PRIVATISATION IN INDIAN RAILWAYS – HISTORICAL FACTS

Indian & International experience proves that Railways are functioning only with Government's support; there is no proof for private railways' economic efficiency.

K.V.RAMESH, Sr.JGS/IRTSA

First Railway line in India was opened on 16th April 1853 between Boribunder (Mumbai) and Thana. In south the first Railway line was opened on 1st July 1856 between Veyasarpaudy and Walajah Road. By 1882, the Indian Railway system had a route km of 16,333.

Private Railway companies undertook contract to construct & manage specified Railway lines. Secretary of State for India (under British) provided land free of cost and guaranteed return on capital, the rates varied between 4.5% and 5% per annum. On terminating the leases at the end of 99 years, a fair value was to be paid to companies by Government for rolling stock, plant & machinery, etc. Government could also purchase these companies after 25 or 50 years.

There was high criticism both in India & in England that, the terms of contracts were unduly generous for British investors at the expense of the Indian Tax payers. State guaranteed profit resulted in companies' extravagant & wasteful construction.

Sir.John Lawrence, a former Viceroy of India stated in 1873 that, *"I think it is notorious in India among almost every class that I ever heard talk on subject, that the Railways have been extravagantly made; that they cost a great deal more than they worth, or ought to have cost".*

Attempts to construct Railways by private investors at their own risk and cost, by providing land free of cost and a specified subsidy for a given period, were failed. Two unguaranteed Railway Companies, the Indian Branch Line Company & the Indian Tramway Company, began their work, but unable to proceed without assistance from the Government. Finally Government entered into contract guaranteeing interest on their capital at 5% per annum.

For several years from 1869 capital expenditure on Railways was mainly incurred directly by Government. After sever famine in 1878 to facilitate rapid expansion private enterprises were allowed to the extent possible. But Government's endeavour was to secure all Railways in its own fold, whenever it had the right to terminate original contracts. Majority of private Railways were taken over by Government between 1879 and 1907. Companies were allowed to operate on contract where the property belonged to Government. These contract working were terminated in due course between 1925 and 1944 and the management of Railways in India was taken over directly by Government, further Railways owned by different Indian states were also integrated. In 1951 & 1952 Indian Railway system was organised with six major zonal administrative units with 53,689 route km. As on 31st March 1974 IR system was having 60,234 route km with 9 Zonal Railways.

First edition of Indian Railway Administration & Finance 1976, describes main objectives of Railway Management as,

i. To provide transport for both passengers and goods adequate to meet demand in areas where railway operation confers optimum benefit to the economy, having due regard to the Government's policy of development of backward areas.

ii. To provide rail transport at the lowest cost, safety of operation & least amount of pollution of the environment.

iii. To work in association with other modes of transport.

iv. To establish corporate image of the Railways, up-to-date business organisation with the interest of public.

v. To develop organizationally effective personnel & management.

All these objectives are very much relevant even today.

Indian Railway network has increased to 67,368 route km as on 31st March 2017. Out of these only 22,021 route km are provided with BG double/multi track carrying bulk of traffic and 5781 route km remains as MG/NG track scattered across Indian Railways affecting the through connectivity. Over the years many of the decisions on constructing new railway line and converting all MG/NG tracks as BG were taken mainly based on socio economic conditions, political reasons etc, definitely not based on the chances of making profit. Many of the Railway projects started even during the liberalised market economy era are not brining profit to Railways.

International experiences also prove that Railways need Government support & finance. Germany's two passenger train organisations, DB Long-distance and DB Regional, benefit from government financial support. By the Constitution, German Government is required to retain majority of rail infrastructure. In South Korea, under the Korail Act of 2005, Korail was established as a public corporation, owned by the government. Government offers financial support and provides guidance on policies and operations. Korail operates all the long distance lines in South Korea as well as local lines. Japan gives lump-sum subsidies for low-density Railways. Management Stability Fund (MSF) was established for passenger trains in Hokkaido, Shikoku, and Kyushu islands, where the population was low.

International experiences also prove that when Railways were given in private hands, they have operated only profit making lines and tried to close down loss making lines. For example, USA in 1980 enacted the Staggers Rail Act following the bankruptcy of private railway companies. The law allowed all rail companies to more easily abandon unprofitable rail lines and set its own freight rate. In 1997 the Amtrak Reform and Accountability Act of 1997 was enacted. This Act provided that Amtrak (a) would no longer be a government corporation or hold a rail passenger monopoly; (b) would be allowed to add new routes and close money-losing routes; (c) would receive approximately $2.2 billion in Taxpayer Relief Act funds; and (d) would have to achieve operational self-sufficiency, in other words capital investment will not be borne by private railways.

In India, if rail operation is thrown open to private companies, they will try to tap only 22,021 route km railway lines which are provided with BG double/multi track carrying bulk of traffic. Majority of remaining 45,347 route km will be ignored and there will be skeleton operation if not full closure. So instead of expansion railway will shrink. Efficiency of private train operators will be established wrongly in the name of achieving operational profit, without taking into account majority capital expenditure. Private companies will be extended with invisible financial concessions & other benefits as done in the case of low fare airliners & airliners under regional connectivity scheme to connect tier two cities by air.

Private companies are not ready for long term investment. Based on the socio-economic and political reasons Modern Coach Factory Raebareli was sanctioned in the year 2006. Initially it was envisaged as a Joint Venture. Since Railway couldn't find any partner, later on it was made as wholly Railway owed production unit and could start its production in 2016, ie 10 long years from sanction of the project.

Dr.Bibek Debroy also agreed with the fact that, private sector participation in IR was not successful for the reasons of high costs and lower returns, policy uncertainty, lack of a regulator to create a level playing field, the lack of incentives for investors, and procedural/operational issues. Ie, it is clear that private companies will be looking for instant profit, rules suitable only for them and incentive/subsidy from Government.

Government collect taxes from its citizen to spend it back for citizens. If Government does its investment directly on the Railway, it will incur only direct cost. If Government privatise Railways, cost of interest on the money borrowed by the companies, cost of incentive/subsidy extended to private companies, profit margin, etc will be added to the direct cost, finally citizens ending up in paying higher cost, hence even after utilising tax payers money citizens will be charged more for the same service.

It is not proved anywhere, that private companies install, operate & manage Railways 100 percent on their own. All Rail companies depend heavily on Government's support. In India Government owned Railways can only take care of needs of various regions, economically forward or backward, thickly populated or less populated, developed or under developed, hill terrain or desert or sea shore, disturbed area near international border, etc. Indian Railways as a full Government entity only can integrate & serve the nation of diversity. All the economic experts should accept the fact that basic objective of the Government is to serve the people, not offering profitable business to private entrepreneurs and Railway is a service should be owned and operated by Government 100 percent.