



सत्यमेव जयते

भारत सरकार Government of India
रेल मंत्रालय Ministry of Railways
(रेलवे बोर्ड Railway Board)

REPORT
of the
HIGH LEVEL COMMITTEE
on
SOCIAL BURDENS ON INDIAN RAILWAYS

January, 1979

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CHAPTER - I

A - INTRODUCTION

1.1 Indian Railways constitute the main artery of nation's inland-transport. Extending over 60600 route kilometres and with an investment of the order of Rs.6000 crores and staff strength of nearly 1.7 million, the Indian Railways are Asia's largest and the World's second largest Stateowned Railway system under one management.

1.2. The Indian Railways are not only a transport agency but have a deep social obligation to subserve the national objectives by providing the necessary infrastructure for healthy economic development and rapid industrialisation. As almost everywhere, the Railways in India are regarded not only as a commercial enterprise, but also a public utility service catering to the needs of the society. In the result, the Railways are obliged, in conformity with the national economic and social policy objectives, to operate unremunerative services both passenger and freight - in the interest of the community. The losses accruing from such uneconomic operations justified on wider social or national grounds may be termed as "Social Burdens" - as distinct from commercial deficits. It has been estimated by the Ministry of Railways that the financial losses arising out of these Social Burdens add upto Rs.1114.80 crores during 1970-71 to 1976-77.

B - BRIEF REVIEW OF RAILWAY FINANCES:

1.3. The financial results of the working of the Railways since 1950-51 have been as follows:-

(In crores of rupees)

	<u>Surplus(+)</u>	<u>Deficit(-)</u>
1950-51	15.05	
1951-52	28.34	
1952-53	13.19	
1953-54	2.56	
1954-55	9.10	
1955-56	14.22	
1956-57	20.22	
1957-58	13.38	
1958-59	8.93	
1959-60	20.13	
1960-61	32.01	
1961-62	24.40	
1962-63	42.06	
1963-64	49.24	
1964-65	13.18	
1965-66	18.56	

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	<u>Surplus(+)</u>	<u>Deficit(-)</u>
1966-67		18.27
1967-68		31.53
1968-69		7.86
1969-70		9.83
1970-71		19.84
1971-72	17.84	
1972-73	2.92	
1973-74		115.51
1974-75		113.83
1975-76		61.11
1976-77	87.24	
1977-78	126.23	
1978-79 BE	65.43	

1.4 It will be seen therefrom that the Railways have been incurring sizeable deficits for nearly a decade from 1966-67 and onwards. It is only since 1976-77 that Railways have earned profits once again.

1.5 It may be noted that from 1966-67 and onwards, the Railways could not meet fully even their dividend liability to the General Exchequer, not to speak of financing the Developmental expenditure from Development Fund. The accumulations in the Revenue Reserve Fund (used for dividend equalisation) and the Development Fund which stood around Rs.100 crores at the end of 1963-64 were exhausted and the Railways had to take loan from the General Revenues to meet their Dividend commitments as also the expenditure devolving on Development Fund. In the result, Railways' indebtedness to the General Revenues stood at Rs.461.99 crores at the end of 1976-77. Because of surpluses in the years 1976-77 and 1977-78, the indebtedness is likely to be reduced to Rs.368.68 crores by 1977-78.

1.6 The basic reasons for the deterioration of Railway Finances during the decade between 1966-67 and 1975-76 are

- i) The volume of traffic did not increase to match the anticipations; and
- ii) The increase in freight rates and passenger fares did not keep pace with sharp increases in personnel and material costs.

1.7 It was in the context of the progressively deteriorating position of the Railway Finances, that the Railways represented to the Railway Convention Committee, 1973 to consider ways and means to relieve the Railways of the heavy "Social Burdens" which had led to a serious financial disequilibrium on the Railways.

1.8. The Committee have dealt this problem in their 9th report entitled "Social Burdens on Indian Railways" their important recommendations are given below:-

**IMPORTANT RECOMMENDATIONS OF THE RAILWAY CONVENTION
COMMITTEE, 1973 REGARDING SOCIAL BURDENS ON INDIAN
RAILWAYS**

Recommendation No.8 (Para No.1.143)

The Committee find that most of the foreign Railways are bearing social burdens resulting from the operation of certain types of services, fares and freight policies and provision of staff amenities. The social burdens generally carried by these Railways include losses arising from (i) unremunerative though socially desirable operations (ii) concessional fares and freight rates for specified categories of users and commodities (iii) restraint in the matter of raising freight rates and fares etc. to match the cost of inputs. The Committee also note that Railways abroad receive financial assistance from the concerned Governments to meet broadly the following social burdens:-

- i) losses from unremunerative passenger service continued to be operated in public interest (Britain, France, Canada) and/or short distance traffic (Germany).
- ii) losses from charging uneconomic fares and freight rates in line with Government's policy (Britain, Germany, France).
- iii) cost of operation and maintenance of crossing (Germany).

