Indian Railways: Has It Really Reformed?

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Less than a decade back, there was a widespread feeling that the railways had entered a declining phase from which it could be difficult to disentangle and get back on track once more. The Rakesh Mohan Committee Report pointed this out very emphatically with a rider that things could improve provided certain hard decisions were made. Obviously, from a political perspective, such decisions were not easy to take. As a result, the report and its recommendations appeared to have been kept in cold storage. No one, at least in railway circles, talked about it since then.

Turnaround Strategy

Given the arrival of Lalu Prasad on the scene of decision-making in 2004, it was expected that the reforms suggested by the committee would be buried forever. The next five years saw the railways minister and his team devise a strategy which has brought about the (so-called) turnaround of the railways. Though a certain (a positive one too) direction has been given to the working of the railways, it has not been realised (or rather recognised) that many of the elements involved in the process have been very much a part of the recommendations of studies stretching from the early 1980s to recent times. In fact, a new publication penned by a civil servant, currently the minister’s most trusted aide, claimed that the entire process served the political mandate well, wherein lay its success. It is easily recognised that good politics is based on good economics and vice versa, with each reinforcing the other. How else can the emphasis on the railways’ core business of transportation be interpreted? The interim railway budget for 2009-10 that was presented last week reflects the optimism generated by such a focus, adopted during the past five years. We look at the interim budget in terms of the positive features that have emerged and also the challenges that have been thrown up in the course of the turnaround.

Poor investment decisions or under-investments on the part of the railways in the past have been major constraining factors in improving physical and thereby financial performance. But equally constraining has been the suboptimal use made of assets that have already been built up. Rao and Sriraman (1985) observed this in the context of an attempt to understand the extent and nature of disequilibrium prevailing on the Indian Railways in regard to the provision of services. For a long time, supply procedures prevented fuller utilisation of capacity on the system. As a result, the substantial surpluses required for expansion of facilities and services could not be generated. Sriraman (2000; 2002) pointed this out more emphatically while trying to examine the revenue implications of a suboptimal utilisation of existing capacity.

Turnaround Strategy

Fortunately, during the past decade, attempts have been made by the railways to increase asset utilisation as a result of which the tonnage lifted and thereby the revenues have gone up substantially, providing a basis for the expansion of the asset base which is badly required in certain parts of the system. Some non-conventional thinking and a strong commitment to follow the road less travelled has made it possible to exploit the inherent economies of scale that were waiting to be tapped all these years. And this has happened both in freight and passenger movement. All the railway budgets for the past decade or so (more so after 2004) have reflected a certain determination to enable this to happen within the framework of the restructuring process that has quietly been undertaken during this period (Sriraman 2007; 2008).

Bulk Movement Business

The organisation has registered an excellent performance in freight loading and earnings till September 2008, the growth rate being 10% more than that during the corresponding period in 2007-08. The formation of a strategic business unit within the organisation that deals exclusively with the crucial bulk movement business is reaping dividends and could soon be
expected to place the railways in a position to be able to prevent more diversion to the roads if not as an aid to a reversal of some movements to the railways. Though some shortfalls (in particular movements) are expected during the rest of 2008-09 due to recessionary trends, the overall situation is likely to be only marginally worse off than expected with reasonable surpluses being generated. However, it must be recognised that the days of higher growth rates in freight loading and movement (or even sustaining the current movement) may soon be over in the absence of additional effective capacity. It is quite possible that the next two years or so may witness stagnation in freight loading. Internal sources suggest that the wear and tear in facilities is already high and pose major safety problems which officials claim to ignore and even overlook. On the other hand, they proudly record a significant improvement in safety in terms of the declining number of railway accidents during the past five years or so. Recessionary trends are useful in such situations and enable organisations to build this badly required capacity, especially in terms of the line and track capacity.

The budget reflects continuing efforts that are being made to technologically upgrade the system in a number of dimensions. Superior types of wagons are being designed to raise rake capacity by nearly 80%. Modernisation of the network is also expected to raise sectional capacities by increasing speeds and permitting higher loads. The Dedicated Freight Corridors – on two of which work has already begun and can be expected to be in place in two years – could take care of seamless movement of freight in the absence of interference from passenger movement. However, apprehensions have been raised about these corridors relating to viability of these projects, especially when we take into account the fact that they may have to compete with existing corridors on the Golden Quadrilateral, provided, of course, the railways limit existing corridors to passenger movement.

**Passenger Services**

The across the board decrease in passenger fares to the extent of 2% seems to be more by way of a parting gift from the minister rather than any attempt to draw some political mileage out of the move. It would have been wise to confine even this reduction to the lower classes since such reductions in higher class fares could lead to a reduction in revenue given the nature of demand for trips made in these classes. It is obvious now that there is only very limited competition between the railways and airlines. We have always maintained that it would be useful to raise passenger fares at least marginally every year so that the cross-subsidisation burden on freight movement decreases, and by offering competitive rates on freight, the railways are able to control, if not stop, the movement towards road transport. But any increase in passenger fares must be backed up by an improvement in service quality. Efforts towards this objective require a far more systematic strategy (even when compared with the strategy on freight movements) with the necessary elements in place to monitor service levels. Although, railway budgets have continued to emphasise, year after year, the importance of quality of passenger services, efforts in this direction have been inadequate as reflected in the widespread dissatisfaction amongst the travelling public, especially on long distance movements. Mere availability of tickets through local area booths or the internet is hardly the response to the passengers’ requirements. There has to be a paradigm shift in effectively providing a host of simple services to the common passenger on trains.

The budget announced action on a feasibility study to run bullet trains between Delhi and Patna and such studies would also be undertaken for other corridors between major cities. Some preliminary work done by various agencies has provided some estimates. With these high-speed corridors expected to be elevated ones, the cost per kilometre of the infrastructure facility has been estimated to be Rs 500 crore. For instance, that would mean an expenditure of the order of Rs 1,00,000 crore for the corridor between Mumbai and Pune. While the response to the proposal has been positive, it appears that this is so without a real understanding of the implications of these enormous plans. Zipping through the countryside at 300 kilometres an hour
does seem an attractive and even a romantic proposition. They do it in Japan and in Europe, some devotees say, why not in India so as to relieve airport and highway congestion?

The railways admit that they are not in a position to fund these projects fully. The alternative would be a public-private partnership (PPP) as has been adopted in the case of the highways. It is well known that many of the sections of the Golden Quadrilateral of the National Highway system in India, which have been taken up by the private sector, are still far from viable and have required a good deal of funding from the public exchequer based on additional cesses and levies. All this has happened partly because traffic has not materialised to the extent that was visualised. The problem has always been that traffic estimates have been exaggerated. This may be true of daily commuting estimates which are normally expected to be a substantial part of the total movement in the case of bullet trains.

Need to Upgrade

From a social point of view, the railways are best suited for long distance movement while roads are more effective for short distances. Given that this has been established in many studies all over the world, it would indeed be foolish to undertake high speed rail services on the proposed short distance corridors. Moreover, having decided to go in for dedicated freight corridors in addition to the existing quadrilateral of the high density rail corridors it would indeed be difficult for the railways to provide the alignments (even on an elevated basis) without really acquiring space for such developments.

What India needs is upgradation of its railway system, especially on long distance routes, which involve crucial movements of different commodities. This may require a more network extensive of dedicated freight corridors than the one that has been proposed. Equally important is the need to expand the commuter transit services in the urban areas, besides, of course, providing for seamless movement of people on an inter-regional basis. These responses can be expected to provide solutions to movement problems rather than bullet trains which may be a romantic solution in search of a problem.

REFERENCES


