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PUBLIC POLICY AND CRONY CAPITALISM IN INDIA SINCE 1991 : A REVIEW

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ABSTRACT :

The liberalization of India’s economy in 1991 marked a significant shift from a state-controlled framework to a market-oriented system. While this transition spurred economic growth, it also gave rise to crony capitalism, characterized by collusive relationships between businesses, policymakers, and bureaucrats. This paper examines the interplay between public policy and crony capitalism in India since 1991, analyzing how policy frameworks, regulatory gaps, and political incentives have facilitated rent-seeking and favoritism. Through case studies, such as the 2G spectrum scam and the Adani Group’s rise, the paper explores the mechanisms, consequences, and policy implications of cronyism. It argues that while economic reforms unleashed growth, weak institutional frameworks and discretionary policies have entrenched crony capitalism, undermining equitable development. Recommendations include strengthening regulatory independence, enhancing transparency, and reforming political funding to curb cronyist tendencies.

Introduction :

India’s economic liberalization in 1991, prompted by a balance-of-payments crisis, dismantled the License Raj and opened the economy to private enterprise and foreign investment. The reforms, spearheaded by then-Finance Minister Manmohan Singh, aimed to foster competition, innovation, and growth. Between 1991 and 2020, India’s GDP grew from $270 billion to over $2.6 trillion, transforming it into one of the world’s fastest-growing economies. However, alongside this growth emerged crony capitalism, where business success often depended on political connections rather than merit. Crony capitalism refers to an economic system in which businesses thrive through favoritism, secured via close ties with government officials or policymakers. In India, this phenomenon has been facilitated by discretionary public policies, weak regulatory oversight, and opaque political funding mechanisms. This paper explores how public policy since 1991 has shaped crony capitalism, its manifestations, and its socioeconomic consequences. It addresses the following questions: How have post-1991 policies enabled cronyism? What are the key mechanisms and examples of crony capitalism in India? And what policy measures can mitigate its adverse effects?

Historical Context: Liberalization and the Rise of Cronyism Prior to 1991, India’s economy was characterized by the License Raj, a system of stringent government controls over private enterprise. Licenses, permits, and quotas created opportunities for rent-seeking, as businesses lobbied bureaucrats and politicians for favors. The 1991 reforms, which included deregulation, privatization, and trade liberalization, aimed to reduce state intervention and promote market competition. Key measures included delicensing industries, reducing import tariffs, and allowing foreign direct investment (FDI) in sectors like telecommunications and infrastructure.While these reforms spurred growth, they also created new avenues for cronyism. The transition from a controlled to a market economy was incomplete, leaving significant discretionary powers in the hands of policymakers and bureaucrats. Sectors such as telecommunications, mining, and real estate, which required government approvals or resource allocations, became fertile grounds for collusive practices. The lack of robust institutions to enforce transparency and accountability exacerbated the problem. For instance, the privatization of state-owned enterprises often favored politically connected firms, leading to accusations of cronyism.Mechanisms of Crony Capitalism in India Crony capitalism in India operates through several mechanisms, rooted in the interplay between public policy and business interests.

These include: Discretionary Resource Allocation: The allocation of scarce resources like spectrum, coal, and land has often been marred by favoritism. Policies governing these allocations have lacked transparency, allowing politically connected firms to secure assets at below-market prices.
Regulatory Capture: Regulatory bodies, intended to ensure fair competition, have often been influenced by powerful business lobbies. Weak enforcement of regulations, coupled with bureaucratic collusion, has enabled firms to bypass rules or gain undue advantages.
Political Funding and Influence: Opaque political funding mechanisms, such as electoral bonds introduced in 2018, have facilitated quid pro quo arrangements. Businesses donate to political parties, often expecting favorable policies or contracts in return.

Public-Private Partnerships (PPPs): Post-1991, PPPs became a cornerstone of infrastructure development. However, poorly designed contracts and lack of competitive bidding have led to allegations of favoritism, with contracts awarded to politically connected firms.

Cronyist Networks: Informal networks between business elites, politicians, and bureaucrats have perpetuated cronyism. These networks often operate through social ties, lobbying, and revolving-door appointments, where bureaucrats join corporate boards post-retirement.Case Studies of Crony CapitalismTo illustrate the nexus between public policy and crony capitalism, two prominent case studies are examined: the 2G spectrum scam and the rise of the Adani Group.

Case Study 1: The 2G Spectrum Scam (2008)The 2G spectrum scam is one of India's most infamous examples of crony capitalism. In 2008, the Department of Telecommunications (DoT), under Minister A. Raja, allocated 2G spectrum licenses to select telecom companies at 2001 prices, ignoring market rates and bypassing competitive bidding. The Comptroller and Auditor General (CAG) estimated a presumptive loss of ₹1.76 lakh crore (approximately $40 billion) to the exchequer due to this underpricing.The scam revealed deep-rooted cronyism. Companies with little telecom experience, but strong political connections, secured licenses and later sold stakes to foreign firms at massive profits. For instance, Swan Telecom, linked to the Anil Ambani-led Reliance Group, received licenses at throwaway prices and sold a 45% stake to UAE-based Etisalat for $900 million. Investigations by the Central Bureau of Investigation (CBI) uncovered collusion between DoT officials, politicians, and corporate executives.Public policy failures were central to the scam. The lack of transparent auction mechanisms and discretionary powers vested in the DoT enabled favoritism. The scam led to public outrage, judicial intervention, and the eventual cancellation of 122 licenses by the Supreme Court in 2012. It underscored the need for transparent and competitive resource allocation policies.