Recommendation No. 9 (Para No.1.144)

In addition, some of these foreign Railways receive compensation in a number of other forms like subsidy for payment of interest (as in the case of German and Japanese Railways) writing down of capital liability (as in the case of British Railways), payment of local taxes at reduced rates (as in the case of Japanese and West German Railways) and subsidies to cover revenue deficits (as in the case of Japanese, German and British Railways).

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Recommendation No.10 (Para No.1.145)

The Committee consider that before any compensation to meet the losses incurred by the Railways on uneconomic services is contemplated, it is necessary that a proper costing methodology is evolved to estimate as correctly as possible the losses incurred by them on account of the various social burdens. The Railways in their own interest should urgently evolve a methodology of costing their services which will receive an all-round acceptance and will enable them to determine with maximum accuracy the losses relatable strictly to the social burdens carried by them.

Recommendation No.11 (Para No.2.38)

The Committee note that the estimated losses on non-suburban passenger traffic which stood at Rs.47 crores during 1970-71 have risen to Rs.135 crores (approximately) in 1974-75 and the estimated loss on all the passenger services for the year 1975-76 would be Rs.130 crores out of the aggregate loss of Rs.138 crores estimated on account of social burdens. The Committee, however, find that the railways have not yet been able to complete their coaching cost study with the result that they have no means of assessing the quantum of shortfall in the fares charged as against the cost of operations, train-wise/classwise. In the absence of such a study, the Railway are not in a position to identify the coaching services or the sections which are unremunerative from the passenger traffic point of view. The Committee are at a loss to understand why the Railways, which have now been in the red for several years, have taken such a long time to finalise the coaching cost study. The Committee urged that the coaching cost study should be finalised without further delay so that the Railways are able to identify accurately the losses that they incur on train services or sections or classes of travel.

Recommendation No. 14 (Para No.2.41)

The Committee observe that the Railways charge concessional fares for travel to and from hill stations and also give concessions to students, sportsmen, artists, Defence personnel, blind persons, etc. The value of such concessions is estimated to be of the order of Rs.13 to 18 crores per year. The Committee recommend that while such travel concessions may continue, the Railways should be reimbursed the cost thereof. With this end in view, the necessary financial arrangements may be worked out by Government.

Recommendation No. 18 (Para No. 2.45)

It has been claimed that there is an element of subsidy involved in the fares of 3rd class (now 2nd class) passengers who constitute the bulk of travelling public. The Railways have urged that the losses that they incur as result of charging fares which are not economic vis-a-vis the cost of operation should be made good to them. The Committee, however, observe that according to the Ministry of Railways the question of assessing the quantum of shortfall in the fares charged as against the cost of operation, class-wise, could be examined only after finalisation of the coaching cost study. The Committee find that the Railway in Britain, West Germany and France have been receiving some kind of assistance for unremunerative passenger services. The Committee recommend that Government should evolve a financial arrangement in the light of findings of the costing study and the economics of operation of various classes of travel in consultation with the Ministry of Finance and Comptroller & Auditor General whereby the Railways are compensated in some equitable manner for the unavoidable losses that they incur on second class passenger traffic only.

Recommendation No. 20 (Para No. 2.68)

The Committee are of the opinion that it is the responsibility of the State Governments, local authorities, public and private sector undertakings and other major industrial and business concerns to provide residential accommodation to their employees (who form the bulk of commuters) near their place of work or in the alternative to provide them suitable transport facilities. It is obvious that if the offices, industries etc. and residential colonies are rationally located, the burden on transport would be minimum. The phenomenal increase in suburban traffic is a pointer to the fact that no integral planning has taken place in this vital sphere. It is only as a legacy of the olden company days that the Indian Railways continue to carry this ever-increasing burden. The Committee agree with the contention of the Ministry of Railways that the continuous deterioration in their financial position since 1966-67 has now brought them to a stage when it is no longer possible for them to bear the losses on suburban services. The Committee consider that it would be only equitable if the losses on this account are pegged to 1965-66 level the last year in which the Railways earned a surplus and whatever losses are incurred over and above that level should be borne by the State Governments, local authorities etc. on an agreed basis. At the same time, the Committee

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realise that a proposal like this bristles with difficulties in the present situation when the finance of the State Governments and local authorities are none too happy. The Committee, therefore, recommended that the entire question of subsidising the Railways so as to cover the unavoidable losses on passenger traffic, suburban as well as non-suburban, should be remitted to a high powered Committee comprising the representatives of the Ministries of Railways, Transport and Finance, the Q&A.G, the State Governments and local authorities concerned. This Committee may be entrusted with the task of working out a practicable financial arrangement to subsidise the Railways keeping in view the practice obtaining in Britain, France, West Germany etc. in this behalf.

