

## COMMENT

## Crony Capitalism Sprouts

Prime Minister Manmohan Singh has recently expressed deep concern over crony capitalism in India in sync with uproarious Parliament over Radia tape episode and also almost symbiotically with the UPA chairperson Sonia Gandhi's cautionary observations against corruption in the recent 83rd plenary session of the Indian National Congress at Burrari, Delhi.

Crony capitalism is in fine a system of market economy where a close relationship between business houses and political leaders flourishes to facilitate extra market profit.

How nepotism and corruption among businessmen and politicians and bureaucrats—and of course corporate communications like Nira Radia—worked in tandem in the distribution of legal permits, licences, land, contracts or tax breaks, produce billionaires is simply stupefying. All this actually targets the Indian democratic polity—however limited it be.

According to Forbes, there are 69 billionaires in India against 13 in 2004 and 49 in 2009. The resident Indian billionaires accounted for 27 per cent of GDP in 2008. In 2005 they accounted for less than 4%. The Forbes ranking has been analysed a few weeks ago by professor Himanshu of JNU, New Delhi. The source of huge growth of billionaires has been categorised in two groups. One group comprises those that essentially rely on government permits and contracts for public infrastructure depending on mining, metals, constructions, land, real estate and so on. Himangsu termed these 'rent-thick' sectors. Telecom sector is also in this category as spectrum is also a natural resource distributed by the government. The second category consists of knowledge based industries and Pharmaceuticals plus manufacturing. Out of the 13 billionaires in 2004 only two made their fortune from Pharmaceuticals and other two from IT. The rest made their wealth from 'rent-thick' sectors. And in 2010 as many as 18 billionaires made their wealth in construction and real estate, 7 from metals and oil and 2 from telecom. So in all, 27 billionaires emerged from 'rent-thick' sector. The total wealth of the knowledge-based sector (considering IT and Pharmaceuticals) is \$55 billion, as against \$132 billion in the 'rent thick' sectors. Out of 66 resident Indian billionaires' wealth, services account for only 20%.

China which is bracketed with India as two leading economies in the near future has 64 billionaires. A neck to neck fight indeed!

Crony capitalism hits consumers directly. Going by canons of neoclassical economics, if there remain any obstacles to the free flow of factors of production and other opportunities, an economic organisation cannot reach its optimal levels. When a production unit gets different extra-market-benefits from different sources of state power, it will not only benefit the organisation in earning super-normal profit but also replaces some of its competitors and this in turn will enhance its profit and market base. Economy is shackled by nepotism and corruption disfiguring the market. Theoretically, free competitive market system leads to lower unit prices of products and higher volume of production than the monopoly system of production. Then any sort of extra-market benefits hamper the interest of common people or an economy in different ways.

Concentration of huge wealth within a very short time in the hands of a few 'fortunate' through crony capitalism is a fact of life. Apologists of Fund-Bank-designed New Economic Policy in the early 1990s ignored the threat of corruption and glorified e-transparency in the ensuing new era. Not only the poor gradation in the corruption perception index but also the

experience of the man in the street reveals how far the policy implementers misread the future of the Indian economy at that time. Crony capitalism needs to be studied in depth to reverse the imposed dysfunction of Indian economy. □□ *[contributed]*