

Speech of the Railway Member

introducing the

Railway Budget for 1933-34.

The first Railway Budget which it has fallen to my lot to present to this House unfortunately covers a period of economic depression, unexampled within recent times in the severity and extent of its incidence. That the Railway estimates should reflect that depression is of course inevitable. But there are legitimate grounds for hope that we have at last touched rock bottom and that though recovery may yet be delayed, we have in all probability experienced the worst. On that assumption, we have built our estimates.

2. It is usual to preface the statement on the estimates of the year by a mention of any important changes that may have been made in the form of the Demands placed in the hands of Hon'ble Members. Two such have been made in the structure of our Demands for Grants on the advice of the Public Accounts Committee, and with the approval of the Standing Finance Committee for Railways. The first is the amalgamation of the Demands for strategic lines and commercial lines. The present system of having separate demands has not been found conducive to efficient control of expenditure. Strategic lines are administered as an integral part of the North Western Railway system, the expenditure on the whole of which is initially booked in one set of accounts. Only a small portion of this expenditure can be directly allocated to strategic lines; the major part being distributed between strategic railways and the commercial railways forming part of the total system proportionately according to certain formulæ. The Public Accounts Committee recommended that separate Demands for Grants for strategic lines should be done away with, but that information about the results of the working of strategic lines should be given in a separate appendix to the Book of Demands. We have adopted both these recommendations. The other change of importance is that we are showing in one Demand the total expenditure on open line works, whether the expenditure is technically met from the Depreciation Fund or charged to Capital. The past practice was originally adopted in order to emphasise the different sources from which funds were obtained. In so far as it was adopted for the purpose of controlling expenditure, the practice has, however, proved entirely ineffective, because the expenditure from the Depreciation Fund being a fixed amount, *viz.*, the original cost of the asset replaced, cannot be controlled separately. The system of having separate Grants has resulted on many railways in necessary adjustments between Capital and Depreciation Fund being postponed for fear of exceeding the Grant. Here too the Public Accounts Committee and the Standing Finance Committee for Railways were unanimous in recommending the change. The information available to the House in respect of these works will not, however, be reduced in any way; as in the combined demand the expenditure charged to capital will be shown separately from the expenditure met from the Depreciation Fund. Demand No. 10 will henceforth be utilised only to record temporary withdrawals from the Depreciation Fund, and I trust the occasion on which we shall have to use it will be rare. A third change of less importance is the addition of a new Demand for interest charges. Hitherto, interest charges

have not found a place in the Demands for Grants, because the total expenditure was non-voted. From 1933-34 it has been decided that railway revenues should bear a share of the total cost of the management of specific railway debt proportionate to the railway debentures or loans appropriated for specific railway purposes. Hitherto this had been merged in the total expenditure on management of debt in England and met from general revenues in full. Similar charges in respect of debt not specifically incurred on behalf of railways are already being met from railway revenues as the rate of interest charged takes these charges into account. This amount is votable and a Demand will consequently be placed before you for the small amount of just under 3 lakhs involved in this change. We have also made minor changes in the appendices to the memorandum on the railway budget which I shall leave Hon'ble Members to discover for themselves; I need only say that they have been made in order to increase the information available to this House.

Hon'ble Members will no doubt notice, and, I hope approve, the change in the size of the pamphlets placed before them. The Pink Books, which used formerly to be of foolscap size, have now become octavo. The change combines economy with convenience.

3. May I venture, though probably it has by now become unnecessary to do so, to remind Hon'ble Members that when notices of motions for reductions in Demands are given it would be convenient if, following the usual practice, they would indicate briefly the questions which they intend to raise? It lightens the task of Government Members, who have to reply to these points and at the same time enables them to give fuller information to the House than would otherwise be possible.

Financial results of 1931-32.

4. Before I proceed to deal with the anticipated results of this year and the next, which primarily concern us at present, it will probably help to a better understanding of the general financial position if I first deal briefly with last year's results. These did not differ materially from the revised estimate framed this time last year, but whatever difference there was was fortunately on the right side. The loss in the working of commercial lines turned out to be $7\frac{1}{2}$ crores, or a quarter of a crore less than anticipated, and that on strategic lines just under 2 crores. The total loss of $9\frac{1}{2}$ crores was met to the extent of just under 5 crores by the withdrawal of the uninvested balance of our reserve fund and the remainder $4\frac{1}{2}$ crores, was taken as a temporary loan from the Depreciation Fund.

