

# RAILWAY RATES POLICY

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# RAILWAY RATES POLICY

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**RAILWAY RATES IN RELATION TO TRADE AND INDUSTRY  
IN INDIA.**

**LEATHER INDUSTRY: ITS TRANSPORT PROBLEM.**

*In Press:*

**TECHNIQUE OF MODERN COMMERCIAL POLICY.**

**INDIAN RAILWAYS.**

## PREFACE

Transport is a vital factor in the material welfare of modern society. The structure of trade and industries in particular is determined by the efficiency and sufficiency of the transport facilities available. Of the different transport agencies, railroads have played an important part in determining the economic and social development of a country. The utility of a railroad system to the community depends largely upon the nature of the rate structure.

In the pages that follow, I have attempted to portray in broad relief the more important features of the Indian railway rates policy in the light of modern railway practice. It provides an introduction to the detailed study of "Railway Rates with special reference to Trade and Industries," which I published three years ago. I hope that the essay will provide a proper basis for an informed discussion of our rates policy. It is hardly necessary to reiterate that the railway rates policy is of great importance to this country at the present stage of its economic development, a period of industrial transition and economic re-birth. Rates policy will play an important part in shaping the industrial structure of India, more so because India is a sub-continent, where goods need means of transport, like those of canals and rivers, are relatively scarce. Hence there is an imperative need for a proper understanding and appreciation of the railroad rates policy.

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**Importance of Transport.**—Transport plays an important part in our economic life. Transport service facilitates the satisfaction of wants, which are the basis of all economic activities; it assists alike the production, consumption, exchange and distribution of wealth. The creation of the products of the soil is of little use unless those products are transported to the centres where they may be transformed into finished goods. They should be fashioned into a form suitable for the satisfaction of human wants and made accessible to the consumers. Thus the creation of place utilities is an essential function of transport. Transport services have also a say in determining the location of industries. The location of some of the most important industries in the major port towns of India is largely due to cheaper transport facilities they are able to enjoy. Transport also furthers exchange. By linking together farthest parts of the world transport has widened the scope of markets and stimulated specialisation and mass production. No wonder that economic interdependence between nations and social welfare has considerably increased as a result of improvements in the means of communications. The distribution of wealth has no less

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been affected by the increased efficiency of transport facilities. Rents, both agricultural and urban, have appreciably risen with the efficiency of the transport system. Both productivity and location, which determine rent, have been materially affected. Further, with the development of transport facilities economic resources, otherwise untapped, have been better utilised and the productive capacity of those already in use considerably augmented. With this increase in capital resources, the transport facilities have also helped to widen the scope for investment of capital, though the rate of increase in capital resources and the avenues for investment has often varied. Transport facilities have increased the efficiency of labour and raised wages, which are determined by the marginal productivity of labour. The entrepreneur has also benefitted inasmuch as his field of activity has been considerably widened and now his skill can have better scope and higher reward. The consumer has gained immensely from the improved transport facilities, which have helped to reduce the cost of production of goods and services and increased their variety. In short, all sections of the community have profitted from the improvements in the efficiency of transport facilities. Modern transport, with its regularity, safety, speed and promptness, has become one of the most essential adjuncts of modern society; it is a most powerful agent of progress.

**Nature of Railroad Transport.**—Transport service, the importance of which has been briefly noted in the preceding paragraph, is rendered by different types

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of organisation and in different forms known as rail, road, river or canal, ocean and air. Monopolistic nature of railways differentiates them from all other transport undertakings; it is an epitome of all their peculiarities. It is essential to analyse the nature of monopoly with special reference to railroads so as to locate precisely the peculiarities of railway transport. Modern conception of monopoly is the unified single-handed control of the supply, marked by clear absence of competition. Competition may be suppressed through co-ordination and amalgamation, in order to definitely control prices. It needs to be noted that large-scale production, large-scale management, or grant of privileges do not of themselves prove the existence of monopoly. The acid test of monopoly is power to regulate prices.

Prospect of high profits is a spur to monopoly. The monopolist, obviously, so regulates the supply as to get the maximum monopoly gains. So the monopoly price is a price calculated to yield maximum net returns to the monopolist. The monopolist can and does succeed in compelling the public to pay continuously, for the commodity or service supplied, a price higher than warranted by free competition. But, the monopoly price, though usually higher than the corresponding competitive price, may at times be lower than the competitive price.

A monopolist may not exact from his customers maximum monopoly gains and may charge a price lower than the competitive price with a view to development of his business in future. Here the motive force impelling the monopolist to charge lower

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price is far from philanthropic; there is a complete conciliation between the interests of the monopolist and his customers. He sacrifices a portion of his immediate gains in order to get more than proportionate gains in future. When so functioning the monopolist is like those savers of capital who postpone the present enjoyment of their savings to some future date so as to get additional income on their savings in the form of interest.\* It is with this aim of encouraging the shippers that railway managers are often seen to carry a part of their traffic if it covers its bare supplementary costs. Some times they haul materials at a loss even.

When the monopolist is at complete liberty to charge any price he likes for the service or commodity offered by him he is said to possess an absolute monopoly. But this power to fix price is generally limited. The limitation in the monopolistic power arises either because the monopolist does not possess dominant control over the supply, or, even if he has the power to manipulate supply to suit his self-interest, he has to consult the nature of the purchasers' wants and their ability to pay. If, however, the monopolist fixes his price subject only to the ability and willingness of the purchasers to pay, he will make the purchasers pay all they are willing to pay rather than go without the commodity or service desired. The upper limit, as fixed by the purchasers, beyond which the monopoly price may not rise, does not sufficiently restrict the power of the monopolist. The fear of

\* The development of his own business by developing the business of his customer, at a sacrifice of present to future profits, is more readily practiced by the monopolist than by the entrepreneur in a regime of free competition, as the monopolist has an assurance that the fruits of sacrifice will not be snatched by the competitor.

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buyers' strike is not enough to constitute partial monopoly. The more important limits are those represented by Government regulation.

Having studied the nature and limitations of monopoly in general, we shall now analyse, in the light of preceding discussion, the nature of railroad monopoly.

Railroad is an industry of heavy fixed investments; large amount of capital is sunk in it.\* In industries where fixed charges are relatively higher, because of the large capital investments, competition is ruinous. This is so because it is desirable to increase the volume of business upto a certain point of maximum capacity, in order to spread the fixed charges over a great volume of production.† Better and more effective utilisation of the plant benefits alike the railroad and the shipper. Here increased production is aimed at and hence competition is ruinous. Such industries are technically known as natural monopolies of organisation.‡ Railroad is a natural monopoly and the waste of duplicate equipment by competitive lines is obvious.

Railroad is a typical industry of decreasing costs. The interest on the capital invested as well as the

\* "The largest Railway Company of the United Kingdom is saddled with a capital of upwards of £.200,000,000 sterling, but there is not a single British Steamship Company whose capital even approximated to £.10,000,000. And the total volume of Mercantile Marine of United Kingdom which comprises no less than 18,250,000 tons of shipping is only about £.150,000,000. Yet the shipping carries on some where about one half of the ocean transport business of the whole world." Kirkaldy and Evans, "History and Economics of Transport" p. 3.

† Taking the cost of maintaining the permanent way, station and the station staff at a fixed figure, and the supervision and general charges as constant, and the cost of repairs to rolling stock the same as in the case of long and short distance traffic, and the running expenses at a fixed figure per hour per day, it is apparent that more a wagon earns per day the better it is for the railway.

Ghose, S. C.: "Monograph on Indian Railways", p. 373.

‡ Transport as a whole is a natural monopoly of organisation.

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proper upkeep of bridges, tunnels, etc., is a fixed charge. Of the operating charges only a part varies with the volume of traffic carried. The proportion of fixed charges being higher, the cost of handling traffic goes on falling until the maximum capacity of the plant is reached.

Railroads, however, do not possess an absolute monopoly. The very fact that the railway industry is a business of "decreasing costs," the tendency to compete, with a view to secure greater traffic, is inherent in its very nature. The existence of decreasing costs is an incentive to competition because the profits increase more than proportionately to the enlargement of traffic. Agreements and consolidations do not stop this tendency of railroads. They are apt to compete by the offer of better transit.\*

The so called "competition of markets" is the best indication of the competitive tendencies in the working of railroads. The producers from different countries of the world, from different parts of the same country, being customers of different railways, compete against each other in common markets. This tendency towards competition has been strengthened by the reduction in cost of transport and rapid development in transport facilities, creating a single world market, available for every producer. Things being produced for a distant market, the carrier has a common interest with the producers it serves, being itself a joint producer with them, and hence lowers its charges in order to help them to compete successfully. This co-relation between the interests of the

\* See Edgeworth's "Papers Relating to Political Economy", Vol. I, pp. 186-87.

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shipper and the carrier is significant. Railways foster industries and industries feed railways. Both absolute and relative level of freights is adjusted. If a carrier offers lower rates on its lines it will be an incentive to other industrialists served by other carriers to demand lower rates lest their rivals may exterminate them. Today even a slight advantage possessed by an industrialist in production, which includes the transport facilities he commands, is enough to enable him to drive out his rivals from the field.\* *Ceteris paribus*, that road will secure the greater number of industries and have more rapid development of local traffic whose local rates are the lowest. This is an important limitation on the monopoly of railroads.

The competitive forces, which prevent the railway manager from becoming an absolute monopolist, prevail not only among carriers, but in the whole industrial world. Industrial competition, which controls the mobility of capital seeking investment and directs its flow, holds good in the case of railway industry with equal force. But there is a difference in the degree of mobility in the case of railroad investment.

**Railroad capital immobile over short periods.**—In the railway industry mobility of capital holds good only over long periods; over short periods capital is immobile. If a merchant has invested his capital in

\* Speaking of the importance of transport for industrial development Prof. Taussig says: "With the widening of the markets due to cheap transportation, the price of this very transportation became of crucial importance. Success in business was possible only to the man who got as low rates as his competitor. Favours in rates might easily mean a fortune. The railway traffic manager could make or unmake this man or that town." This was by far the strongest reason which led to the State regulation of rail-roads.

Vide, *Principles of Economics*, Vol. II, p. 401.

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a business from which capital can be withdrawn without substantial loss he will suspend his business temporarily or permanently if it becomes unremunerative due to competition. But competing railroads cannot do so easily. A competing railroad is compelled to work its lines even though it does not get any profits at all. To this is due the ruinous competition between railroads. In their eagerness to get more traffic the railroads not infrequently offer reduced rates to large shippers. But due to the sensitiveness of the modern industrial mechanism favoured rates offered to one shipper immediately cause vibrations and affect the entire system, so that other railroads are of necessity led to follow the suit, because rather than let any particular item of traffic go elsewhere, the railway manager will accept any rate which yields something, however slight, over and above the operating expenses incidental to that traffic.\* This is so because very little of the capital invested in a railroad can be withdrawn; it is sunk once for all and irrecoverable. Besides, many of its expenses are independent of traffic. Three fourths of the expenses continue even if it stops working. All the savings that can be effected are direct operating expenses, which bear a very low proportion to the heavy fixed charges. Last but not least is the fact that the railway plant

\* In their attempt to secure a fair share of this competitive traffic, railroads deliberately bring up a shipper as their agent and foster him with favoured rates. With the aid of favourable transport facilities he easily attracts business from his confederates in the same line and in no distance of time becomes the sole magnate of the business. So far the interests of the railway were admirably served. But these favoured shippers, having waxed strong and rich, asserted their newly acquired position, and the railroad management realised that instead of agents they had created masters. These large shippers with their business running on a huge scale could dictate the railroads, by playing off one competing railroad against the other. The most conspicuous case to the point is that of the Standard Oil Company of New York.

For further details see, Ripley : Railroad and Railway Problem.

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is of very little use in any other business.\* All these facts clearly demonstrate that railroads are committed to their task. So, when the railroads begin to compete they forget business ethics and make reckless rate wars. History of railroads shows that an insolvent railroad ruins not only itself but also its rivals. This has pernicious effects upon the business morality of the community.

This relative short-period immobility of railroad capital does not place the railways at the mercy of the shippers. Industrial competition protects railways from being exploited either by the shippers acting in combination or by the State. Railway is identical with the capitalist seeking most profitable investment. Capitalists finding profits below the natural level back out of an industry in such wise that supply being reduced prices rise and the remaining members in the business obtain adequate profits. Though this mobility of capital in the case of railroads is true only over long periods, nevertheless it is very important. The extent to which railroad capital is immobile the investor is deprived of the advantage of industrial competition.

But the need for fresh investments occurs from time to time, and it is then that the investor is given the opportunity to exercise his selection and if he finds that investment in railroads is not remunerative he will withhold his investment and direct it to some better field. Thus the construction of new lines will be discontinued and the quality of service provided

\* "If the railway is not useful as a railway, it is useful for nothing else. It represents sheer waste of capital, a well sunk without finding water, a ship built and fitted that will not float....."

Acworth, W. M., "The Elements of Railway Economics", P. 12.

