**Crony capitalism**

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Crony capitalism refers to a system in which people in power dole out substantial benefits to businesses close to them. The latter repay the favour by financing the former’s hefty political campaigns – a classic case of ‘you scratch my back and I scratch yours’.

In cases where top politicians also happen to be top businesspersons, crony capitalism becomes strongly embedded into the state machinery, which is reduced to a rent-seeking agency for the ruling politico-economic class. Laws and policies are framed and executed in such a way as to ratchet up the political and economic power of the same or ‘like-minded’ people.

The term ‘crony capitalism’ gained wide currency in the wake of the East Asian economic crisis, which erupted in the late 1990s. It is generally believed that crony capitalism pushed several high-performing East Asian economies to the brink of collapse.

In recent years, Jacob Zuma was forced to exit the top office in South Africa on corruption charges, in particular for using his position to benefit a business family from India. In 2017, South Korean President Park Geun-hye was sacked for favouring big businesses including the country’s largest conglomerate and one of the best known consumer electronics global brands, Samsung. Pakistan is also on the long list of developing and emerging economies that have suffered from the malaise of crony capitalism.

Crony capitalism represents a major contradiction in capitalism. The intellectual basis of capitalism rests on two cardinal principles: one, economic decisions, with regard to both production of goods and services and their distribution, should best be left to market forces, which are believed to be self-regulating. Any government interference in economic activities is seen to erode the efficiency of the market mechanism.

The role of the state or the government in capitalism is two-fold: to enforce contracts and settle disputes among businesses and to facilitate enterprises mainly by providing public goods, such as transport and communication infrastructure. Beyond these two roles, the state must keep its hands off the economy.

The second cardinal principle of capitalism is competition, which follows logically from the first. If the market mechanism is to usher in an optimal outcome, enterprises, which are the main players on the economic scene, must offer customers the best value for their money. Left to themselves, only those enterprises which are efficient, innovative and risk-bearing would thrive, while the rest would just stagger on or be forced to quit the market. State support or subsidies to enterprises end up rewarding, and thus perpetuating, inefficiency in the economy at the expense of consumer welfare, public resources and corporate competitiveness.

In the capitalist worldview, economic and political power must be kept apart in the interest of the economy. In practice, however, economic and political players have a strong incentive to join hands. This makes capitalism subject to a prisoner’s dilemma: what’s in the interest of the economy or society as a whole may not be in the interest of individual players. If those wielding political power can confer some benefits on some businesses, in the form of allocation of export or import quotas, access to finance on preferential terms, exemption from taxes or other regulations, or simply access to highly confidential information, in exchange for funds, donations, or kickbacks, both will gain.

Pakistan has a long history of crony capitalism. The country started off its economic journey by adopting the import substituting industrialisation strategy (ISIS). It protected the import-competing domestic industry through high tariffs and quantitative import restrictions (or quotas). To administer the quotas, an import licensing system was put in place, whereby only licence holders were allowed to import a specified quantity of a certain product. The system gave rise to quota rents for importers.

Although in theory the licensing system was open to all registered importers, substantial favourtism was displayed in quota allocation. Besides, since the size of the quota varied with the size of the importing enterprise, it was, as always, big business houses that were the major beneficiaries of the quota regime. Mega businesses also received preferential treatment in getting subsidies. Not surprisingly, one of the causes for the successful political movement against General Ayub Khan (1958-69) was the acute concentration of economic power under his regime. It was with a view to breaking the concentration of power that former prime minister ZA Bhutto (1973-77) nationalised key enterprises including banks.

Crony capitalism thrived under Gen Ziaul Haq (1977-1988) who in a selective reversal of nationalisation denationalised some of the enterprises. One of the major beneficiaries of the denationalisation was a Lahore-based business house with considerable political ambitions. Curiously, Zia did not return nationalised banks to the private sector. Instead, those financial institutions were used by his regime to dole out loans on soft terms to his political allies. Later, in several cases, the loans were forgiven. A few years later, the privatisation of some of the state-owned banks was also marred by cronyism. The sale price of those privatised banks was much below their market value – in a couple of cases even below the price of their land.

The 1990s saw the collapse of communism and the rise of multilateral capitalism, which stipulated economic and trade liberalisation as the surest recipe for economic turnaround.

Pakistan was one of the several developing countries which embarked on opening up their economies. The ISIS, which thrived on the protection of the domestic industry, was out of sync with the changing milieu. Hence, it was completely discarded in favour of an export-led growth strategy. The import licensing system was done away with and the import regime liberalised.

However, contrary to expectations, the new trade regime did not reduce cronyism. The government, while opening up the trade regime, banned or restricted the import, as well as exports, of some products and at the same time, empowered itself to relax or withdraw the restrictions in ‘certain’ conditions. That gave birth to the system of SROs or special authorisations, which persists to date. For instance, the law stipulates that old machinery and equipment can be imported only subject to pre-shipment inspection by any of the specified firms so as to ensure that imported consignments meet the minimum quality standards. An importer, however, can buy substandard equipment abroad at low cost without pre-shipment inspection and then can get the condition waived through an authorisation issued by the government.

Another significant instance of crony capitalism is the price support system maintained by the federal and provincial governments. Every year, the government announces the support price for wheat and sugar. The avowed objective is to ensure food security by guaranteeing a minimum price to farmers. In practice, the support prices benefit the owners of large landholdings, who produce large marketable surplus. Far from benefiting small farmers, the support prices generally end up making them worse off by driving up food prices and the general price level.

The support price also results in surplus production of sugar, at the expense of other commodities, such as cotton. Since because of price support, the domestic sugar price is far higher than its international price, the government has to provide subsidies for the export of sugar, which dents the public exchequer. Sugar mills have become arguably the most powerful cartel in the country. The nexus between sugar mill owners and politicians, on both sides of the political divide, is obvious.

Despite surplus production, Pakistan faces sugar shortage. From time to time, all of a sudden the market runs out of sugar and new stocks become available only after the commodity’s price has ratcheted up. This shortage is the handiwork of the sugar cartel, which is in the league of its own, drawing its membership from all major political parties. Next to the love for democracy, sugar provides arguably the strongest bond among politicians. That’s the reason governments come and go but the interests of the sugar industry as well as those of mega sugarcane growers are always protected.

The ultimate loser in the game of crony capitalism is ordinary taxpayers, or consumers, who face a triple whammy. First, as subsidy is made from the public exchequer, taxpayers bear the brunt of it. Two, when prices go up, consumers are made worse off. Finally, the public resources that are devoted to rewarding these business owners could have been spent on public welfare. But who cares.

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