Revised estimate for 1932-33.

5. In dealing with the estimates for 1932-33 and 1933-34, I propose to follow the recommendations of the Public Accounts Committee and deal with commercial and strategic lines together. The results of the latter are more or less constant, being a loss of very near 2 crores a year and do not therefore affect comparisons on any considerable extent. Though the budget for 1932-33 was not framed on any optimistic basis and anticipated a total deficit of $7\frac{1}{2}$ crores, of which $5\frac{1}{2}$ crores was on commercial lines, our present anticipations are that the results will be $1\frac{1}{2}$ crores worse. The deterioration is entirely due to a further fall in earnings. The assumption that the volume of traffic obtained last year would not diminish has unhappily been falsified. A temporary recovery which continued through many weeks raised hopes that our budget estimate might be reached, or even exceeded, but later events proved that our hopes were premature. The position grew

rapidly worse, and our present estimate of traffic receipts is $2\frac{1}{2}$ crores below our budget figures. Allowing for the difference of classification of credits from materials returned from works not charged to revenue, we expect to fall about a crore and a third below last year's figures.

Our working expenses, on the other hand, are not expected to vary greatly from our budget estimate. Though our estimate of the savings from the emergency deductions from pay has been found to have been too high by very nearly half a crore, most of the consequent increase in our expenditure is likely to be met by reductions under other heads, particularly in the cost of fuel. Our interest charges, moreover, are less by about three quarters of a crore owing to the fall in the rates of interest, and our total loss on all lines including 2 crores on account of strategic lines, is now expected to be $9\frac{1}{2}$ crores, a figure only slightly above the loss of last year. This sum we have to withdraw from the Depreciation Fund. The balance at the credit of that Fund, which was nearly 15 crores at the beginning of the year and which will be increased by about 8 crores owing to the net accretion due to the surplus of our payments into the Fund over withdrawals from it to meet current replacements and renewals, will in consequence be reduced to $13\frac{3}{4}$ crores.

Budget estimate for 1933-34.

6. For the year 1933-34 we estimate that our total traffic receipts will be $88\frac{1}{4}$ crores and our total working expenses, including depreciation, just over 63 crores. Net traffic receipts will thus amount to nearly $25\frac{1}{4}$ crores. Our other receipts are diminishing as a result of the gradual reduction of our balances in the Depreciation Fund and will be practically counterbalanced by our miscellaneous charges. Taking all these into account, we calculate that our net revenue will be insufficient to meet our interest charges by about $7\frac{1}{4}$ crores. This deficit (of which $5\frac{3}{4}$ crores is in respect of commercial lines) has again to be found by a temporary loan from the Depreciation Fund, which will stand at the end of 1933-34 at $13\frac{3}{4}$ crores.

In the hope that we have plumbed the lowest depths of the present period of economic depression and we may anticipate a slight recovery, we are placing our estimate of traffic earnings about $1\frac{1}{4}$ crores or barely 2 per cent. above the current year's figures. This is practically what was actually received in 1931-32, and in view of the fact that during 1933-34 our rates of freight and fares will be at an appreciably higher level than they were during the greater part of 1931-32, I do not think that these estimates can be considered as unduly optimistic.

We estimate our working expenses next year at 25 lakhs higher than in the current year. The reduction by a half of the emergency cut in pay, after allowing for the fact that we shall no longer have to pay to the Income-tax Department the compensation we paid this year in respect of the exemption of railway staff from payment of the additional taxation imposed in November 1931, is responsible for a difference of 67 lakhs. Our estimates allow, however, for a reduction of other expenditure amounting to 42 lakhs, of which more than half is in our fuel bill. We have had to provide for a certain amount of additional expenditure on repairs and maintenance in order to maintain our existing assets in good repair, but we hope that our other operating expenses classified under the heads Administration and Operation will show a substantial decrease. Both during the current and in the past year the gratuities payable have been abnormally high owing to the large number of discharges that we had to effect. The result of these discharges on the cost of staff will be fully reflected in the expenditure for the next year, and we

have assumed that the decrease due to this cause will be at least sufficient to counterbalance the normal increase in expenditure caused by the annual increments earned by the staff. This reduction in expenditure during 1933-34 can, however, only be secured by the exercise of the most rigid control, and railway administrations will have to see that no relaxation of the economy campaign is permitted.

