

SWAMINOMICS

Jugaad is our most precious resource

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People ask me, what exactly is jugaad? Global management experts attribute India's rapid economic growth to jugaad. In a recent survey by the Legatum Institute, 81% of Indian businessmen said jugaad was the key reason for their success.

Many years ago, innovative Punjabis mounted a diesel irrigation pump on a steel frame with wheels, creating a vehicle they called jugaad. It was ultra-cheap but did not conform to vehicular regulations. Over time, jugaad came to mean grassroots innovation to overcome any constraint.

In the West, innovation is done by scientists using expensive equipment. In India, it's done by every housewife, farmer, transporter, trader and industrialist. It does not require high-spending R&D: it simply needs creativity and imagination. Anil Ambani once said Reliance succeeded through innovation, not invention.

One avatar of jugaad is what management gurus call "frugal engineering", exemplified in the Tata Nano, the cheapest car in the world. India's telecom companies provide calls at Re 1 a minute, the cheapest in the world. Narayana Hrudayalaya and Shankara Nethralaya provide the cheapest heart and eye treatment in the world. Indian reverse-engineering of patented drugs is also frugal engineering.

Some management experts warn that jugaad uses any means, legal or illegal, to get a job done. They say bribery and manipulation must not be confused with genuine creativity.

I disagree. The creativity in unethical activity is, with rare exceptions, not fundamentally different from the creativity that yields frugal engineering. The incentives and rewards of the political-economic system determine whether creativity is used mainly for unethical profit or heroic productivity.

The hawala market, for instance, is used by drug lords for money laundering. But it is also an example of jugaad, enabling poor migrants to remit money across countries, faster and more cheaply than any formal bank system. Hawala was legal for centuries before modern governments declared it illegal.

Dhirubhai Ambani was the master of jugaad. The licencepermit raj made it impossible for him to progress legally, so he exploited the corruption and cynicism of the system.

He exported junk to get profitable import entitlements. He created industrial capacities vastly in excess of licensed capacity. He imported huge textile machines as "spare parts". He engineered highly profitable changes in rules for polyester imports and telecom licences. The jugaad he used to overcome hurdles was not distinguishable from crony capitalism.

Yet when the licence-permit raj gave way to a more open and deregulated economy, Dhirubhai used the same jugaad to scale dizzying heights of productivity and become world class. His giant refinery complex in Jamnagar had the highest refining margins in the world, beating the Singapore refineries. He converted to reality his vision of making telephone calls cheaper than a postcard.

Dhirubhai showed that manipulation and world class productivity are two sides of the same coin called jugaad. If governments create business constraints through controls and high taxes, jugaad will be used to overcome those hurdles. But if deregulation abolishes these hurdles, the main business constraints become lack of quality and affordability, so jugaad shifts to improving productivity, quality and affordability. That ultimately makes you world class.

Jugaad is amoral. If laws are oppressive, jugaad will seek ways round the law. Yet this amorality kept Indian business alive in the 1970s when controls were buttressed with income tax of 97.75% and wealth tax of 3.5%. Honest businessmen would have been taxed into bankruptcy. But jugaad, including innovative tax dishonesty, kept Indian business alive, and enabled it to surge when economic policy moved away from insane socialism.

Socialist politicians viewed themselves as golden-hearted geniuses who knew better than greedy Marwaris about what should be produced. Nobel Laureate Friedrich von Hayek pithily called this "the fatal conceit".

India may not have ample natural resources like oil or copper. But it has jugaad, which is more valuable. Natural resources like oil are often a curse: they can lead to government kleptocracy and authoritarianism. But jugaad helps foil government kleptocracy and authoritarian regulations.

Socialist planning was supposed to optimize use of India's resources. But it assigned no value at all to the marvelous innovativeness and enterprise of Indians in every branch of activity. Five-year plans sought to optimize financial resources, mineral resources (like coal and oil) and administrative resources. But they sought to crush enterprise and jugaad, the most precious resource of all. That has now been liberated by economic reform, and the value of jugaad has gained worldwide recognition.

The delivery of government services — education, health, infrastructure — remains terrible. Here too socialist control needs to be replaced by jugaad. Alas, politicians and socialist ideologues will not allow it.