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on the old lines will deteriorate. In every progressive community the demand for transport services is ever rising and if artificial restrictions curtail the supply, the prices will rise, thereby inviting new industrialists or those already in the field to improve the transport service. Thus railroads are industrial enterprises entitled to fair remuneration on their investment. † Neither the shippers nor the carriers possess complete monopoly.

**Railroads: Public Benefactor.**—Railroad is a public service industry. Public utilities are generally natural monopolies of organisation which produce commodities or services that are essential. Substitution on the part of consumers is as difficult as competition on the part of other producers. Every one must have water, light, heat and transportation service. Social welfare depends on public utilities, because of the nature of their services. Their products or services must be had at any price, and competition cannot be relied upon to fix a just price in the sense of cost of production. The very nature of the service offered by the railroads implies an obligation on their part to safeguard the public welfare.\*

**Railroads: Public Beneficiaries.**—Public utilities hold a peculiar position because of their economic, social and legal status. Public service industries require a special legal grant known as franchise, a right to do business which is quasi-public in character. Besides, state confers upon them certain privileges

\* "In fact the people have a right to demand that the street, railway, the gas, the electric light, and the water services shall be so performed as to further the larger ends of social welfare."

See, Rowe, L. C.: "Problems of City Government", pp. 272-73.

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and rights; they possess "eminent domain." Railroads are quasi-public servants and owe higher duties to the public than almost any other business concern.

Railroads, owned by public or private corporations, are public carriers rendering public service. The function performed, no matter who is the agent, is that of the State. Even if the ownership is private the use is public. Chief Justice Hale, of the Supreme Court of the United States, has held that when private property is affected with public interest it ceases to be *juris privati* only. So the manager of a railway is not merely an officer of a private corporation; he holds a dual position as the servant of a corporation and as the manager of a public service. The railway manager should undoubtedly be guided by self-interest, but it should be enlightened self-interest. An "exiguum clinamen," to put in Prof. Edgeworth's words, from egoistic motives is enough.\* His aim should be to harmonise the interests of his corporation with those of the public, and provide for adequate service, efficient operation and fair profits. In so far as he shrinks from his duties, he calls for state regulation. State is in duty bound to safeguard alike the interests of the carrier, the individual shipper and the general public. Attempts should be made to combine the security of the monopoly with the stimulus of competition, for the danger of monopoly lies not in its existence but in its abuse. There should be enough stimulus for competition, but at the same time cut-throat competition should be regulated.

\* "The altruistic motive need not be strong in order to be effective. An 'exiguum clinamen' from the direction of egoistic purpose may result in a considerable benefit to the customer."

Vide, Edgeworth, Vol. I, p. 191.

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**Nature of Railroad Competition.**—Railroad competition is of three different kinds: competition of routes, competition in facilities and competition of markets. The competition of routes may be taken first. This sort of competition between different railway systems has distinct attributes of its own. It is essential to note that this form of competition is limited to activities of carriers alone. Here competition is determined by identical commercial conditions both at the points of origin and of destination. The competition may be between alternative routes or parallel routes. There are two or more different routes linking the points of origin and of destination. The transport agencies serving these points may be different railway systems or other agencies like rivers, canals or coastal shipping. Such competition is not common to more or less parallel lines or to same transport agency. For instance, in India the era of competition between railways was for the first time ushered in by the Rajputana-Malwa Railway and lasted till the outbreak of the Great War. But, due to State supervision, construction of competitive lines was regulated, with the result that competition between Indian railways has been relatively insignificant. There are, however, even today some interesting examples of route competition between Indian railways, particularly with reference to port traffic, even when the competing railway systems are under common ownership. This competition adversely affects the economic development of the country. Low station-to-station rates to and from the port towns quoted by the different railways facilitate the growth

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of foreign trade at the cost of internal trade.\* Equally instructive illustrations of route competitions between the railways and waterways in India are also available. Railways in India have tried to crush water competition to the detriment of national interests. For instance, Tirumalavasal port competed successfully with South Indian Railway for rice traffic to Colombo by sea. But the S. I. Ry., entered into an agreement with the B. I. S. N. Co., whereby the boats of the latter company ceased calling at the port. The traffic was diverted to the S. I. Railway. Not being content with this diversion, the S. I. Railway requested the Government of India to close the port.† Another important illustration is the Broach case. In 1900 a steamship service was started between Bombay and Broach which diverted traffic to Bombay from all rail route to rail-cum-sea route, the latter being cheaper notwithstanding the transshipment cost. The Railway Board permitted the B. B. & C. I. Railway to levy "block rates" in order to prevent traffic moving by the alternative route.‡ Where such competition is confined to railways alone, it must inevitably lead to traffic agreements or merger. If the competition is between alternative routes, served by different transport agencies, it may lead to trial of strength and ultimately elimination of the alternative route, as happened in the case of Broach Steam Service. It cannot be denied that alternative routes are invaluable for the growth of trade and commerce and the state should regulate the unfair competition

\* Vide, R. D. Tiwari: "Railway Rates in India."

† Vide, Report of the Acworth Committee, Vol. III, pp. 186-88.

‡ Ibid. Vol. III, Para. 5867.

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between them to secure efficiency and economy of transport services. Even parallel routes, under certain circumstances, are very useful. Passenger traffic over shorter distances can be catered for by both railways and roads running parallel to each other. At times it is in the interest of railways themselves to run parallel road services. This is true of Indian railways under present circumstances. Fair competition between both alternative and parallel routes should be permitted.

The second form of competition is in respect of facilities offered by the carriers. Here the rates charged by the competitors are the same, but the facilities offered differ ; attempts are made to attract traffic by offering better facilities. This form of competition often arises when the contestants cannot vary rates due to rating arrangements or traffic pools. Such competition may arise between the same transport agencies or between different carriers in respect of the same traffic. For instance, in India roads compete with railways in respect of passenger and goods traffic for relatively short distances, though the rates charged are the same, by offering better facilities. It is desirable to encourage this form of competition as a spur to efficiency and more so in a country like India where the railways, right from their inception, have been impervious to public opinion.\* The facilities on Indian railways need considerable improvement in this direction† and the attitude of the railway authorities needs a radical change.

\* Vide, Dr. N. B. Mehta, : Indian Railways.

† For detailed review see Report of the Indian Railway Enquiry Committee, 1937 Chapter XII.

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Another important form which competition between carriers may assume is in respect of markets, known as the competition of markets. In essence this form of competition between carriers is indirect and often obscure. It plays an important part in the determination of freight rates. Like alternative routes there are alternative markets. Railroad managers have to help their constituents, the manufacturers and businessmen, in their competition for markets by quoting suitable rates. In this case, two or more manufacturers compete for certain markets and the railways help them by charging lower freights. An advantage in respect of transport costs, however slight, which a manufacturer or businessman has over his rivals, proves invaluable to him and strengthens his capacity to compete successfully. This sympathetic attitude of the railways towards their constituents is due not to any philanthropic motives on the part of the managers concerned but is dictated by enlightened self-interest. Economic prosperity of the railroads is closely linked with that of the manufacturers and businessmen they seek to serve ; the factories on the lines must be kept working. With those of the manufacturers, therefore, an enlightened and shrewd railway manager identifies his interests and becomes a party almost to the contest. In such cases railway rates are determined by the intensity of commercial competition and the railway managers do not have much say. Prof. Ripley rightly remarks that railway managers often do not make rates at all. Their energies are centred on the analysis of those circumstances by which their rates are made for them. Railway managers must be

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by the side of the industrialists once competition starts.

**Joint Cost.**—Another salient feature of railroads, which plays an important part in the determination of railway rates policy, is that costs are incurred jointly. The presence of the element of joint cost permits some discrimination in rates charged to consumers with differing intensities of demand even after railroad capacity is best utilised. As Mr. Wallace puts it, the existence of joint cost prevents uniformity, or equating of marginal utility and average cost of each unit of service or products.\* The most important element which prevents the equating of marginal utility and average cost is a fixity of proportion in the railroad services available to meet the demands of different consumers. For instance, the provision of facilities for transportation in one direction involves making available roughly the same capacity for carriage in opposite direction. Further, the investment of capital in railroad industry is to a certain extent joint for production at different times. The provision of transport facilities made at a particular time, if not used at that time, cannot be stored for use at a future date. There are seasonal variations in the intensity of demand for transport services in certain direction. The provision of transport facilities adequate to satisfy greater demand during the busy seasons will not be fully utilised during the slack season. Similarly, if the volume of traffic in one direction is greater than that in the reverse direction, the transport equipment will not be fully utilised in its return journey. Hence the

\* Mr. Wallace, D. H. : "Quarterly Journal of Economics" 1924, pp. 583-619.

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need for discrimination in the sale of services at different times or in different directions determined by the intensity of demand—a lower rate when the intensity is low and vice versa.

**Specialised Investment.**—Part of the railroad equipment is specialised to serve particular demands; it can be used only for a definite purpose and no other. Coaches suitable for passenger traffic cannot be readily and economically used for the transport of goods. Besides, some kinds of freight requires more specialised equipment. Railroads have to make special arrangement for transporting petrol; it cannot be carried in ordinary wagons. Similarly, locomotives, and guards are to some extent specialised. To the extent to which the investment of capital in railway industry is more or less specialised the proportion in which railroad services are available cannot be varied. The essence of joint supply is the inability to vary the relative capacities except in the same proportion. This does not mean that the capacity available is invariable. Adjustment of supply to changes in demand takes time; immediate alteration in the specialised equipment to meet changes in demand is difficult.

Thus some of the salient features of railroad industry have been briefly outlined in the preceding paragraphs. They play an important part in determining the structure of rates. The question is how should the rates be determined so as to promote the best utilisation of the railroad plant and maximum service to the community. From the preceding analysis it will be seen that railway industry is marked by the presence of large overhead costs which permit dis-

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crimination in rate making. The presence of monopolistic elements in railroad enterprise also promotes discrimination. Further, the element of joint cost justifies some discrimination in rates charged to consumers with differing intensities of demand. Being public utilities, discrimination in railroad rate making should be so regulated as to provide adequate and efficient transport facilities consistent with the economic working of the railway system. In fact, efficiency and utility of the railroad system varies according to the pattern of discrimination on which the rate structure is based. The discovery of right pattern of discriminatory rates is essentially a slow process ; result of a continuous process of readjustment.

**Rate—Making in Practice.**—The general economic test of desirable production is equality between marginal utility and cost. To ensure efficient and economic working of an industrial enterprise careful consideration must be paid for marginal costs. Railway industry, though a public utility is no exception to this general rule. Each unit of a transport service must be able to fetch a price sufficient to cover its differential or marginal cost.\* In other words, the rates charged by the railway administration for a particular service rendered must cover at least the additional cost incurred in rendering that service, which would not have been incurred if that service had not been rendered. A rate lower than the differential cost of the service is economically undesirable and dangerous. Economically it is desirable for a railroad to

\* The term 'Marginal Cost' means that amount of cost which would not be incurred if one less unit of business were carried, and which is occasioned by the transport of this unit.

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carry only that traffic which pays its differential cost and contributes a share towards the overhead costs as well. Under certain circumstances the railroads, being public utilities, ought to go a step further and lower down their rates on certain traffic to an amount which just covers the differential cost of carriage. Below this the railway rates should not be lowered, because the railroad would incur definite loss by carrying a traffic which does not pay its differential cost. The loss thus incurred, the railway administration would try to make up by raising the rates on other users of railroad services. Such a rate structure would amount to a tax upon one class of users for subsidising another class. This would prevent equating of marginal utility and average cost even after the railroad plant is fully utilised, and the railway administration has been able to get normal returns on capital and enterprise. Under such a rate structure the traffic which is being taxed will either be reduced or its future growth obstructed. The users with greater intensity of demand are thus prevented from purchasing that quantum of railroad service the marginal utility of which equals its cost; at the same time another section of users is permitted latitude to purchase railroad services the marginal utility of which is less than its cost. Such a rate structure has far-reaching effects, the implication of which it may be difficult for a layman to gauge. The most obvious economic effect of such a rate structure is the distortion of the distribution of economic resources among the industries using railroad services. The investment of capital in industries which are

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thus taxed will receive a setback. Whereas the investment of capital in industries which are permitted to use railway services at a price lower than the differential cost will be increased as a result of this subsidy. Actual divergence from the proper investment of capital, as a result of such a faulty rates policy, will depend upon the importance of railroad transport in the structure of individual units of production and the amount of tax or bounty as the case may be. Further, the railroad administration itself will be adversely affected by such a faulty rates policy. A 'proper rates policy' tends to bring about an ideal investment of capital in the railroad enterprise; the network of railways, their capital equipment, and the services rendered are adequate to meet the demand of consumers. The equilibrium between demand and supply for transport services tends to be established. Under an improper rate structure, however, the investment of capital in railroad industry might be larger than the ideal if a fairly heavy tax is levied on a relatively small quantum of high grade traffic, in the form of very high rates, and from the proceeds thereof a large volume of low-grade traffic is subsidised. On the other hand, if a heavy tax, in the form of inordinately high railway rates, is imposed on a large volume of remunerative traffic, it would check the development of this valuable traffic which would have increased under somewhat lower rates, the investment of capital might be less than the ideal. Such a rate structure will obstruct equality of marginal utility and average cost, which is the fundamental test of economic production.