7. In laying these estimates before the House, I would only say that if they produce at first a depressing reaction, a more careful and detailed appreciation of the figures which are available to Honourable Members will, I am sure, result in the more comforting conclusion that, considering the conditions under which our railways are now operating, their financial position, as disclosed by these figures, is one of considerable strength and undeniable soundness. While we remember that during the two years 1930-31 and 1931-32 the deficits of Indian Railways have amounted to over 14 crores and that the estimated deficits of the next two years bring up the total to over 31 crores, let us not forget at the same time that during the first six years of this decade they earned a total surplus of over 52 crores and that the net result of these ten years after the separation of railway finances from general finances will thus be a total surplus of 21 crores. Like other railways all the world over, Indian railways are for the moment passing through a period of almost unprecedented difficulty due largely to world causes. They have suffered considerably from causes which are common to all railways, but they are not the only sufferers nor indeed the worst sufferers. A careful analysis of our position will, I think, reveal the fact that there is nothing radically wrong in it. Our net traffic receipts at present amount to about 24 or 25 crores. This means that on their capital of about 800 crores Indian Railways are still earning more than 3 per cent., which is what few other railways in the world are today in a position to do. Nor must we forget the fact that this figure of net traffic receipts is arrived at after providing for the full calculated depreciation on our assets, and that the amount paid into the depreciation reserve fund is at the present moment about 8 crores higher than the amount required during the year to meet that portion of our expenditure on renewals and replacements which the fund is expected to meet. If, instead of taking the calculated amount of depreciation, we were to take only the actual amounts required to be drawn in cash from the fund during the current year, our net traffic receipts would have amounted to 32 crores. This would have given a return of 4 per cent. on the capital invested, and our total deficits during the two years, taking both commercial and strategic lines together, would have been reduced to barely a crore. Taking commercial lines alone, we should have had profits of over 2 crores. I doubt whether any railway in the world of a comparable character could at the moment show such results.

8. I turn next to a few matters of interest which I think are of sufficient importance to merit specific mention.

First, let me advert to the subject of our new Capital expenditure during the coming year. Our capital programme for 1933-34 is a very attenuated one. Apart from the completion of our existing commitments, it provides only for bare essentials. No new lines are to be undertaken, the amount of 32 lakhs provided for new construction being only for the purpose of completing lines already begun. The total amount we expect to require for all expenditure on works not charged to revenue is 9½ crores in cash after allowing for a reduction of about 1½ crores in stores balances. Apart from the strengthening of a few bridges which we have had to undertake, the only important expenditure of any magnitude is on the purchase of a number of wagons in replacement of those which have passed

their normal lives and are proving uneconomic to maintain. We are providing for the purchase of 2,500 wagons at a cost of about 90 lakhs. While this is expected to reduce our cost of maintenance of wagons, it will afford assistance to the Indian wagon building industry at a time when orders are badly needed. I should like here to refer in passing to the suggestions that have been made from many quarters that Government should take the opportunity presented by the present comparatively low rates of interest and low prices of material, to embark on a larger programme of railway construction and development. It is undoubtedly true that the fall in the rate of interest has made certain projects which we had to lay aside as unremunerative in recent years more attractive. At the same time, it must not be forgotten that the question of the remunerativeness of new constructions will now have to be examined afresh with reference to the rival claims and possibilities of road transport much more carefully than in the past. It is, for instance, a question for careful consideration whether the facilities sought to be provided by short branch line extensions of, or feeders to, existing lines, to which a good deal of attention has been paid in India in the past, cannot be more profitably supplied as part of a co-ordinated scheme of road development. An era of cheaper money would certainly necessitate our re-examining with care and attention many schemes which would have resulted in a reduction in maintenance or operating costs, but have had to be laid aside because they were not considered remunerative when higher rates of interest prevailed. All these investigations and examinations will take some time and cannot affect the next year's budget. They will, however, receive our careful consideration, and the House may rest assured that when we come to the conclusion that it is wise and in the interests of railways and the country at large to undertake capital outlay of any sort on railway construction and development, we shall not hesitate to take the earliest opportunity of laying such proposals before you or the Standing Finance Committee for Railways.