Case Study 2: The Adani Group's RiseThe Adani Group, led by Gautam Adani, has emerged as one of India's largest conglomerates since 1991, with interests in ports, power, mining, and airports. While the group's growth reflects entrepreneurial success, it has also faced allegations of cronyism due to its close ties with the ruling Bharatiya Janata Party (BJP) government since 2014. Critics argue that the group has benefited disproportionately from government contracts and policy decisions.For example, the Adani Group secured contracts to operate six airports in 2019, raising concerns about competitive bidding and transparency. Similarly, its dominance in coal mining and power generation has been linked to favorable land allocations and regulatory relaxations. A 2023 report by Hindenburg Research accused the group of stock manipulation and leveraging political connections, though Adani denied these allegations.The Adani case highlights how public policies, such as those governing infrastructure contracts and environmental clearances, can be manipulated to favor select firms. The lack of independent regulatory oversight and the concentration of decision-making power in government hands have fueled perceptions of cronyism. Socio-economic Consequences of Crony Capitalism Crony capitalism has profound implications for India's economy and society:Economic Inequality: By favoring a small group of connected firms, cronyism exacerbates wealth concentration. The Oxfam Inequality Report (2020) noted that India's top 1% hold over 40% of the nation's wealth, partly due to policies that enable rent-seeking.Market Distortions: Cronyism stifles competition, discouraging innovation and efficiency. Small and medium enterprises (SMEs), which lack political connections, struggle to compete with large conglomerates.Erosion of Public Trust: High-profile scandals like 2G and Coalgate have eroded public confidence in institutions. A 2021 survey by Transparency International found that 63% of Indians perceived corruption as a significant issue in public services.Fiscal Losses: The underpricing of public assets, as seen in the 2G scam, results in significant revenue losses, limiting the government's ability to fund welfare programs.Policy Inefficiencies: Cronyist policies prioritize short-term gains for select firms over long-term economic stability, leading to inefficient resource allocation and environmental degradation.

Policy Frameworks and CronyismPost-1991 public policies have both enabled and attempted to curb crony capitalism. Key policies include:

Privatization and Deregulation: While intended to reduce state control, privatization often lacked transparency, leading to asset sales at undervalued prices. The disinvestment of public sector enterprises like VSNL and BALCO faced allegations of favoritism.

Regulatory Reforms: The establishment of bodies like the Telecom Regulatory Authority of India (TRAI) and the Competition Commission of India (CCI) aimed to ensure fair competition. However, these bodies have often been underfunded or politically influenced, limiting their effectiveness.

Anti-Corruption Measures: The Right to Information (RTI) Act of 2005 and the Lokpal and Lokayuktas Act of 2013 were introduced to enhance transparency and accountability. However, their implementation has been inconsistent, with RTI facing bureaucratic resistance. Electoral Bonds: Introduced in 2018, electoral bonds aimed to make political funding transparent. However, their anonymity has raised concerns about legitimizing cronyist transactions, as donors can contribute large sums without public disclosure.

Policy RecommendationsTo mitigate crony capitalism, India must strengthen its institutional and policy frameworks:Transparent Resource Allocation: Adopt competitive, transparent mechanisms like auctions for allocating spectrum, land, and mining rights.

The success of 3G and 4G spectrum auctions post-2012 demonstrates the efficacy of such systems.

Independent Regulators: Strengthen regulatory bodies like TRAI and CCI by granting them greater autonomy, funding, and enforcement powers. Reducing political interference in appointments is critical.

Political Funding Reforms: Replace electoral bonds with a transparent funding system, mandating public disclosure of donations. Caps on corporate contributions can prevent undue influence.

Judicial and Anti-Corruption Reforms: Fast-track corruption cases through dedicated courts and strengthen anti-corruption agencies like the CBI. Enhancing the RTI Act's implementation can empower citizens to hold officials

Accountable.Corporate Governance: Enforce stricter corporate governance norms to prevent conflicts of interest, such as revolving-door appointments between government and industry.

Public Awareness: Promote civic education to increase public scrutiny of cronyist practices, leveraging media and civil society to hold policymakers accountable.

Conclusion Since 1991, India's economic liberalization has driven remarkable growth but also fostered crony capitalism, enabled by discretionary policies, weak institutions, and opaque political funding. Cases like the 2G spectrum scam and the Adani Group's rise highlight how cronyism distorts markets, exacerbates inequality, and erodes public trust. While reforms like the RTI Act and competitive auctions have made strides, systemic challenges persist. Addressing crony capitalism requires a multipronged approach, including transparent resource allocation, independent regulation, and political funding reforms. By strengthening institutions and fostering accountability, India can ensure that public policy serves the public interest rather than a select few, paving the way for equitable and sustainable development.

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