

Reengineering India

REENGINEERING is a corporate buzzword today. It stands for a radical restructuring of organisations to make them more effective. This is achieved by getting rid of the unnecessary baggage which organisations tend to accumulate over time. The usefulness of reengineering, however, is not limited to business enterprises. Mahatma Gandhi reengineered India's oppressive and archaic political, economic and social structure. The time has come to re-think India's social and economic system once again.

Refocussing organisations to concentrate on their main goals, often require cutting out processes that do not contribute to that goal. Restructuring implies some discontinuity and pain, even if it is carried out for the success and revitalisation of the organisation.

Mahatma Gandhi, an astute politician, wrote the book on reengineering India. He considered the village to be the optimal economic unit and identified activities and technologies that would make it viable.

Decades after Independence, many villages remain unviable as economic units. Except for a few in Gujarat, Maharashtra and Punjab, the benefits of economies of scale remain beyond their reach. The quality of village production often tends to be mediocre and the productivity low by international standards. Rural industries that depend on agricultural produce are in poor condition. The successful ones are located in cities and large towns, depriving villagers of gainful employment and growth.

We must begin restructuring, first in villages with the help of technology and economies of scale. India has achieved miracles with the Green Revolution and numerous irrigation projects. These helped the country to increase and equalise incomes and also cut the disparity between yields from rabi and kharif crops.

As rightful owners of land, villagers should have more control in determining the inputs they need and the outputs they plan. Perhaps, some form of voluntary co-operative may be an initial answer to increase the profitability of the labour of villagers.

Many Indian businesses are sick with overdue loans, lack of capital, obsolete technology and a large, poorly trained and unmotivated work force. Some of these

The costs of economic activity have to come down in India. V Arunachalam and Shyam Sunder suggest how villages and cities can trim the flab



firms operate in industries in which India should have had a comparative advantage. Others continue to exist because they were once relevant and productive, but cannot be shut down. Since many such firms are owned by the government, there is also a recurring debate on the role and ownership of public sector companies.

The key question about public sector firms relates not to ownership, but of their performance, profitability and the distribution of decision rights. The state has failed them. Instead of encouraging these companies to be efficient and competitive, it provided subsidies, and tariff and licence protection from losses. Often these companies are run by remote control by bureaucrats from headquarters elsewhere. These people often have little understanding or expe-

We must begin restructuring, first in villages with the help of technology and economies of scale

rience of their products or markets, and little motivation to ensure their long-run profitability.

The state patronises the work force, making them continually dependent on handouts, without concerns of profitability or individual

performance. Slogans of *swadeshi* and self-reliance ring hollow when the state imports products that can and should be manufactured indigenously with a better formulated industrial policy.

The first priority of public sector units should be to focus on what they can do well. Restructuring need not lead to loss of job if the companies improve their technology, production and profitability. Loss of jobs in some instances is a necessary price of better quality and efficiency. However, better quality and efficiency will gener-

ate more jobs throughout the economy. Creating public sector jobs is the least effective action the government can take to generate employment. It would do better to train the young in job skills, retraining the unemployed, and erect a social welfare net to protect the unemployed.

Mahatma Gandhi chided textile mill owners to act as trustees and not as greedy and petulant rulers of industries. The state is acting today as a flustered and incompetent parent of the units it owns. As a trustee, it would care where the money goes and what should be done to generate wealth. There is not much capital to waste any way. Refusal to restructure the state-run units may buy transient social peace, but will destroy the future of our children.

In our two earlier pieces, we emphasised the importance of cutting transaction costs. The cost of capital is converging across countries, and India's labour costs are low. But for high transaction costs, India could be a highly competitive manufacturer and exporter of goods.

Every transaction takes much time, hassle, uncertainty, and money. Imagine the wasted time and resources required to do thousands of little things of daily living and doing business. Poor infrastructure, costly services, neglect of efficiency and the value of time, all add to transaction costs. Many services routinely available in other countries are absent in India.

Automation that would have increased efficiency and transparency is blocked by some interests through misguided fears of its impact on employment. One has only to drive through the mile-long traffic jams of hundreds of trucks at excise checkpoints to recognise the redundant and archaic administrative structures that add huge (and avoidable) costs to the Indian economy.

In 1996, India earned the dubious distinction of being listed among the ten most-corrupt countries in the world. Unless transaction costs are cut, Indian goods will continue to be unnecessarily costly. India can and should re-engineer itself, and reach higher. The Mahatma showed us the way. And we have miles to go.

The authors are associated with Carnegie Mellon University, USA. Mr Arunachalam is ex-secretary, DRDO and scientific advisor to the ministry of defence.