9. There have not been wanting critics of our Depreciation Fund procedure who have suggested that one of the ways in which we could secure relief for the railway budget at this juncture is by reducing our contribution to the Depreciation Fund and that our present contributions are not only unnecessarily high but are unduly embarrassing in our present financial circumstances. These criticisms cannot be lightly brushed aside. In the ten years since the inception of the fund, i.e., during the decade 1924-25 to 1933-34, the amounts paid into the fund aggregate 122 crores, while the amounts required to be withdrawn from the fund under its rules as representing the original cost of unit assets renewed or replaced total 87 crores. Had circumstances not compelled us to take temporary loans from the fund, the balance at the end of 1933-34 would amount to about 35 crores.

The railway depreciation fund is built up by annual contributions representing roughly the value of the various classes of wasting assets included in our railway property divided by their assumed lives, different lives being assigned on basis of the past experience to each class. Such contributions are continued throughout the whole period of the assumed life of each asset, irrespective of when it is actually retired or replaced. The original cost of the asset is withdrawn from the fund when it is actually retired or replaced. Ordinarily it is to be expected that, in an expanding concern like Indian Railways, the withdrawals from a fund of this nature under present circumstances will be considerably less than the contributions to it; for the latter depend on the assets existing at present whereas the former depend on the assets in existence a number of years ago which are due for renewal or

replacement at the present moment. For instance, the contribution in respect of wagons depends on the number and value of wagons in existence now, whereas the actual replacements are proportionate to the stock of wagons as it was some 40 years ago—this being their estimated normal life—and is based on the cost at that time. Again, we have been, of recent years, replacing assets bought when prices were comparatively low and paying contribution on assets bought at higher prices. Finally, Indian Railways are still comparatively young; many of our assets have still a long useful life and their turn to be renewed or replaced has not yet come. On the other hand, it has to be remembered that no provision was made at the inception of the fund for arrears of depreciation while money has been withdrawn to meet the cost of all renewals, and we had a comparatively ambitious programme of works in the years immediately following the institution of the fund. Premature renewals have also been effected to a certain extent. Taking all factors into consideration, however, the size of the fund gives cause for serious reflection. It is not surprising to find that the view is held in some quarters that the assumed lives of the assets on which the contribution is calculated are too low and that therefore the annual contribution is excessive. This was considered by the Railway Retrenchment Sub-Committee who thought that it was probably desirable to have a special enquiry into the assumed lives of assets on railways on the basis of past experience but were unable to recommend any arbitrary variation apart from such an enquiry which they suggested should be left to experts. They drew attention to the fact that the contributions do not take into account obsolescence and that they aimed at providing at the end of the assumed lives only the original value of the asset and not the actual cost of replacement. I am not sure that we have at present enough data at our disposal to arrive at an authoritative conclusion on this question, though comparative figures which I have seen in respect of one of the largest English railways do not appear *prima facie* to support the suggestion that the lives assumed for the various classes of assets of Indian railways are unduly low.

On the other hand, it is possible to argue that the Depreciation Fund is really a Reserve Fund under another name, that, whatever may be the amount required theoretically to be put by, such considerations can apply only to normal times, and that it is doubtful whether a commercial concern in similar circumstances would provide as a matter of course for the full calculated depreciation in times of abnormal financial strain like the present. As I have already pointed out, our deficits for the two years 1932-33 and 1933-34 amounting to 17 crores are counterbalanced by allotments to the depreciation reserve fund in addition to actual requirements, to the extent of 16 crores. If we take commercial lines alone, the position is that the additional allotments amount to 15½ crores against our deficits of slightly over 13 crores. This is obviously a question which calls for careful examination.