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The marginal or differential cost determines the lower limit below which no rate charged for a given railway service should go; this is the minimum charge. If a unit of traffic cannot bear this charge, it is in the best interests of the community that it should not be carried. To repeat, it is in the public interest that a traffic which pays its marginal cost should be carried, even though it cannot afford to contribute towards the overhead costs, and the public regulation of railroad enterprise should under certain circumstances secure this, though railways may show reluctance to cater for this traffic. Another class of traffic which pays a rate adequate enough to bear its marginal cost and leaves some surplus to meet the overhead costs, though less than proportionate, should be definitely encouraged by the railways in their own self-interest, and if they fail to do so, the state should compel them to revise their rates policy. For, there is a large volume of valuable traffic of relatively low grade, like raw materials, certain minerals and food-stuffs, which cannot bear its full cost of carriage. This traffic, if called upon to bear its full cost of transport, would cease to move, and the result would be a serious setback in the economic and social development of the whole country.\*

A proper rates policy permits traffic to be carried which either just bears its marginal cost or contributes

\* "From the point of view of income, we come to the conclusion that, as the expenditure belongs almost entirely to the line as a whole, it is impracticable to fix rates with any approach to accuracy on the basis of what the traffic costs to carry. And further, if it were possible, it would not be expedient or in the public interest. For to charge against each category and item of traffic not only its own special costs, but also its full share of general expenses and interest on capital, would mean to shut out from carriage much traffic that in the interest of the community ought to be carried; it would mean, further, a great restriction of the total volume of potential traffic, and so a higher average rate on the traffic actually carried."

View, W. M. Acworth: "The Elements of Railway Economics," p. 99.

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less than its proportionate share towards the overhead costs, and at the same time secures reasonable returns to capital and enterprise associated with the railroad industry. The pro rata deficit in overhead costs, which receipts from relatively low-grade traffic have failed to make up, the railroads are permitted to recoup by charging the high-grade traffic a rate higher than its proportionate cost. Thus, the high-grade traffic makes good the deficit in overhead costs, and enables the railroad administration to earn normal profits on the total investment. It is desirable that high grade traffic should pay more than its proportionate share towards the overhead cost because its ability to bear the transport charge is greater. Further, if the low-grade traffic is cut off by higher rates and its contribution towards the overhead cost ceases, the high grade traffic will have to cover up total overhead cost and pay still higher rates. Further, the charge which high grade traffic may be called upon to bear has a limit, for inappropriately high rates must either check the development of this valuable traffic or lead to over-investment of capital in railway industry. No charge should be so high as to restrict the flow of traffic. In other words, a rate charged by railroads should not be higher than the value of the service rendered.

Thus there are two basic principles in rate making : the cost of service to the railway administration and the value of service rendered to the shippers. The lower limit is determined by the cost of service and the upper one by the value of service rendered. These two broad limits are true of every individual rate.

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Between these two limits the railway manager is permitted sufficient latitude to make full use of his judgment and foresight in formulating a proper rate structure which would render maximum service to the community and at the same time earn fair return on capital invested in the railroad undertaking.\* On the nature of the rate structure depends the economic development of the country. A proper railway rates policy can render invaluable aid in promoting the industrial development of a country, particularly in a sub-continent like India, with long distances and relatively inadequate alternative means of communication. Per contra, a short-sighted and ill-thought-out rates policy will cause an irreparable damage to the economic system, which might for a time remain imperceptible to the public. For, a railway manager can successfully tax the consumers by imposing inappropriately high rates and offer apparent justification of the policy by showing that the traffic continues to move at that rate, and the mischief of this policy will be little understood by the public, so long as the traffic is not diverted or destroyed. Thus the railway manager, entrusted with the task of formulating the rates policy, wields considerable power and can use his discretion to help or mar the development of trade and industries; the margin within which a rate in practice may be placed is fairly wide. The task of discovering a proper pattern of discriminatory rates is extremely difficult and calls for a very high degree of skill, foresight, courage, alertness and judgment

\* "The limit of reasonable charging is not a definite point but a margin within which the rate may be placed any where and it is here that the traffic manager has scope for using his power of judgment."

N. B. Mehta : "Indian Railways", p. 73.

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on the part of the railway manager. The men at the helm of railroad enterprise should, therefore, be very carefully selected and the misuse of power scrupulously guarded against. Railroad manager must have good grasp of the economic conditions of the country, working of the railway system, and be imbued with a national outlook, which alone will enable the community to extract maximum out of the iron-horse.

To sum up, in railroad industry strong monopolistic elements are combined with large overhead costs and some jointness, which necessitate discrimination in rate-making. A proper pattern of discriminatory rates would be evolved only under state regulation, because in the absence of such regulation the rate structure would reflect chiefly the degree of monopolistic power possessed by the railway administration, rather than the degree of discrimination determined by the nature of joint cost and the degree of utilisation of the railroad equipment. A proper rates policy must reflect the extent of jointness and the proportion of under-utilisation. An unregulated rates policy would retard the economic development of the country. Further, wherever joint costs prevail, the average rate should be adjusted in keeping with fluctuations in demand. To secure maximum utilisation of railway plant, under fluctuating demand, the rate structure must be sufficiently discriminatory. Again, railway policy should attempt to secure relative stability of rates through seasonal fluctuations. Right degree of stability can be secured by a railway manager, who is endowed with great foresight and judgment and bases his policy on a careful study of

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statistical data. An absolutely stable and rigid rate structure, in face of wide and prolonged fluctuations in demand, would be inappropriately high and lead to colossal waste in the form of unused capacity. This would be detrimental to the interests of trade and industries. Large fluctuations in demand must be reflected in rate variations. It is desirable that the railway manager should be satisfied with that degree of stability in rates which brings him normal returns on the average during the period of high and low demand. Above all, a proper rates policy should provide maximum, efficient and economic service to the community, at a price which covers at least the marginal cost of every unit and on the whole enables the railways to get fair returns on their capital investment.\*

### **Railroad System in India: Its faulty Construction.—**

The credit of being the first promoters of railroad enterprise in India rests with the British capitalists, who formed two private corporations in 1845, known as the "East India" and the "Great Indian Peninsula" railway companies, authorised to construct railway lines from Calcutta to Raniganj and Bombay to Kalyan. But these Companies found it very difficult to raise the necessary capital in the absence of a Government guarantee, and it was feared that if the

\* "In truth, though we have personified the management and imagined a man fixing a complete system of rates, no one man, and indeed no combination of men could erect such a system off hand from the foundation. It can only grow gradually, developing here and changing there, as the country itself develops, and its industry and trade are modified by time and circumstances. But the guiding idea of the management remains the same throughout. Each rate has, as we have seen, its own maximum and minimum. All the rates must among them cover all the expenses and leave, if possible, sufficient margin to pay interest on capital at the normal rate. Inter se, the rates must be so adjusted that each item of traffic bears its fair share of the total cost of the entire railway service."

Vide, W. M. Acworth: "The Elements of Railway Economics," pp. 73-74.

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Government did not extend the guarantee the projects would have to be abandoned. The guarantee was believed to be the *sine qua non* of railroad extension in India. The Government of India was ready to help the sponsors of railroad development in view of the military, political and commercial importance of a network of railways in this country. The difficulty arose from the attitude taken up by the Home Government; they did not support the principle of State guarantee.

It was Lord Dalhousie who brought the scheme of railway construction in India into actual fruition. He strongly stressed the need of a network of railways in India and favoured the introduction of British capital and enterprise for the same. A far-sighted statesman, Lord Dalhousie, had fully realised that the new British India he had created, knitting together the disconnected and distant areas, resulting in an extensive territorial homogeneity, by his forward policy of conquest and annexation, could be made safe only if the collective resources of all the parts were available for the protection of the whole. Railways are of immense political importance. He had visualised the fiction of controlling India mainly from the sea-board, and the strategic superiority which a network of railway lines, connecting different inland strategic positions with each other and with the ports, would impart to a country of long distances. He realised that swift despatch of troops would increase the effective military strength, for it has been aptly remarked that the strength of army lies on its legs. He had gathered invaluable

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experience as the President of Railway Board in England and was convinced that in a far-reaching scheme of Empire, consolidation formed the necessary complement of conquest. Dwelling upon the political interests which the development of transport facilities would promote, Lord Dalhousie wrote : " It cannot be necessary for me to insist upon the importance of a speedy and wide introduction of railway communication throughout the length and breadth of India. A single glance cast upon the map recalling to mind the vast extent of the Empire we hold ; the various classes and interests it includes ; the wide distances which separate the several points at which hostile attacks may at any time be expected ; the perpetual risk of such hostility appearing in quarters where it is least expected ; the expenditure of time, of money and of life, that are involved in even the ordinary routine of military movements, would convince the urgency of speedy communication." Thus it is evident that military and political considerations dominated the schemes of railway construction.

In his zeal for military consideration, Lord Dalhousie did not fail to appreciate the commercial and social advantages which would accrue from the introduction of railways and that they would be invaluable. " The commercial and social advantages," he wrote to the Court of Directors of the East India Company, " which India would derive from their establishment are beyond present calculation. Great tracts are teeming with produce they cannot dispose off. Others are scantily bearing what they would carry in abundance if only it could be conveyed

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whither it is needed. Every increase of facilities for trade has been attended, as we have seen, with an increased demand for articles of European produce in the most distant ports of India. . . . "Thus Lord Dalhousie had gauged the important part which India could play both as a supplier of cheap raw materials to the British industries and as a valuable market for their finished goods. It should be noted that by 1850 Britain had become the workshop of the world; she had discarded protection and taken to free trade in keeping with her economic requirements, which her newly developed industrial structure warranted. It is difficult to agree with those who hold the view that Lord Dalhousie "desired India to reap the similar benefit which the introduction of railways had conferred upon Europe."\* In European countries, and elsewhere, railway systems have been planned and constructed primarily with a view to promote national development of the countries concerned and the nature and cost of construction are strictly determined by the economic requirements of the people, though military and political needs have not been ignored. The aims of the sponsors of railway development in India were radically different. The Indian railway system was planned and constructed to serve primarily the military and political needs of a foreign conqueror, who wanted to maintain the army of occupation and maximise the efficiency of military movements with a view to check "hostile attacks" and guard against "the perpetual risk of such hostility appearing in quarters where it is least expected." The correct view, therefore, seems to be

\* Vide, Mehta, N. B. : *Indian Railways*, p. 12.

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that, being an imperialist, Lord Dalhousie wanted to perpetuate the British domination over India, both political and economic ; and his railway policy was a very shrewd and skilful move in that direction. In the economic sphere, with pre-eminently British commercial interests before him, he wanted to exploit the numerous untapped resources of this vast country so as to fortify British commercial supremacy. This fact is self-evident from the various trunk lines outlined by Lord Dalhousie, joining the interior of each province with the nearest major port.\* This inference is further strengthened by the high cost of construction of railway lines. The acquisition of political and military advantages being the primary consideration before the sponsors of railway development, the Secretary of State thought that they were being cheaply bought with all their cost, and all measures of economy were thrown overboard lest the extension should receive a setback. However, it is not intended to convey that the railways have not conferred any benefits on the Indian people. Far from it. Innumerable political and economic advantages have accrued to the people from the network of railways, which have linked together this vast country into one homogenous unit. Indian industries, trade and commerce have received invaluable spur from these efficient transport facilities. What is intended to convey is that due to predominance of military and political considerations and the interests of British industrialists in the construction of railways, Indian

\* The trunk lines proposed by him were, one from Calcutta to Lahore, another from Bombay to North India, third from Bombay to Madras, and the fourth from Madras to Malabar Coast.

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people have not been able to extract the utmost from the iron-horse. The reasons are obvious. Main lines on broad gauge, have linked the internal centres directly with the nearest major port, without at the same time linking the internal centres with each other on the same gauge. The result is that railway rates to and from the ports are generally lower than those between the internal centres. The break of gauge and the transshipment cost raise railway rates still higher. Individualistic policy of Indian railways adds to the incidence of railway freight on internal traffic. To this must be added the burden of excessive and wasteful cost of construction. This feature of railway rates policy will be discussed at a later stage ; for the present it is sufficient to note that the fundamental defects in construction have prevented the indigenous trade and industries from taking full advantage of the railway system due to their effects in rate-making and that for proper utilisation of the railroad services by the nationals the rates structure will have to be reshaped to neutralise these drawbacks, however formidable, and promote thereby the economic development of our country on the right lines.

**Excessive and Wasteful Cost of Construction.—** Lord Dalhousie in consultation with the Board of Control decided to help the investment of British capital, skill and enterprise in the construction of Indian railways. It was decided to entrust the construction to British private companies. On the necessity of a guarantee there was considerable doubt, but that also was accepted after some controversy and delay. Under the arrangement, known as the

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guarantee system, the railway companies received from the State a guarantee of five per cent. per annum, for a period of ninety-nine years, upon the capital expended by them on railroad undertakings and sanctioned by the Government. Of the surplus over five per cent, if any, one-half was to be applied in the first place towards the payment of interest on debt and thereafter towards the extinction of the debt itself. Thereafter, it was to be utilised for the payment of an additional dividend over the guarantee as an inducement for an active, energetic and economical management of the affairs of the company. If the net receipts amounted to less than five per cent. the deficit was to be made up from the revenues of the Government of India.

