





**A society of sheep must in time  
beget a government of wolves.**

**—Bertrand de Jouvenel**



# CORRUPTION

- Use of **public office** for **private gain**



# PUBLIC AFFAIRS

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- Exceptional **privileges** and **trappings**



# ACTIVITIES PRONE TO CORRUPTION

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- Bidding on **public contracts**
- Use of **public funds**
- Handling of **property, tax assessment and collection**



# ACTIVITIES PRONE TO CORRUPTION

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- **Zoning and land use**
- **Legislative and elective processes**
- **Law enforcement**
- **Administration of public services**



# CORRUPT EXCHANGES BETWEEN

- **Public agent and private agent**
- **One *private agent* and another**



# CRONYISM

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- **Preferential treatment shown to friends and associates**
- **Without regard to qualifications**



# CRONYISM

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- Occur in **two basic forms:**
  - 1. Instrumental**
  - 2. Relational**



# INSTRUMENTAL CRONYISM



- **Motivated** primarily by **task, utilitarian/monetary,** and **self-interest** considerations
- **Exchange of favours** take place in relatively **short time**
- **Value of favours** exchanged **more or less similar**

# RELATIONAL CRONYISM

- **Relationship, affection, and loyalty**
- **Long-term** in orientation
- Value of favours exchanged differ greatly depending on relative status of **giver** and **taker**

# CRONYISM

- **Distinct from corruption**
- **Tie, connection or relationship** between actors
- **Implicit, unspecified, and reciprocal** transactions
- **No stipulation of time** period during which favors returned
- Based on **trust, loyalty, and long-standing friendship**



# CRONYISM

- **‘Corrupt’** exchanges involving **collaborators**
- More **pervasive**
- **Underly** acts of corruption

# CRONYISM

- **Misunderstood** if classified under **corruption** or **malpractice**
- *Corruption symptom of institutional deterioration not the cause*

# CRONYISM

- **Dynamic** phenomenon
- Greater **explanatory** power than corruption
- Address '**how**' and '**why**' of **corrupt acts**



# CRONY CAPITALISM



- **Extension** of cronyism
- Applies to **businesses** and **firms** in society
- **Politicized** or **rigged** economic system
- Different from **free markets** and **limited government**

# CRONY CAPITALISM

- **‘Palace politics’**
- **Absence of laws and institutions**
- **Power wielded, exchanged, and acquired via intricate system of personal contacts, favouritism, and championing of interests**



# CRONY CAPITALISM

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- Profitability of business depend on **political connections**
- Those in political power use it to their advantage by altering **structure of incentives**



# CRONY CAPITALISM

- Providing **profit opportunities** for individuals who invest in political **lobbying, campaigning, and relationships**
- Rather than in true **profit opportunities**



# CRONY CAPITALISM

- Greater **political/government** influence in economic decision making
- Greater **crony capitalism** (corruption) in society



# LIMITED GOVERNMENT

- **Only solution** to problem of crony capitalism
- **Less involvement** of government in **economy**

# CRONYISM

- **Prevent** establishment of market institutions
- Cronies do not want to **lose benefits** obtained through **connections**
- Improvement in **institutional quality** reduce **'shadow economy'** directly and **corruption** both directly and indirectly



# ECONOMIC SUCCESS OR FAILURE

- Rooted within **country's institutions**
- Understanding how institutions **evolve** crucial for development

# CRONY CAPITALISM

- Government become vehicle for **soliciting** and **rewarding** cronies or interest groups
- Society headed down road to **crony capitalism**
- **Regrettable consequences:** *mistrust in government and other institutions, economic stagnation, and social discord*



# CRONY CAPITALISM

- Higher return on developing **lobbying** and **political** skills – *to becoming a crony* – rather than developing economically **productive skills**
- Business activities end up in hands of those good at **connections**
- Not in **innovative ideas** or **risk-taking**
- **Wasteful** economic initiatives, programs, and businesses

# CRONYISM

- Not '**zero-sum**' game that take from some and gives to others
- **Negative-sum**
- Destroy **wealth**

# CRONYISM

- Government **rig market** for benefit of cronies
- Create **privilege**
- **Transfer** wealth from many to favoured few
- **Not transparent**
- **Not consistent** with **political democracy**

**“I SEE CORRUPTION AS A MORTAL ENEMY FOR  
YOUNG DEMOCRACIES.”**

**TSAKHIAGIIN ELBEGDORJ**

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# CRONYISM AND CORRUPTION



**Prof.Dr.Aung Tun Thet**  
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