

Crony Capitalism

There is no stronger social poison than the widespread combination of dismally low-performing schooling (US: “Nation at Risk” low-performing), and widespread failure to recognize or describe the difference between open, impersonal capitalism and the politically distorted markets created by crony capitalism. Common government-created distortions that benefit some at the expense of others include price controls, exclusive franchise arrangements, rules that larger, existing businesses can more easily comply with, market entry hindrances such as hard-to-get, extensive permitting requirements and occupational licensing, taxes, and import restrictions.

[Key Reference: Baumol, Litan, and Schramm. 2009. *Good Capitalism, Bad Capitalism*.](#)

Loose language and low economic literacy is such a devastating combination that it can cause great civilizations to self-destruct, or become so weak that outsiders seize control ([Hubbard and Kane, 2014](#); for example, the demise of the Roman Empire). The reduced economic efficiency caused when cronyism yields policy that distorts the information and incentives that drive market behavior is important, but cynicism about the motivations underlying governance is cronyism’s most corrosive effect. When folks do not readily recognize that suffocating crony capitalism is not the global norm, or need not be the norm, anywhere, scandal gives open capitalism a black eye alongside the rigged capitalism that earned the black eye. As Vice President Al Gore pointed out in the [1993 National Performance Review](#), that scandal is transformational: “Scandals are front-page news, while routine failure is ignored.”

IOPA’s role in resisting and attacking crony capitalism will center on measurement/quantification. Alongside messaging and outreach on the critical differences between open, impersonal capitalism and the politically distorted markets created by crony capitalism, IOPA will produce a crony capitalism index, annually calculate the index values for countries and states, and foster the use of the index values as explanatory variables in models that explain freedom, growth, and prosperity.

Revisit this page, periodically, to observe our progress in this research area. Hopefully, by your next visit, we can announce proposals and requests for proposals for specific projects. Once we have an analysis completed, we will commission a review from a scholar likely to be a basis for civil, informed disagreement, and create conversation forums for further assessment. To be involved in any aspect of the process, e-mail us at: IOPACHief@policytalk.org