The State guarantee of interest at the rate of five per cent. on the capital expenditure, irrespective of the nature and cost of construction, militated against economical and efficient construction and management of railroad enterprise in India.\* The investor being assured of an annual return of 5 per cent. on his capital investment did not care "whether the funds that he lent were thrown into the Hoogly or converted into brick and mortar." The lack of active and energetic management led to extravagant construction of railroads in India; the cost of construction was excessive. The guaranteed railways cost over £17,000 a mile, excluding the cost of land which was

\* Criticising the terms of the Contracts William Thornton said: "This is the necessary result of the way in which they are drawn up that, a railway having been commenced on the understanding that a certain guarantee would be given by the Government whatever the railway might cost, the Government is practically bound to continue the guarantee of interest upon the expenditure. Therefore, of course, the undertakers of the railway, the Company, are deprived of one of the great inducements to economy; they know that whatever blunders they make, those blunders will not prevent their getting full current interest on their expenditure." Parliamentary Committee, 1872, Paras, 1856 and 1857.

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given free. Lord Mayo's Government estimated that they could build at the rate of 300 miles a year for £12,000 a mile. Thus the cost of construction was excessive. The actual cost of construction was invariably in excess of the original estimates.

Broad gauge (5' x 6") adopted on the Indian railways as a compromise of the popular English gauge, looking to the economic conditions of India at that time, was a costly luxury. The gauge adopted was in fact broader than the English standard gauge. This fact further strengthens the argument that strategic considerations dominated and determined the construction of railroads in India, to the utter disregard of economic requirements of the people. Double tracts were laid, the necessity of which did not arise even after a generation.\* The cost of construction was further increased by frequent alterations in routes. Consequently, the earnings of the railways, which would have defrayed interest charges on reasonable capital expenditure, fell short of the total requirements and the deficit had to be made good from the State revenues. Thus higher guarantee, indifference of the railway companies and incompetence of the Government officers conspired to place a very heavy burden upon the Indian tax-payer. The total financial burden of the guarantee system was about 14 million sterling.† This excessive cost of construction is partly responsible for the peculiarities

\* "The standard of construction was far higher than required for the conditions of the country, or for the actual work which the railways were designed to perform. Conveniences were provided which, while in themselves desirable, were unnecessary for the safe and efficient operation of the railway; and the experimental lines were built with a double tract the necessity for which did not arise till a generation later." *Imperial Gazetteer*, III, p. 367.

† Calculated from the Appendix to the Acworth Committee Report.

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of the structure of railway rates in India, which has prevented the people from making full use of the railway system.

**Railway Management Impervious to Public Opinion.** Another important factor which explains the incongruities of Indian railway rates policy is the irresponsible attitude adopted by the railway administrations in India. This antipathy towards public opinion was due to the guarantee and the interference of the Secretary of State on behalf of the railway companies. The guarantee having removed all incentive to efficiency and economy, the Indian railways right from their inception adopted rate structure which repelled rather than attracted traffic. One of the fundamental principles of rate making, as explained in the preceding section, is that no rate should be so high as to restrict the flow of traffic and that railway rates policy should be so framed as to render maximum transport service consistent with sound financial administration. Further, the Railway manager should not merely maintain traffic but he should definitely help the growth of traffic. The managers of Indian railways have consistently ignored all these salutary rules.\* The railway rates charged have been too high, and the railways have tried to earn maximum profits with minimum traffic, as will be shown presently.

Under the terms of the contracts with the railway companies the Government of India had the right to

\* Sir William Acworth has laid down three important maxims of rate making. "(1) Get traffic. The more traffic carried, the less it costs to carry. Therefore, first and foremost, get traffic. (2) Charge no rate so high as to stop the traffic from going; subject to (3) that no rate shall be so low as not to cover the additional cost incurred by the railway in dealing with the traffic to which the rate applies." *The Elements of Railway Economics.*

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control the rates and fares charged by them.\* In the initial stages it was difficult to fix proper rates due to lack of reliable data ; the rates structure cannot be built off hand ; it grows. The rates in the initial stages are essentially provisional ; in the light of experience and statistical data collected therefrom, these are modified and errors of judgment corrected. But the charge against the railway administration in India is that the railway managers have failed to make full use of statistical data and refused to profit by experience, in face of assured dividend under the guarantee system. In the earlier stages of railroad development the railway authorities believed that the mainstay of their income would be goods traffic. They were extremely pessimistic about the passenger traffic and hence neglected it. The Government of India rejected the most valuable suggestion of Col. Pears to divide the passenger fares into four classes. This is not all. They paid undue attention to the facilities for the first and second class passengers traffic and neglected third class traffic. The third class fare was fairly high with the result that only well-to-do classes could afford to travel by rail. The railway fare was curiously enough higher than that of the old transport agencies like bullock carts. By bullock cart a person could travel twice the distance for the same fare as on the railway. The fares charged were prohibitive.

\* " And the said Railway Company shall be authorised and empowered to charge such fares for the carriage of passengers and goods, and such rates for telegraphs and such tolls for the use of the said Railway as shall have been approved by the East India Company, and shall not in any case charge any higher or different fares or tolls whatever, without such approval being first obtained ; but such fares and tolls shall, when such net receipts as are hereafter mentioned shall in any year have exceeded ten per cent. upon outlay, be reduced in accordance with any requisition of the East India Company in that behalf, but only with a view of limiting the said fares and tolls so far that the net receipts shall not exceed ten per cent. as aforesaid."

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The condition of freight rates was similar. Railway administrations, following the British practice, fixed the rates at a fairly high level so as to be able to earn profits immediately. They believed that there was sufficient merchandise awaiting transport and all that the railways were expected to do was to carry that traffic. This was obviously a mistaken and rash policy, for it was soon found that Indian trade and industries could not at that price make proper use of the railroad transport facilities. The result was that goods traffic, like passengers, continued to flow to the old modes of transport. The rates charged were so high that the traffic could not bear.

The Government of India fortunately gave up its *laissez-faire* attitude and thought henceforth of taking scrupulous care of the lowest class of passengers and fares, as a corrective to the faulty policy of railway companies. The Government of India strongly criticised the policy of railway companies. "It does not appear to us," they said, "to be the interest of railway companies to carry the maximum of passengers with the maximum of profit, but on the contrary to get the maximum profit with the minimum of passengers; thus it would be preferable to them to carry two million passengers in a half year at three pies instead of three million passengers at two pies." In fact, one of the directors of the G. I. P. Railway had stated unequivocally that "the object of the Company was to secure the best dividends from a small traffic at high rates." This was the general attitude of the railway companies in matters of rate making. The Secretary of State, unfortunately, did not accept this

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view. The maxima of rates, already high, were raised still higher. The actual rates were enormously high and were fixed without any regard to traffic condition. No wonder that traffic declined and working expenses rose consequently.\* Lord Mayo rightly argued that it was a "blind policy to neglect the interests of the masses ; it was not by raising, but by lowering the cost of transport that we must hope to develop the enormous revenue that we are now only touching from this source." But the Government of India could not regulate the policy of the railway companies due to the conservative attitude taken up by the Secretary of State.

The opening of Rajputana Malwa State Railway led to important changes in the rates policy pursued by the different railway systems. Competition between railway Companies brought in its train improved facilities and reduced rates to users of railroad services. The unqualified monopoly which the railway companies had hitherto enjoyed was tempered to a certain extent. The Secretary of State, fortunately, supported this new development in our railroad organisation and working because it helped to reduce the rates, which were characterised by the public as excessive and obstructed the growth of traffic. He favoured free competition between the railways, subject to Government control in extreme cases where the companies might charge unprofitable rates. He said, "I am disposed to think that the interests, both of railways and trade generally, will be better served

\* "The high amount of working and maintenance expenses on certain lines seem to imply either an absence of strict economy or imperfect construction in the first instance." Report on Railways in India, 1870-71.

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by accepting the legitimate consequences of competition, regulated as it necessarily will be, by the desire to apply skill and economy to the work of management.\* This was a very reasonable attitude to adopt.

Notwithstanding the inception of competition as an element in rate making in India, the general level of rates continued to be fairly high. The reduction in rates were confined only to a certain amount of competitive traffic. Mr. Robertson's Report on the administration and working of Indian Railways, 1903, contains an instructive comparative study of the railway rates policy. He found that the actual rates charged by the Indian railways were lower than those in England. But after taking into account differences in the economic conditions in the two countries, he held that before rates in India could be regarded as equal to those in England; the rates should be reduced from thirty to sixty per cent. He found that rates in India were too high for the development of traffic. Mr. Priestley came to a similar finding. He found that the rates policy of Indian railways was based on the principle of making high profits on a smaller volume of traffic.† This situation continued till the outbreak of the Great War. The rates were further raised during and after the war and there has been no general lowering of rates since then. All suggestions for reduction of rates have been summarily rejected by the individual administrations and the Railway Board as unpracticable. Thus right from the inception of railways in India the rates policy has been

\* Vide, Railway Despatch No. 182, dated 19-10-1882.

† "The American railways make their income by small profit per unit and large volume, while Indian railways make their income by larger profits per unit and smaller volume....." Report on Organisation and Working of Railways in America, 1908.

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guided by the belief that financial solvency of railways can be maintained only by raising rates. From the preceding discussion it will be seen that this is a short-sighted policy and in the long run detrimental to the interests of railways themselves. Not only should in no case a railway charge be so high as to restrict the flow of traffic, but the rates should be low enough to encourage the growth of traffic. The financial success of a railroad depends upon a rate structure which helps the carriage of maximum traffic, each unit paying at least its marginal cost. Such a broad-based rate structure requires maximum efficiency and economy in the working of railways. Thus Indian railway rates policy has been essentially short-sighted, rigid and impervious to public opinion.

**Railroad Classification of Goods.**—The classification of goods is an important preliminary stage in the determination of a right rate. “The railway classification of goods is the foundation on which the edifice of railway rates is built up; it is the frame work to which the traffic or schedules of the rates are attached.\* A proper railway rates policy must, as stated in the preceding section, carefully consider the cost and value of service and incorporate them in right proportion in the rate structure. The railroad classification groups the articles into certain classes on the basis of cost and value of service. The method of grouping commodities into classes is a growing process ; it cannot be made off hand.

Railroad classification and freight tariffs are distinct and independent. The freight tariff specifies rates per

\* Acworth, *Elements of Railway Economics*, p. 125.

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maund or ton for a number of different classes of commodities, without mentioning their names. Classification supplements the freight tariff in the determination of proper rates. Tariff are issued by each railway and framed independently to be enforced on its own system. Classification, on the other hand, is determined by mutual consultation amongst all the railways, subject to certain exceptions. Classification, therefore, secures considerable uniformity in the practice of rate making, permitting at the same time fair scope to individual railway administrations for necessary adjustments, determined by the local requirements.

In the early period of railroad development in India, the railway companies followed their own independent practices of rate making, without any common understanding as regards the general classification of goods. These practices were encouraged by the laissez faire attitude taken up by the State. In the absence of State regulation, the railway companies imposed heavy freight rates and tried to earn high profits with the minimum volume of traffic. The result was that only high class traffic could take advantage of railroad transport facilities, while the low-grade merchandise had to be satisfied with the old and inefficient modes of conveyance.\* The State could not long remain indifferent to the situation created by the railway companies and their extortionate charges. Public interests had to be protected.

\* The Government Director of Railways in his Report for 1860-61 stated, "a revision of the rates has since been made..... the former high rates and other causes prevented traffic from coming to the line in the Deccan, for notwithstanding the facilities of transit offered by the rail, the amount of goods on the high road had not diminished."

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It has already been stated in the preceding section that the Secretary of State for India possessed the right to regulate rates and fares charged by the railway companies in the interests of the public, consistent with the financial solvency of the railroad industry. The Government Director of Railways proposed that the Government instead of fixing the actual rates and fares to be charged, should approve of a scale of maximum rates, leaving it to the company's officers in communication with the Consulting Engineer of the Government, to impose such rates from time to time, within the prescribed limit, as may be found conducive to the interests of the undertakings. The State regulation of rates policy on these lines was expected to protect public interests and at the same time secure full scope for the efficient working of railways. Traffic had to be developed and the working expenses of railways reduced so as to secure both efficiency and sufficiency of railroad services. The Secretary of State approved of the suggestion and instructed the Provincial Government in 1868 to fix the maxima rates for different railways. At the same time the Government of India was asked not to interfere with the rates policy of the railway companies, except for the lowest class of passengers, food-grains and coal. This was a very useful step in the right direction. With the fixation of maxima rates and fares for the railways it was expected that the companies would be able to earn maximum profits not from a minimum but maximum of traffic.

