3	Next 5 percentage	13 % of Finance wealth
4	Next 10 percentage	11% of Finance wealth
5	Bottom 80 Percentage	5% of Finance wealth

Source: G. William Domhoff

**Impact on Indian Economy:-** The major impact of crony capitalism is on the economic growth of the country. Crony capitalism favours a few businesses and therefore promotes unfair practices and competition and kills transparency. People in power practicing favoritism makes people at all levels work accordingly and that is how it continues to work. Everyone looks for their motive to be fulfilled even if it involves unethical activities ignoring the long term impact on the economy. In 2012-13, china cracked down more than 5 million bank defaulters. China had even hung a high level official for taking bribes. Contrast this with what happens in India. It is assumed that India prefers to shield its defaulters. It allows them to default on bank loans, yet they can escape easily allowing them to delay justice. Therefore, there can be economic growth only if Crony capitalism is held back and speedy justice is delivered. It poses a big threat for the country. India's legal system is trying to jail a minister accused of handling telecom licenses to his chums. The reference is to former telecom minister A.Raja, who was arrested on February 2, 2011, and placed in judicial custody at Delhi's Tihar Jail for 15 months. On may 15, 2012, he was granted bail by the supreme court. Raja is seeking re-election from the Nilgiris Lok Sabha on a DMK ticket.

It says scandals and a slowing economy have hurt money of its financially – leveraged and politically – connected business men. The following index table indicates the ranking on the crony capitalism.

Country	2007	2014 (Estimation)
Hongkong	1	1
Russia	2	2
Malaysia	3	3
Ukraine	4	4
Singapore	5	5
The Phillipines	9	6
Mexico	7	7
Taiwan	10	8
India	6	9
Indonesia	18	10
Britain	15	15
US	12	17
China	19	19
Japan	17	21

Source:- The Economist

**The way Ahead:-** it is a proved fact that business scams with crony capitalism on a grand scale can be accomplished with only a few well-placed individuals. Businesses in emerging economies such as India need to rethink their approach toward corporate governance and values, take action against individual misconduct and reinforce commitment to make compliance programs more visible, resilient and technologically led. India needs to make a choice law can't protect society, while values can. It can either be focused to become a market oriented economy or a business-oriented political economy. With the greatness of culture in the country, combined with ethical practices and a great level of doing business, India may have the chance to take pride and honor in being one of the greatest economies attracting more foreign investors.

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