Apart altogether from these financial considerations, it has been pointed out that the present procedure in connection with the Depreciation Fund is far too complicated and can, with advantage, be replaced by a simpler method. The Auditor-General has recently drawn attention to this in his comments on the Appropriation Report of Railways where he says:—

“It has also been suggested to me that it is questionable whether the maintenance of elaborate accounts in the present form really serves any essential purpose and that it would be more economical and might be as effective to maintain a general renewals fund built up by percentage contributions on the capital at charge.”

All these questions deserve careful and detailed examination, and it is our intention to have the whole of the arrangements connected with the Depreciation Fund investigated thoroughly during the coming year. In this connection, we have also to consider the point raised by the Public Accounts Committee this year, that it is desirable to have an early settlement of the permanent basis on which works expenditure should be charged to capital, to the Depreciation Fund, and to revenue. It is obviously desirable that the question of withdrawals from the depreciation fund should be considered along with the method of contributions to it. I have thought it desirable to refer to this matter at some length because of its intimate bearing on our financial position, but I cannot of course express any, even tentative, views in advance of the full examination that we propose to institute:

10. We have applied the decision arrived at in regard to cuts in the pay of the Administrative Services to the personnel of the Railways. During the coming year, therefore, Railway Staff will be subjected to half the cut imposed on them during the current year, but this will be accompanied by the withdrawal of income and supertax privileges. The financial result will be a reduction in the savings in the coming year from about 176 lakhs net, after allowing for payments of compensation to the Income Tax Department, to 103 lakhs, while the combination of half the existing cut with the loss of the income-tax privileges will in effect secure, speaking generally, a graduated scale of salary deductions. It may be the subject of some criticism that we should have thought of giving any relief to Railway employees while our budget still showed a deficit judged according to present accounting methods and arrangements. The reply is that the maintenance of the existing deductions in the case of Railway servants while half the cut was remitted in the case of the General Administrative Services would have resulted in such markedly differential treatment as could hardly have been justified by the anticipated financial results for the coming year. Railway servants of the lowest grades, in consequence of their service in a commercial department, have hitherto been called upon to submit to deductions from which comparable categories in the general services were exempted. They must still unfortunately continue to bear a burden, though a lightened burden in view of economic conditions, but the arrangements proposed for the current year will shift to some extent the general incidence of that burden. This partial relief to Railway employees must not be construed as indicative of any slackening in our efforts after economy.

11. Hon'ble Members are already cognisant of the fact that Mr. Pope who has had special experience of this sort of work on the London, Midland and Scottish Railway is conducting an examination of the possibilities of securing further economies on our Railways. The subject of his special examination is the Great Indian Peninsula Railway, and with him are associated officers from other Railways, so that the methods adopted and the lines followed in this particular investigation may be applied to other Railways. His review will, it is hoped, be ready very shortly, and if, as a result, arrangements promising immediate economies and capable of immediate adoption are possible, no time will be allowed to elapse before we adopt them. In any case, we expect that the most fruitful lines of further enquiry will be indicated, and these will be pursued in the coming months. In this way we hope to achieve a twofold object, firstly, the discovery of further means of economy, and secondly, the preparation on uniform lines for all the railways of a body of accurate figures and information as to the costs of various services and as to the methods of working, which will not only enable us to check up and compare the economy

efforts made on the different systems throughout India, but will also provide the data on which the expert Committee, which we still hope to get out next winter, will be able to work.

12. We have unfortunately sustained serious losses in personnel during the year. It is with deep regret that I have to refer to the loss the Railway Rates Tribunal has sustained in the death of its Chairman, Sir Narasimha Sarma, and I would like to add a personal tribute of regard and respect to the memory of one who was once my official chief. The Railway Board has also recently lost, through retirement, its senior Member, Mr. Hayman who will long be remembered for his untiring energy and extraordinary capacity for work. In conclusion, I would wish to acknowledge the loyalty and assistance I have received from all those connected with the administration of the railways with whom I have had to work. Nor must I in this acknowledgment forget those on whom rests the immediate responsibility for the day to day running of the great machine who have had a specially difficult burden to bear.