The Government of India and Provincial Governments soon discovered that the fixation of maxima

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could not adequately protect the interests of the public. Besides, the regulation was too general to secure much-needed uniformity in the practice of rate making. There were wide disparities in rates and fares charged by the different railway companies. This lack of uniformity was detrimental to the interests of trade and industries. The regulation merely specified the classes and the maximum rates for each class, without classifying the commodities into different classes and restricting the transfer of goods from one class to another. In practice, therefore, the railway companies were perfectly free to classify the articles into different classes and transfer them to suit their convenience.

In view of the foregoing defects, the Government of India laid down the following schedule of maxima and minima rates in 1887:—

| Class         | Pies per maund per mile. |         |
|---------------|--------------------------|---------|
|               | Maxima                   | Minima  |
| First         | .. 1/3                   | .. 1/3  |
| Second        | .. 1/2                   | .. 1/2  |
| Third         | .. 2/3                   | .. 2/3  |
| Fourth        | .. 5/6                   | .. 5/6  |
| Fifth         | .. 1                     | .. 1    |
| Special Class | .. 1/3                   | .. 1/10 |

To the special class belonged food-grains, coal and other low-priced articles. It will be seen that the maximum and minimum rates, except for the special class, were the same, with the result that the railway companies had no discretion left to vary the rates. Alterations could be made only by varying the classification, which was most undesirable to do. Therefore

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the Government of India revised the schedule in 1891 and fixed separate maxima and minima for each class, as follows:—

| Class   | Pies per mound per mile. |         |
|---------|--------------------------|---------|
|         | Maxima                   | Minima  |
| First   | .. 1/3                   | .. 1/6  |
| Second  | .. 1/2                   | .. 1/6  |
| Third   | .. 2/3                   | .. 1/6  |
| Fourth  | .. 5/6                   | .. 1/6  |
| Fifth   | .. 1                     | .. 1/6  |
| Special | .. 1/3                   | .. 1/10 |

No alterations in the classification could be made without the sanction of Government. Thus the new schedule secured some uniformity in classification of goods and at the same time permitted full latitude to railway companies for making necessary adjustments in their rate structure in keeping with their economic requirements. But it should be noted that this schedule also failed to secure sufficient uniformity in rate making and wide diversity in the bases of charge on different railway systems continued. This diversity placed heavy burden upon long distance traffic in particular. In the meantime the Railway Conference Association\* had tried to evolve a scheme for securing greater uniformity in classification and simplification of tariff schedules, which was sanctioned by the Railway Board in 1915.

The classification of goods was further revised in 1922. The Acworth Committee had recommended a general and substantial increase in rates. The Government of India felt that efficient and reliable service, though at a slightly higher cost, was preferable to a

\* Srinivasan, K. C. : *Railway Freight Rates*, pp. 155-61.

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service which could not stand the pressure of increased demand. The railway companies also offered certain proposals: (1) to adopt telescopic scales for all classes with maxima varying with distance and to increase the number of the classes; (2) to retain the existing number of classes and increase their maxima; (3) to increase the number of classes and raise the maxima. The commercial community was against any sort of increase in rates. The Government of India introduced the following classification in 1922 :—

| Class   | Pies per maund per mile |          |
|---------|-------------------------|----------|
|         | Maximum                 | Minimum  |
| First   | .. 0.38                 | .. 0.100 |
| Second  | .. 0.42                 | .. ”     |
| Third   | .. 0.58                 | .. 0.166 |
| Fourth  | .. 0.62                 | .. ”     |
| Fifth   | .. 0.77                 | .. ”     |
| Sixth   | .. 0.83                 | .. ”     |
| Seventh | .. 0.96                 | .. ”     |
| Eighth  | .. 1.04                 | .. ”     |
| Ninth   | .. 1.25                 | .. ”     |
| Tenth   | .. 1.87                 | .. ”     |

Under the new classification, the first four classes were split up into eight classes, making thereby a total of ten. The increase in rates varied from 15 to 25 per cent. The minima, however, remained untouched. This change accorded a very wide latitude to the railway companies to vary their rates which could in the case of competitive traffic be lowered considerably.

The classification of goods was further revised in May 1936 and the number of classes increased from ten

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to sixteen. The revised classification with maxima and minima rates in force is as follows:—

| Class | Pie per md. per mile |        | Class | Pie per md. per mile |        |
|-------|----------------------|--------|-------|----------------------|--------|
|       | Maxima               | Minima |       | Maxima               | Minima |
| 1     | 0.38                 | 0.10   | 4-B   | 0.72                 | 0.166  |
| 2     | 0.42                 | 0.10   | 5     | 0.77                 | "      |
| 2-A   | 0.46                 | 0.10   | 6     | 0.83                 | "      |
| 2-B   | 0.50                 | 0.10   | 6-A   | 0.89                 | "      |
| 2-C   | 0.54                 | 0.10   | 7     | 0.96                 | "      |
| 3     | 0.58                 | 0.166  | 8     | 1.04                 | "      |
| 4     | 0.62                 | 0.166  | 9     | 1.25                 | "      |
| 4-A   | 0.67                 | 0.166  | 10    | 1.87                 | "      |

Larger number of classes will enable better adjustment of rates to cost and value of service. But larger number of classes in themselves will not be able to render any material assistance to trade and industries unless the railway authorities either lower the rates or increase the efficiency of the railroad equipment. From the revised classification it appears that the railways are more anxious to raise the level of charges because in the case of new classes interpolated by the revision maxima have been raised. This increase comes as a surprise when we recall that the revised classification of 1922 had already effected substantial general increase in rates to cope with the abnormal post-war economic conditions. Abnormal rise in prices, radically expanding trade industries and rehabilitation of railroad equipment warranted higher rate of structure. The revised classification of 1936, in view of the comparatively marked decline in price level, ought to have lowered the maxima particularly of the lower classes. If about 80 per cent. of the revenue from

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goods traffic is obtained from rates below the authorised maxima there was no need for raising the maxima. In face of repeated increases of authorised maxima, the plea that large volume of traffic is carried at rates lower than the maxima is shorn of its significance. The railways ought to have seriously and sincerely tried to reduce their working expenses as an effective cure of the ills they are suffering from. The Public Accounts Committee in its Report for the year 1935-36 strongly criticised the laxity shown by the railways in regulating their expenses. The Railway Board could at best show administrative economies of a minor order. The Committee rightly remarked that in these measures of economy there is "no assurance of a return to solvency in a measurable period, much less for any surplus for amortisation of debt or contribution to general revenues. We are most reluctant to accept the Railway Board's estimate of possible further economies and we think that the search for them must be relentlessly pursued."\* Sir Otto Niemeyer also strongly disapproved of the working of the Indian railways. He said, "the position of the Railways is frankly disquieting. It is not enough to contemplate that in five years' time the railways may merely cease to be in deficit. Such a result would also tend to prejudice or delay the relief which the Provinces are entitled to expect. I believe that both the early establishment of co-ordination between the various modes of transport and the thorough-going overhaul of railway expenditure in itself are vital elements in the whole financial problem."† In September 1936, the Public Accounts

\* Wedgwood Committee Report, Para. 125.

† Vide, Report, p. 6.

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Committee once again emphasised the need of overhauling the financial working of the railways. The Committee held: " Even after allowing for a continuous, if moderate, trade improvement, for all probable debt conversions and for the effect of revised pay scales for new entrants, we cannot see how at the end of three years from now, the Railways can be less than seven or eight crores short of full commercial solvency. There would, moreover, still be a substantial deficit if we regard it as legitimate to go on making no provision from revenue for writing down capital. This is an alarming prospect and in our view things cannot be left where they now are. We would urge, therefore, that the Government of India should immediately obtain the services of an acknowledged expert in railway management to conduct an examination of the whole field and recommend steps which will secure definite (i.e. other than mere hopes of increased revenue due to improving trade) improvements in railway finances to the extent of something like Rs. 3 crores a year immediately and ultimately of such magnitude as is required to maintain full solvency on a strict accounting basis. And to avoid misconception we add that the terms of reference should exclude the possibility of securing this end by a mere transfer of liabilities to general revenues.\* Thus the experts were agreed that the expenditure of Indian railways needed complete overhauling with a view to effect substantial economy in costs and increase the efficiency of services. Such economies could only be effected by a radical reconstruction of the working and management of Indian railways and their rate structures.

\* Vide Report, Para 9.

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Neither the Indian railways nor the Railway Board were prepared to face the situation with courage and enlightened self-interest ; they lack foresight and judgment. The besetting sin of railroad management in India has been a lack of sufficient courage, foresight and judgment. They have never tried to create or attract traffic and economise on right lines. Instead of overhauling the whole system of working and management of railways and their rate structures, the authorities, in their characteristic conservatism, have been tinkering with the problem by making a few minor economies and adding to their receipts by raising rates.

Recently the Government of India have further raised rates and fares. With effect from 1st March, 1940 rates have been raised by two annas in a rupee on all consignments of goods traffic, excluding coal, coke, patent fuel, military traffic, railway materials and stores on revenue account, food grains, fodder and manure. Similarly, freight on consignments of coaching traffic other than passenger is raised by two annas in a rupee. Fares for all passenger traffic, except fares not exceeding one rupee, are raised by one anna per rupee. The surcharge on coal, coke and patent fuel is increased from 12½ per cent. with a maximum of Re. 1/- per ton to 15 per cent. without a maximum. This general increase is expected to help the general finances of the State and give relief to the tax-payers. The practice of taxing railroad traffic to relieve the general taxpayer is uneconomic and essentially short-sighted. Besides, it will help to shield railroad in efficiency and leave no incentive for economy. There

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is need for a radical reconstruction of railroad finances and practices of rate-making in the interest of the community.

**Machinery for the Control of Railway Policy.**—It has already been shown that under the terms of the contracts with the railway companies the Secretary of State for India had the right to regulate the rates and fares charged by the different railways. The state control over the rates policy of the guaranteed companies was exercised by the Government Consulting Engineer of Guaranteed Railways. Some years later the Government of India thought of decentralising railway control and appointed several consulting Engineers to supervise and control the working of different railway systems. In 1874 the system was changed and a Director-General of Railways was appointed with power to control both the Company and State lines. In 1877 a further change was made and instead of one Director-General of Railways, the whole railroad system was divided into three divisions and each territorial division was placed under the charge of a Director. In addition, a post of Director of State Railways Stores was created. The new system, however, did not work satisfactorily. Therefore in 1880 the posts of two divisional directors were abolished and their work entrusted to the Consulting Engineers of guaranteed railway companies. The power of formulating railway policy once again got vested in the hands of a single individual, the Director-General of Railways, with the Director of Stores and Consulting Engineer as advisers. A new post of the Director of traffic was created, and he was expected to advise the

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Director-General of Railways on traffic problems.

In 1897 some important changes were introduced. The post of Director-General of Railways was abolished and instead the post of a Secretary to the Government of India in the Public Works Department was created. The accounts were to be supervised by the Accountant-General, who was also an *ex-officio* Deputy Secretary to the Government of India. This new railway authority "combined the advantages of general supervision with intimate local knowledge."\*

Mr. Thomas Robertson after his very careful study of the railway system in India came to the conclusion that the system of railroad control was faulty, which hampered development and retarded progress. He, therefore, recommended that the administration of railways in India should be entrusted to a small Board of specially qualified railway men, who, free from unnecessary trammels, should be allowed to conduct the railways on purely commercial principles. He suggested that the Board should consist of a President or Chief Commissioner who should have a thorough practical knowledge of railway working and be a member of the Viceroy's Council for railway matters, and two other Commissioners who should be men of high railway standing with training similar to that of the President.

**Railway Board.**—Mr. Robertson's recommendations were partly accepted. Early in 1905, therefore, the Railway Branch of the Public Works Department of the Government of India was abolished and the control of Indian railways was transferred to the Railway Board consisting of a Chairman and two

\* Vide, N. B. Mehta, p. 48.

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members.\* The powers of the Board, however, were strictly limited. The Government of India retained the right to decide the questions of railway policy and programme and the Board had merely to supervise the administrative details. The Board was placed under and made subordinate to the Government of India in the Department of Commerce.

Constant interference of the Commerce Department of the Government of India considerably impaired the efficiency of the Railway Board. The Board was constituted with the object of conducting railway administration at the highest pitch of efficiency, free from needless trammels. Lord Curzon had rightly said "the central idea of a Railway Board was that there should be a body of practical businessmen entrusted with full authority to manage the railways of India on commercial principles, and freed from all non-essential restrictions or needlessly inelastic rules." But this hope was not realised, due to multifarious duties entrusted to the Board and needless interference even in matters of detail from the Secretary of State and the Commerce Department. The Board was called upon to undertake extensive and varied work with the result that members of the Board wasted their time and energy in looking after the routine details of railroad administration. The Board was made responsible for the detailed control and management of state railways, represented the Government of India as owner of company, managed railways, exercised the powers of the Governor-

\* The establishment of the Board consisted of one Secretary, two Under Secretaries, one Registrar, one Director of Railway Construction and one Examiner of Accounts. In the following year three Assistant Secretaries were provided instead of two Deputy Secretaries.

