

## ECONOMIC THEORY AND HISTORY OF ECONOMIC THOUGHT

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### **SOCIAL AND ECONOMIC PROBLEMS OF CRONY CAPITALISM SYSTEM**

The article is devoted to the issue of crony capitalism system in the different countries of the world. Globalization and technological boom increase the income gap of different segments of the population. The main reason of economic inequalities in many countries of the world is the strong links between government officials and business structures. The new type of economic system which is called crony capitalism undermines the centuries-old tenets of a free market economy. The article provides the systematization of all negative effects of this type of economic system in the world.

Merger of bureaucracy with business structures has placed this problem as one of the most urgent issues at present. Globalization and technological boom only increase the income gap of different segments of the population. Also, we are living in the age of plutocracy. It is especially

noticeable in comparison welfare of the uppermost layers of the population and all the rest. The most obvious examples of this fact are the USA and the UK, but this is a global phenomenon, peculiar to communist China, post-communist Ukraine and Russia, India and Canada. We see it even in such favorable democratic countries like Sweden, Finland and Germany.

The main reason of all economic inequalities is the strong links between government officials and transnational corporations. The last one has enormous resources of influence on people's social and business life in the country. Today the main problem of all economic activity in the world is new type of system, which is called crony capitalism, undermines the centuries-old tenets of a free market economy.

It is widely agreed that crony capitalism generates significant economic rents, which result in a misallocation

of resources and lower incentives for wealth creation. In addition, the corruption that accompanies cronyism constitutes a considerable impediment to growth and development. The most damaging aspect of crony capitalism is its tendency to discourage equitable distribution of resources and income at a time when such traits are central to economic success. Crony capitalism promotes monopolization of economy, the growth of social injustice and inequality, creating obstacles for development of entrepreneurship, degradation of healthy competition and provokes corruption.

There are one of the two opposing solutions that have been put forth to prevent crony capitalism. That solution is to increase government regulation of businesses. Opponents of this option however point out that large corporations and the politically well-connected have too much influence on the legislative process because, more often than not, the politicians and gov-

ernment bureaucrats involved in that process are not able to withstand that influence. The second solution to truly stifle the mechanisms of crony capitalism is to remove the ability of the government to hand out favours and create transparency and openness in government spending. It is necessary to prevent corruption by using of effective anticorruption practices of the world countries. These measures will lead to a more transparent and equitable distribution of income that helps to improve the welfare of the population and increase the rating of the country in many respects, including the ease of doing business. Thus, in the absence of crony capitalism, the economy is based on free market economy and as a result it leads to more competitive ability. Until this problem has a tendency to increase. In near future we will have more questions and discussion of solving this problem because crony capitalism will become a global problem.