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General-in-Council under the Railway Act of 1890 and advised the Government in matters of the general railway policy. The Board, of three members, which transacted such an extensive and varied business naturally failed to give the bold lead in matters of railway policy expected of them. The short-sighted policy which Indian railways had followed right from their inception had to be discarded and a spirited lead particularly in matters of rates was necessary. In view of the multifarious functions entrusted to it, the Board became a slow\* and impersonal machine with no eyes and ears for public needs and grievances.†

The Mackay Committee recommended certain important changes in the constitution of the Railway Board in order to improve its efficiency and utility. The Government of India accepted the recommendations and modified the constitution of the Board. The appointment of the Chairman of the Railway Board was changed into that of the President of the Railway Board and his powers were increased. The President of the Board was given direct access to the Viceroy, as if he were Secretary to the Government of India. The Board became the Railway Department, distinct from, and independent of, the Department of Commerce and Industry. But the Railway Department

\* The policy of railroad construction formulated by the Government was faulty and slow. For instance, whereas in the fourteen years preceding the establishment of the Board, about 1,200 miles of railway lines were constructed in the Madras Presidency, the Board during its tenure succeeded in opening only about 588 miles, of which 200 miles were already in the course of construction when it was formed, and 142 miles were constructed by other agencies. Acworth Committee, Vol. IV, Statement No. 34.

† We are told that letters were left unanswered, that decisions were delayed indefinitely, that when charges against the companies were made, the Board referred them to the companies themselves and then washed their hands of the matter, that applications to the Board for redress of grievances had been proved to be fruitless and so had ceased to be made."

Report of the Acworth Committee, Vol. I, Para 110

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had no independent representation in the Executive Council of the Governor-General and continued to be under the administrative charge of the Commerce Member who also represented the Railway Department as the Railway Member. It is significant to note that the Government of India had not recognised the need of separate representation to the Railway Department in the Executive Council. The lack of independent representation impaired the efficiency of the Railway Department.\* The slow construction of railway lines during that period was partly due to this defect. The Commerce Member could not pay adequate attention to the Railway Department; † his knowledge of railway problems was second-hand and incomplete. He was a mere titular head of the Railway Department. No wonder that he did not plead the cause of the Railway Department in the Executive Council as strongly as he did of the Commerce Department of which he was the real head and took personal interest. The Acworth Committee aptly remarks: "It would be in accordance with human nature if he supported a policy not his own less resolutely than a policy of the side of the office of which he is the real and not merely the titular head; and if, when the Railway Board's proposals met with serious opposition at the Council, he attached more weight to the arguments of colleagues, with whom he is in constant and intimate relations, than to those of a Board which brings before him, not their

\* "The representation of such important interests in the Executive Council by a man who was incidentally interested in the railways and who could give the subject no more than a modicum of his time and attention, did not and could not conduce to the successful administration of the Department." Dr. Mehta, N. B.: Indian Railways. p. 51.

† Acworth Committee Report, Para. 91.

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everyday work, but only such portions of it as are important and likely to be contentious. The Railway Board is in effect in the position of a step child, and, like most step children, tends to be less well treated than the other children of the family.”\*

To remedy the glaring defects outlined in the preceding paragraph, the Acworth Committee suggested that there should be a Member of the Executive Council in constant touch with the railway affairs. “We are convinced,” they remarked, “that the Indian railways will never be able to give a satisfactory account of themselves, to earn the revenue which they should earn, and to render to the public the service which they ought to render, until they are represented in the Viceroy’s Council by a Member who is fully in touch with their daily work.”† They recommended, therefore, that there should be a Member of Council in charge of Communications, whose portfolio should comprise Railways, Ports, Inland Navigation, Road Transport and Posts and Telegraphs.‡ The member in charge of communications should be the Chairman of the Indian Railway Commission, composed of a Chief Commissioner, a Financial Commissioner and three territorial Railway Commissioners.¶ The Chief Commissioner would be responsible for deciding technical problems and for advising the Member of Council for Communications on matters of railway policy. This vesting of responsibility in one man was expected to promote initiative, prompt decision

\* Report, Para. 95.

† Ibid. Para. 95.

‡ Ibid. Para. 97.

¶ Ibid. Para. 111.

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and a bold and continuous railway policy.\* The Divisional Commissioners were to study the transport requirements of the areas under their control, establish intimate contacts with the commercial community and create thereby public confidence in the Railway Board. This change was expected to increase the efficiency of the transport services and promote an all round development of transportation system of the country in keeping with the public requirements.

The Government of India accepted half-heartedly some of the recommendations of the Acworth Committee and modified the constitution of the Railway Board accordingly. In 1922 the Chief Commissioner was appointed. He was made solely responsible for arriving at decisions on technical questions and for advising the Government of India on matters of railway policy. This was a very important and useful change. In 1923 the Financial Commissioner was appointed, as recommended by the Acworth Committee. The Railway Board, thus reorganised, consisted of the Chief Commissioner as President, the Financial Commissioner and two other Members. The Chief Commissioner was also Secretary to the Government of India in the Railway Department. The Financial Commissioner was to deal with all financial questions. Of the two other Members, one was in charge of technical subjects and the other of traffic and general subjects. Thus, the territorial basis suggested by the Acworth Committee was ignored and only two, instead of three, Members were appointed. The Members of the Board were given

\* "The present organisation, under which the members have practically equal voting powers and responsibilities, inevitably leads to lack of initiative, lack of decisiveness, and lack of a definite policy." Acworth Committee Report, Para. 117.

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adequate assistance so that they might be able to devote their attention to larger questions of railway policy and keep closer contact with the railway administrations and commercial bodies by frequent and extensive tours. The separation of routine official work from general and broad questions of policy was a decided advance in the direction of increased efficiency of the Railway Board and the railroad system it was expected to supervise. The Acworth Committee had criticised the constitution and working of the Railway Board in very strong terms. They said: "It seems to us that, in consequence of the regulations under which the Railway Board act, they spend a large part of their time, on the one hand, in doing the work of their subordinates, which these subordinates ought to do for themselves; and on the other hand, in obtaining from their superiors permission to do the things which they are fully competent and ought to be permitted to do themselves."\* They further added: "Complaint was made to us in different parts of India that the Members of Railway Board seldom or never visited them. In Delhi we were told that, if a Member of the Board absented himself for a fortnight, the accumulation of papers would be so great that it would be almost impossible for him ever to overtake them. And we fully believe it. There is laid upon their shoulders a burden of routine work which is more than three men can cope with. The proper function of the Railway Board is not to carry out routine duties, but to shape policy, to watch, to think, and to plan."†

\* Ibid. Para. 109.

† Ibid. Para. 110.

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The reorganised Railway Board consisted of the Chief Commissioner, Financial Commissioner, Technical Member and General Member. The Financial Commissioner was assisted by a Director of Finance, a Deputy Director of Finance, and an Assistant Director of Finance. The General Member was assisted by a Director of Establishment, a Director of Traffic, a Deputy Director of Statistics, and an Assistant Director of Statistics. The Technical Member had as his assistants a Director of Mechanical Engineering, a Director of Civil Engineering, a Deputy Director of Stores, a Deputy Director of Programme, and a Technical Officer. To these must be added the Secretary, Deputy Secretary and Chief Superintendent.

The suggestion of the Acworth Committee that there should be a separate Member of the Executive Council in charge of the Communications was also brushed aside by the Government of India and the Railway Board was kept under the Commerce Member, known as the Member for Commerce and Railways. This was the most serious drawback of the scheme of reorganisation.

In 1931-32 the Railway Board was again reorganised as a measure of economy in view of rapid decline in railroad traffic and receipts. Some superior posts were held in abeyance. To this class belonged the posts of Traffic Member, Engineering Member, Director for Civil Engineering, Director for Mechanical Engineering, Assistant Director of Finance and Deputy Secretary. An additional temporary post of Deputy Director of Traffic was created during the abeyance of the post of Traffic Member. The reorga-

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nised Board consisted of the Chief Commissioner, the Financial Commissioner and one Member, assisted by three Directors, six Deputy Directors and a Secretary. Under the new arrangement the Chief Commissioner had taken over the duties of the Engineering Member. But it was soon found that the Chief Commissioner could not devote the time that was necessary for the prompt disposal of civil engineering business, and therefore, to prevent causing serious delay in the work and consequent inconvenience to the parties affected thereby it was decided to revive the post of Director of Civil Engineering from November 1932 and instead to keep in abeyance the post of Deputy Director for Civil Engineering. It was also decided in October 1932 to convert the post of Chief Superintendent to that of Assistant Secretary. The post of Technical Officer was abolished in 1930 and a Central Standard's Office for Railways was established. Thus by the end of 1932 the superior staff of the Railway Board consisted of the Chief Commissioner, the Financial Commissioner, one Member, four Directors, five Deputy Directors, one Secretary, and one Assistant Secretary.\*

The post of Director of Mechanical Engineering was revived in April 1935. The post of Traffic Member was revived in October 1936. The work done by the Central Standard's Office for Railways, established as an experimental measure for a period of five years, was found satisfactory and hence it was made permanent in 1935.†

\* Vide Report of the Railway Board on Indian Railways, 1934-35, Vol. I, Appendix C, p. 108.

• Ibid. 1936-37, Vol. I, Appendix C, P. 132.

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**Railway Rates Advisory Committee.**—It has already been shown that state supervision and control of Railway rates policy is inherent in the very nature of railroad enterprise. The railroad administration, being a quasi-monopolist, is apt to charge a rate high enough to appropriate for itself the entire place utilities created by the transport service. This is especially true of commodities having inelastic demand. The railroads, permitted to pursue an undiluted commercial policy, without any sort of state regulation, are apt to impose an extremely heavy tax upon the community. To remove this impediment to social progress, and to give full scope for the normal development of economic and social activities, the State, in almost all advanced countries, has been vested with the power to exercise effective control over the railroad administration and their policy of charging rates to the public for the services rendered by them. Indian railways are not an exception to this general rule, as has been shown in the preceding section. The State in India, as elsewhere, has exercised control over the rates policy, but with varying degrees of success.

In India, as in England and America, the early construction and development of railways has been associated with private capital and enterprise. But one important difference in the analogy is that whereas in England and America private capital and enterprise shouldered all risks incidental to such a vast commercial enterprise, in India the State guaranteed a safe and high return on the capital invested by the railway companies and in addition

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undertook to bear the losses incurred in working the lines. And yet the Government of India, as shown above, failed to safeguard adequately the interests of the public. The Indian Industrial Commission, which was appointed by the Government of India in 1916 to examine and report upon the possibilities of further industrial development in India, received substantial evidence to the effect that the Indian railway policy failed to foster the economic development of the country. Inadequate Government control over the rates policy and the lack of proper authority to redress the grievances of the public, especially the commercial community, was definitely emphasised. The Commission also found that there was unhealthy rivalry between the various transport agencies which retarded the industrial development of our country.\*

The Acworth Committee was set up in 1920 to report *inter alia* "whether the present system of control by the Government of rates and fares and the machinery for deciding disputes between railways and traders are satisfactory, and if not, to advise what modifications are desirable." The Committee found that in fixing rates and fares the railway companies were allowed a large measure of freedom. The fixing of maxima and minima rates for each class, usually in the relation of about three to one, did not protect the traders against undue preference. The enforcement of the remedy under the Railway Act was so cumbrous and inapt that no court had ever sat. A cheap and expeditious tribunal was needed to remedy the defects in railway policy. The Committee, therefore, unanimously recommended the establishment of

\* Vide, Report of the Indian Industrial Commission, Paras, 170-79.

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a Rates Tribunal, similar to that of the English Rates Tribunal, consisting of an experienced lawyer as Chairman and two lay members, one representing the railways and the other commercial interests, with power, in any case deemed of sufficient importance, to add two additional members, one on each side.\*

The need for the establishment of an impartial and expert body, simple in procedure and efficient in working, to investigate the alleged grievances of the traders against the Indian railway authorities impervious to public opinion, could hardly be exaggerated. There was complete unanimity in the public opinion so far. But on the question as to what should be the power and function of the Indian Rates Tribunal the expert opinion was, and is even now, divided. The Inter-State Commerce Commission of the United States and the Rates Tribunal of Great Britain are invested with decisive and mandatory power, and therefore, the Acworth Committee recommended a Rate Tribunal for India based on the English model.† This proposal, however, did not find favour in certain quarters. The critics argued that the Committee overlooked the peculiarities of the countries and their railway systems. In India, where nationalisation of railways has been accepted both in principle and practice, and the state has fostered the development of railways by guarantee and subsidy, it is doubtful as to whether the State would allow an independent authority to dictate the rates policy. The Indian taxpayer has great interest in the working of Indian railways not merely because they are important public

\* Vide, Report of the Acworth Committee, Para, 156.

† Ibid.

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utilities providing an essential service, but the public has shouldered the burden of heavy financial losses which the extravagant construction and working of railways entailed in the past century. A powerful tribunal on the English or American model can work with success in a country where the risks of railway construction and working have been undertaken by private corporation and where the State has no stake. But in India such a tribunal is neither desirable nor practicable. With enormous financial stake in the railways, the State cannot view with equanimity the possible decision of a Mandatory Tribunal to pursue a course of action which may thwart its purpose or may not inconceivably endanger its financial equilibrium. The Acworth Committee seems to have ignored the possibility of friction between the State and the Mandatory Tribunal.\*

It is difficult to agree with these arguments. It makes no difference as to who is the financing authority of the railway system. We have already stated that the railways are entitled to fair returns, consistent with efficient and economic operation, as a commercial enterprise, irrespective of the character of financing authority. The State as a financing authority has no special claim. Per contra, on the accepted principles of commercial practice, a certain portion of capital investment which was due to wasteful methods of construction should, after an expert enquiry, be written off. It is undesirable that the public using transport service be made to bear the burden of uneconomic costs of construction and

\* Vide, Mehta, N. B. : Indian Railways, p. 172.

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heavy guarantee. The taxpayers, who have borne this burden, willingly or unwillingly, have no right to claim relief. Needless and extravagant expenditure cannot be rewarded; nor can an inefficient and wasteful management. A railroad administration is entitled to a return just sufficient to attract necessary investment under honest, efficient and economical management. Besides, the nature of railroad industry, as stated above, is such that the railway authorities can impose a tax upon the public using railway services, directly and indirectly, in the form of higher rates and disguise thereby their inefficiency and lack of business foresight. Where the State itself has a direct financial stake in the railroad industry, as in India, there is a greater need for an impartial, expert and judicial authority to determine the reasonableness of rates charged, because in this case the railway authorities are more susceptible to abuse their power with the direct support or connivance of the government. Inefficiency in railroad industry must be definitely and scrupulously guarded against.

The Government of India, however, was not prepared to go far enough and yet it could not totally ignore the insistent public demand\* for an impartial and expert body to adjudicate between the railway authorities and the business community, which had also received adequate support from the disinterested experts† on railway problems. The railway companies

\* Strenuous efforts were made by Sir Vithaldas Thackersey, Sir Purshottandas Thakurdas, Sir Dinshaw Wacha, Sir Ibrahim Rahimtoolla, Mr. Jinnah and others in the Legislative Assembly to set up a Committee with extensive powers to carry on thorough investigation in respect of complaints lodged by the public against unfair treatment at the hands of the railways and record their findings which the Government should normally accept.

† Experts like Denvers, Randel, Robertson, the Acworth Committee, the Fiscal Commission, etc., had supported the claim for a Rates Tribunal.

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had also agreed.\* Therefore they effected a compromise and appointed an advisory Committee, known as the Railway Rates Advisory Committee, as an experimental measure. The powers and functions of the Committee are strictly limited.

**Constitution of the Railway Rates Advisory Committee.**—The constitution of the Committee is based on some of the recommendations of the Acworth Committee. Up to 1932 the Committee consisted of a lawyer president, a railway member, and a commercial member selected for individual inquiries from panels elected or nominated by the principal commercial bodies. The President of the Committee was a whole time officer, possessing a good grasp of legal knowledge and business experience. In 1932, as a result of the recommendations of the Retrenchment Sub-Committee, the composition of the Rates Advisory Committee was revised. The services of a retired High Court judge on a salary of Rs. 2,000|- per mensem (in addition to his pension) were secured for the President's post. The pay of the former President was Rs. 4,000|- per mensem. Secondly, a Senior Scale officer of the Commercial Department of a railway with experience and knowledge of rates work was appointed as Railway Member and Secretary of the Committee, his remuneration being his substantive pay plus a Special pay of Rs. 300|- per mensem. Under the previous arrangement, the pay of the Railway

\* The Acworth Committee said : " We have discussed with very many witnesses, representing not only the Indian public, but the railway companies, what the authority to control the rates should be. We have found a unanimous readiness on both sides to accept the constitution of a new Tribunal practically identical with that recommended for the same duties by the Rates Advisory Committee constituted under the English Ministry of Transport Act, 1919, and accepted as satisfactory both by the railway companies and by representative organisations of the traders in England." Para, 156.

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Member was Rs. 3,000|- per mensem and the post of Secretary was held by another officer in the Senior Scale. The Commercial Member of the Committee is paid at the rate of Rs. 80|- for each day he is present at a meeting of the Committee and a travelling allowance of Rs. 20|- per day. This is a false economy and has impaired the efficiency of the Committee considerably. Further, the Rates Committee is not given sufficient powers and the recommendations of the Acworth Committee have been ignored. The Acworth Committee had recommended that the Rates Tribunal should have wide powers. They said: "The jurisdiction of the new Tribunal should, we think, embrace all questions of reasonableness of rates even within the contractual maxima and minima, and of the conditions attached thereto whether the question be the unreasonableness of a rate per cent. or its unreasonableness as compared with the rate charged to other persons or at other places in what are alleged to be comparable conditions. The same tribunal might have jurisdiction in respect of the obligation to provide reasonable facilities, a matter which at present has also to be determined by a Railway Commission."\* The Government of India, however, set up a Railway Rates Committee in April 1926, with very limited powers. The Committee is empowered to investigate and make recommendations on: (1) complaints of "undue preference Section 42 (2) of the Indian Railways Act; complaints that rates are unreasonable in themselves; (2) complaints or disputes in respect of

\* Vide, Para. 158.

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terminals—Section 46 of the Indian Railways Act ; (3) the reasonableness or otherwise of any condition as to packing of articles specially liable to damage in transit or liable to cause damage to other merchandise ; (4) complaints in respect of conditions as to packing attached to a rate ; and (5) complaints that railways do not fulfil their obligations to provide reasonable facilities under Section 42 (3) of the Indian Railways Act. Thus the Committee is purely an advisory body, whose recommendation the Government of India is not bound to follow. In practice the Government of India has some times brushed aside the recommendations of the Committee.

The experience of the working of the Rates Advisory Committee gives added force to the demand for the establishment of a full-fledged and independent Rates Tribunal in India recommended by the Acworth Committee. The present Committee is merely a half-hearted measure and as such has many weaknesses. The members do not possess the powers of a judicial body. The knowledge that the Government may or may not accept the recommendations of the Committee after all the trouble taken and expenses incurred in fighting the case, makes the trader despondent and his confidence is shaken. Moreover, it is unfair to lay the entire burden of proof on the complainant. The problem of railway rates is extremely complicated and highly technical. The detailed statistical data necessary for proving the unreasonableness or otherwise of a given rate is solely in the hands of the railway administrations. If a trader, intending to lodge a complaint against a parti-

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cular rate, tries to collect the required information, he finds that the railway authorities refuse to co-operate with him. In the absence of co-operation from railways he cannot collect the data from any other source. Railway administrations are well-known for their utter disregard of public opinion in this country. In face of all these facts, it is desirable that once a trader has made out a prima facie case the burden of proof must rest on the railway authorities, or in the alternative the railways should be obliged to supply the technical data which the trader may find necessary for proving his case.

**Procedure of the Rates Advisory Committee.**—An application for a reference to the Rates Advisory Committee must be made in writing, signed by the applicant and should be addressed to the Government of India, Railway Department. A copy of this application must be sent to the Agent of the railway concerned and in the case of through rates over more than one railway to the Agent of the railway on which the traffic originates. Every such application must be accompanied by a deposit of ten rupees. The Agent of the railway concerned is given two months\* time within which he must prepare a statement of the case and submit it with his observations thereon to the Secretary of the Railway Board. After the receipt of the application and the Agent's observations thereon, the Government of India decides whether or not it should be referred to the Rates Advisory Committee for consideration. If the Government of India comes to the decision that the

\* This is a rather long period and causes delay. A period of 21 days under ordinary circumstances should be sufficient.

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application ought not to be referred to the Committee, the applicant is informed accordingly. The applicant has no other remedy thereafter. If, however, the Government of India decides to refer the application to the Committee, the respective parties are informed to that effect and the Committee is instructed to deal with it. On the other hand, if, before the expiry of two months, the Agent is able to dispose of the matters raised in the application to the satisfaction of the applicant and the applicant withdraws his application, the deposit is refunded. On the receipt of the application with the observations of the Agent thereon from the Government of India, the Rates Advisory Committee may furnish the applicant with a copy of the observations, and the applicant has to reply thereto within two weeks.

The Committee has not published its rules of procedure, which has often created doubts in the minds of the applicants, as can be seen from the published reports of cases heard and decided by the Committee. The President has had more than once to clear these doubts as to precise rules of procedure. This deficiency constitutes a serious handicap to the business community in pleading their case before the Committee and getting proper relief.

The Rates Advisory Committee is frequently mistaken for a judicial tribunal, though it is merely an advisory body. There is a mistaken belief prevalent in the business community that it is essential to brief a lawyer for arguing the case before the Committee and hence many traders are frightened at the heavy costs. Besides, even if the complainant knows

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cular rate, tries to collect the required information, he finds that the railway authorities refuse to co-operate with him. In the absence of co-operation from railways he cannot collect the data from any other source. Railway administrations are well-known for their utter disregard of public opinion in this country. In face of all these facts, it is desirable that once a trader has made out a prima facie case the burden of proof must rest on the railway authorities, or in the alternative the railways should be obliged to supply the technical data which the trader may find necessary for proving his case.

**Procedure of the Rates Advisory Committee.**—An application for a reference to the Rates Advisory Committee must be made in writing, signed by the applicant and should be addressed to the Government of India, Railway Department. A copy of this application must be sent to the Agent of the railway concerned and in the case of through rates over more than one railway to the Agent of the railway on which the traffic originates. Every such application must be accompanied by a deposit of ten rupees. The Agent of the railway concerned is given two months\* time within which he must prepare a statement of the case and submit it with his observations thereon to the Secretary of the Railway Board. After the receipt of the application and the Agent's observations thereon, the Government of India decides whether or not it should be referred to the Rates Advisory Committee for consideration. If the Government of India comes to the decision that the

\* This is a rather long period and causes delay. A period of 21 days under ordinary circumstances should be sufficient.

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that it is not necessary to appear through a lawyer, he finds that if he does not brief an experienced lawyer he would lose whatever little chance of success he has against the railway administration, which is usually equipped with the best legal advice as well as technical information. Further, the Committee bases its recommendations on the facts placed before it by the parties. In this respect the contesting parties are not on the same footing. The statistical data in the possession of the applicant is usually inadequate and defective. Per contra, the railway administrations possess full technical and commercial data necessary for proving their case. No wonder that the applicants are discouraged and fail to get best out of the Committee.

From the foregoing review of the constitution and procedure of the Rates Advisory Committee it will be seen that it does not meet the requirements of the business community. It is necessary, therefore, to change the constitution and procedure of the Committee in material particulars so as to inspire confidence in the commercial circles and keep the railroad administration at the highest pitch of efficiency. Railways are public carriers and render essential service to the community. On the efficient and economical management of the railroad industry rests the industrial development of a country. This feature of railway administration is particularly significant for our country at this stage, as she is passing through a period of industrial re-birth. It is imperative that there should be a mandatory authority, instead of a purely advisory body to sit in

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judgment over the conflicting interests of the railroads and the public. The public should have the right to refer the complaint direct to this Committee without the intermediary of the Railway Department. The Government of India, being financially interested in the working of some of the important railways, is usually a party to the contest and hence the Railway Department should not, in fairness, be entrusted with the delicate and difficult task of deciding whether a particular complaint should or should not be referred to the Committee for investigation. To guard against frivolous complaints, every complainant may be asked to make a deposit of about Rs. 500 to be forfeited if the Committee comes to the conclusion that the complaint was frivolous and vexatious. In certain cases appeals may be allowed to the Federal Court.

### **Important Features of the Present Rate Structure.—**

Now it behoves us to examine the important features of the present rates structure and its effects on the development of our trade and industries. It has already been shown that for the purpose of rate making the goods traffic is divided into sixteen classes. The Government of India has fixed maxima and minima rates that can be charged for each class. There is sufficient latitude permitted to the railway authorities to determine the actual rate they may like to charge and vary the same according to their requirements. If the rate charged is within the authorised maxima and minima, the Government of India have no right to interfere. Thus the discretionary power vested in the railway authorities under the present arrangements is fairly wide and on the proper

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use of this power depends the economic development of the country. A far-sighted, alert and well-informed railroad manager can help materially the development of trade and industries, whereas an inefficient, short-sighted and conservative traffic manager may impose a tax on the community and retard the industrial development of the country. Therefore wide discretionary power vested in the railroad administration is not *per se* objectionable ; *per contra*, it is a *sine qua non* of a proper rates structure and efficient railway working. Indian railway authorities, however, have failed to make a proper use of the discretionary power, as the evolution of rates policy clearly shows us. They have definitely neglected the development of traffic and have used the discretionary power for concealing their inefficiency ; they have tried to get maximum receipts with minimum traffic by charging higher rates. Public opinion has been disregarded and the railroad services have suffered both in efficiency and sufficiency. Alternative transport agencies, particularly river and coastal carriers, have been ruthlessly suppressed. The history of railway working in India does not warrant the vesting of wide discretionary power in railway administrations.

**Variations in Schedule Rates.**—The rates charged on the goods traffic are either class rates, or schedule rates, or station-to-station rates. The class rates are the maximum rates which the railways are permitted to charge. The schedule rates are usually lower than the class rates and have either a uniform or telescopic basis. If the basis is uniform the rate charged per

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maund per mile remains the same irrespective of the total distance traversed by a consignment. If, however, the basis is telescopic, the rate charged per maund per mile is reduced according to the length of the haul on a given railway system in order to encourage long distance traffic. This is a very useful and important feature of the rates policy. But there are surprising variations in the application of schedules.\* For instance, paper, cement, salt, jagree, grain and pulses, etc., are charged widely different eschedule rates on different railway systems.† This wide diversity in the schedule rates needs to be minimised, consistent with efficient and economic operation of the railroad system.

**The Discontinuous Mileage System.**—The more dangerous feature of the telescopic schedule rates is that they are based on the distance covered on an individual railway system alone and do not take into account the distance traversed by the consignment on the railway lines under different management. The entire rate structure has been built up on the basis of separate organisations with the result that long distance traffic over more than one railway system does not get the benefit of telescopic rates on the total distance covered. A responsible railway officer stated before the Tariff Board: "We have built up the railway structure on a policy of seperate organisations

\* The Wedgwood Committee rightly remark "that the divirsity of schedules on the Indian railways cannot altogether be justified by considerations of this character. We believe that this is realised by the railways themselves, and that they are already to some extent pursuing the question of simplification. We would urge that the matter should be taken up more energetically, with the ultimate object of reducing the number of schedules applicable to each commodity concerned to the minimum which can be justified on definite commercial grounds." Vide, Wedgwood Committee Report, Para. 127.

† Vide, Tiwari, R. D. : "Railway Rates."

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and you can't very well depart from that unless you are prepared to revise the whole rating structure."\* This practice of discontinuous mileage is being followed even in the cases when both the railway systems concerned are owned by the State. The President of the Tariff Board rightly remarked: "Both systems—E. I. and B. N. Railways—belong to Government, so that really there is no objection in principle to a through rate, one owner owning both the systems.† The Wedgwood Committee has also admitted that "the natural and logical method of calculating the rate is upon the throughout distance, not upon a series of discontinuous distances."‡ This defective practice in rate-making is due to the peculiar conditions under which railways were planned and constructed in this country; each system was worked as a separate concern having no relation whatsoever with other systems. Its effects on internal trade are more harmful than on the external trade, since most of the important internal centres are linked with the nearest major port by a single railway system whereas the internal traffic has frequently to pass over more than one system. For the proper industrial development of the country it is essential that this pernicious practice in rate making should be immediately discontinued and the telescopic schedule rates be quoted on the total distance covered by a consignment irrespective of the number of railway systems

\* Vide, Tariff Board on Salt Industry, Evidence Vol. II, pp. 148-49.

† Ibid.

‡ Vide, Para, 128.

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involved.\* It is unfortunate that the Government of India has not revised the rate structure so far, for the delay in this matter is causing serious damage to the structure of our trade and industries. In fact, the whole transportation system of a country should be treated as a homogeneous entity. The transport agencies, being public utilities, should, even though under private ownership and management, be so regulated as to promote proper economic development of the country consistent with efficiency and reasonable profits.

**Port Competition.**—Another significant feature of our rate structure is that relatively lower rates are quoted on competitive port traffic. This unhealthy competition between the railways needs to be checked, more so because the more important of the lines concerned—G.I.P., E.I., and N.W. Railways—are both owned and managed by the State. Under the present system, the internal trade has to bear higher freight charge. The actual incidence of transport costs on the internal trade is considerably higher due to break in gauges, discontinuous mileage rates, etc. It is necessary that the difference in transport costs between the internal and port traffic, due either to defects in construction or in the practice of rate making, should be reduced.† The primary aim of the

\* The Indian Industrial Commission had rightly recommended "that railways should accept the principle which is followed in some other parts of the world, that a consignment travelling over more than one line should be charged a single sum based on the total distance, any special claims for extra costs incurred by a particular line in handling short-length traffic being met by the grant of suitable allowances or of a suitably larger share to the less favoured line, when dividing the total payment between the railways concerned." Para. 273.

† "The governing principle which, we think, should be followed in railway rating, so far as it affects industries, is that internal traffic should be treated as nearly as possible on an equality with traffic of the same class and over similar distances to and from the ports."

Indian Industrial Commission, Para. 273.

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railway authorities should be to reduce the handicaps in respect of transport costs with which the domestic producers suffer in competition with foreigners.

**Co-ordination of Railroad Transport.**—Another important problem is the unhealthy competition between the railways and road carriers. With the inception of the automobile, the competition between railways and roads has become very keen and has led to immense waste of economic resources. The automobile is essentially a product of the twentieth century ; but it assumed prominence in a very short time and today occupies an important place in the transportation system of every industrially advanced country. Motor trucks have become indispensable for modern trade and industries.

The motor vehicle renders rapid, flexible and a more individual type of transport service. For short routes the motor truck is indispensable and superior to railroad or any other mode of transport because of its safety, regularity, mobility, speed, frequency, and cheapness. It offers door-to-door services, picks up and delivers goods with greater convenience and ease to the shipper. This is so because, unlike the railway, the motor truck does not require any fixed and costly road-bed to construct, and hence it is free to move to any part of the country to draw traffic, and leave without incurring any loss the route which proves to be uneconomic. The railway, per contra, require a fixed road-bed, and wide spread organisation for the collection and distribution of traffic, involving heavy capital investment ; the capital invested is sunk for ever and is irrecoverable. Thus railways are com-

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mitted to their route. Similarly, for passenger traffic, the motor bus can pick up and set down at any point en route. Thirdly, the manufacturer can use the motor bus for despatching goods promptly at his convenience and need not wait for the train timing. Fourthly, the automobile eliminates transshipment costs and delays. Reduced risk of pilferage is another advantage claimed by the bus, because the consignments during transit are under the control of a definite individual. Reduced packing costs and less likelihood of damage to delicate articles are some of the other advantages of motor transport.

Intensive studies on motor transport indicate that motor truck is used mostly for carrying manufactured goods, articles of high value in proportion to their weight and bulk, and that about three-fourths of this tonnage is moved to not less than thirty miles. In other words, the automobile caters for more valuable traffic to be carried over relatively shorter distances. For commodities possessing low value in proportion to their weight and bulk motor transport is uneconomical. Therefore, motor buses pick and choose their traffic, taking the more valuable and rejecting the lower categories. This is the root cause of trouble to the railways. The competition between these two important transport agencies has assumed serious form with the result that the state had to step in to regulate their working. This is amply borne out by the experience of advanced industrial countries like the United States, the U. K., Germany, etc. In India, too, the railways have adopted a hostile attitude towards the motor bus, particularly since 1932.

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This attitude of hostility needs to be replaced by one of the mutual trust and fellow feeling. Both means of transport are equally essential. There is nothing to choose between the two, for each in its individual sphere is equally important. Rightly it has been said that if railways are the arteries, the roads are the capillaries, and one would not do without the other, because the limitations of the one are the advantages of the other. As adverted to above, railways are confined to their rails and so the area they serve is limited. The road carriers on the other hand open out the interior, enabling easy access to nooks and corners, to secluded villages and remote farms. Without good roads and efficient road carriers, mobility would be hampered and markets restricted, because transport openings not only promote local movements but feed the railroads for long hauls too. This is especially true of agricultural countries. India needs more motor trucks which should link up the agricultural areas with the important trade centres and railway junctions, so as to facilitate the distribution of their agricultural products. It is a crying need of the Indian agriculturist. Considerations of his poverty, greater distances over which the motor truck can be usefully plied, insufficiency of inland water communication and the impossibility of reaching all parts by railways weigh heavily in favour of road communication. The isolated nature of agricultural operations rarely provides alternative means of transport. Road carriers generally provide the sole means of contact between the farm and the market, the advanced cities and scattered villages, and upon their proper develop-

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ment depend the extent of market and the prosperity of the people. Therefore, the strife between the road and rail should immediately be brought to an end. There should be an all-round development of transport facilities, more so because in India they are far from adequate for the requirements of Indian trade and industries.

To-day there is an imperative need for a proper co-ordination of rail and road services so as to provide efficient and adequate transport facilities to the public. The condition of road services in India is far from satisfactory; over-crowding of buses, overloading of lorries, irregular timings, defective mechanical equipment, etc., are common. This is largely due to ineffective and inadequate state regulation.\* Road services, being public utilities, should be regulated in accordance with public need so as to secure both sufficiency and efficiency. Rates should also be regulated. Motor vehicles needs be so taxed that the proceeds may be adequate to meet "the proportionate cost of providing, maintaining and policing the roads." If necessary the taxes may be raised. The basis of taxation ought to be the maximum laden weight of the lorries. The railways, on the other hand, should give up their present attitude of hostility towards the road carriers, and enter into agreements with them. They may also embark upon road services,

\* "The policy hitherto followed by the Provincial Governments encourages an unorganised and inefficient type of road transport whose competition will cripple the railways without providing a trustworthy service on the roads; whilst on the other hand the control exercised by the central Government can only be made effective by delaying or restricting the provision of an adequate road system, which is a public need of the first order, quite irrespective of the railways. In this way, a continuance of the present policy seems certain to give India the worst of both worlds—unprosperous railways and inadequate roads."

Vide, Wedgwood Committee, Para. 188.

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where the existing services are inadequate and avoid wasteful duplication of facilities and cut-throat competition. The State should effectively regulate any undesirable development in this direction through the Rates Tribunal. The new Motor Vehicles Amendment Act, notwithstanding its defects, will improve the present chaotic condition a great deal.

**The Federal Railway Authority.**—The Government of India Act of 1935, has outlined a scheme for the constitution of the Federal Railway Authority to regulate the construction, maintenance and operation of Indian railways under the proposed federal structure. The Railway Authority will consist of seven members. Not less than three-sevenths of the members of the Authority will be appointed by the Governor-General at his discretion. The Governor-General at his discretion will also appoint a member of the Authority as its president.\* The members must have special knowledge of commerce, industry, agriculture or finance or have had extensive administrative experience. No Minister or Member of any legislature in India will be eligible to hold office as member of the Authority till one year has elapsed since he surrendered his office, nor will any person be appointed as a member of the Authority who has been a servant of the Crown in India or has personally held railway contracts or has been concerned in the management of companies holding such contracts within one year of his relinquishment of his office or the termination of the contract as the case may be.

\* "In our view the President of the Federal Railway Authority should be a business man of high standing and of wide experience."

"Wedgwood Committee", Para. 215.

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The members will hold office for five years but will be eligible for reappointment for a further term of five years or less.

The Railway Authority will regulate the railroad industry on business principles with due regard to the interests of agriculture, industry and general public and to defence requirements. This is a very important change in the working and management of Indian Railways. The Railway Authority will have relatively free hand to manage its own affairs. Constant interference by the Government of India in the past has been responsible for some of the serious defects of our railway policy ; they have worked the railways so as to extract maximum dividends with minimum traffic. The Wedgwood Committee rightly remarked that the Government, as a shareholder, has benefitted from any surplus realised by the railways in good times and has claimed its dividends up to the hilt. In bad times, it has been in a position to use its whole weight in squeezing out a return often by economies of a fallacious and improvident character.\* Railway industry should be kept at the highest pitch of efficiency. We have already suggested in the preceding section that there should be an impartial and expert authority to determine the reasonableness of the rates charged by the railways and that the railways should be permitted profits just sufficient to attract necessary investment under honest, efficient and economical management. The railway authority, working on business principle, will provide more efficient and economical management. But much will depend

\* Vide, Para. 215.

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upon the personnel of the Authority. Political interference with the working of the railroad industry, which deflects railway policy from principles of sound finance, is undoubtedly dangerous and undesirable. The dangers of this sort of interference are no where better illustrated than in the construction and working of Indian railways, as shown above. But the individual railway administrations, apart from the State interference, have hardly shown sufficient regard for sound financial principles ; they have consistently disregarded public opinion and have failed to make adequate efforts to develop traffic. No wonder that Indian public opinion has become suspicious of both the Government of India and the railway administrations. To allay this shrewd public suspicion and to secure efficient working of the railway industry there should be established a Railway Rates Tribunal on the lines of the American model. This tribunal would be an invaluable watch-dog and keep the Railway Authority alert and efficient. In the absence of the Rates Tribunal it is doubtful whether the Railway Authority will be able to make any material improvement in the working of Indian railways.

The Wedgwood Committee suggested that "the Government should limit its interests to that of a debenture holder."\* It is difficult to accept the total capital at charge as debenture capital. We have shown that extravagant and wasteful cost of construction in the earlier stages of railroad development, due to Government negligence, is partly responsible for the huge capital investment. This portion of the capital investment, after an expert enquiry, should be written

\* Ibid.

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off. On the balance of the capital at charge the Government is certainly entitled to receive interest. Before, however, the Government can rightfully claim the interest, it should see that the industry is efficiently managed. The Rates Tribunal will watch the interests of both the Government of India and the general public ; it will help to secure efficiency and economy in railroad administration. Above all the entire administrative machinery must be imbued with national outlook and the railway policy should be formulated in the larger economic interests of the country as a whole to enable the people to extract maximum out of the iron-horse. India needs a national railway policy.