Recommendation No. 25 (Para No.3,45)

The Committee further note that Railways are developing costing techniques to determine the unit cost of transportation of freight traffic and that they are making efforts to do traffic costing as accurately as possible. The Committee feel that the costing techniques need to be further refined so that the cost of carriage of various commodities is determined on a scientific basis and the freight structure is rationalised accordingly. The Committee would, therefore, like this study to be completed at the earliest.

1.9. In pursuance of Recommendation No. 20 of the referred to above, Committee/the Government of India, in the Ministry of Railways, appointed a High Level Committee to review the entire question of subsidising the Railways so as to cover unavoidable losses in passenger traffic, suburban as well as non-suburban etc. The Committee was appointed under Resolution No.ERBI/77/21/84 dated 11.1.1978 (copy enclosed as Annexure I). The Terms of Reference of the Committee are :-

" To review the entire question of subsidizing the Railway so as to cover the unavoidable losses on passenger traffic, suburban as well as non-suburban, unremunerative branch lines, and goods traffic and to work out a practicable financial arrangement taking into consideration similar practice obtaining on other foreign railways. Views of the concerned interests may be obtained by the Committee.

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The Committee should also examine the manner in which the cost of special responsibility on Education, Health and guarding of Railway property incurred by the Railways can be shared with the States or Central Revenues."

1.10 The Committee consisted of the following:-

Shri H.K. Bhalla	Advisor(Finance)	..	Chairman
Shri M.S. Gill	Advisor(Finance)	..	Chairman(w.e.f.1.11.78)
Shri Jagdish Lal	Director Traffic Commercial Ministry of Railways	..	Member
Shri P.N.S. Bedi	Director Traffic Commercial Ministry of Railways.	..	Member(w.e.f. 1.11.78)
Shri D.Shankaraguruswamy	Jt.Secretary Ministry of Finance	..	Member
Shri B.B. Mahajan	Joint Secretary Min.of Shipping & Transport	..	Member
Shri V.Sunderasan	Joint Director, (Railway Audit)	..	Member
Shri M.Q. Dalvi	U.N.D.P. Advisor on Transport Policy, Planning Commission	..	Member
Shri R.N. Saxena	Jt.Director, Traffic Commercial/Rates I Ministry of Railways	..	Member Secretary

Since Shri H.K. Bhalla, Advisor(Finance), Ministry of Railways and Chairman of the Committee and Shri Jagdish Lal, Director, Traffic Commercial, Ministry of Railways and a member of the Committee superannuated from service on 31.10.78, Shri M.S. Gill Advisor(Finance) and Shri P.N.S. Bedi, Director Traffic Commercial, took over as Chairman and Member of the Committee respectively from 1.11.1978.

1.11 The Committee held six meetings before finalising their report. In view of the fact that the Committee did not have sufficient time at their disposal, it was not possible for them to obtain the views of the concerned interests.

1.12 In view of the fact that a Rail Tariff Enquiry Committee was appointed in September 1977 and the nature and extent of social burdens on the Railways was likely to undergo a sizeable change as a result of the recommendations of the Rail Tariff Enquiry Committee, it was also considered whether the Committee on Social Burdens should not wait for the report of the Rail Tariff Enquiry Committee 1977. However, the Minister for Railways felt that notwithstanding the appointment of the R.T.E.C., a High Level Committee on Social Burdens should go into the entire question of social burdens on Indian Railways without waiting for the report of R.T.E.C. and submit their report. Accordingly, the Committee on Social Burdens started their deliberations and have finalised their report.

APPROACH TO THE PROBLEM

2.1 The term "social burdens" can be defined to imply losses accruing to the Railways as a result of obligations carried by them on social and political grounds and do not indicate their commercial deficits. ~~This is a subjective criterion to some extent. For example,~~ Section 27 of the Indian Railways Act 1890, makes it obligatory on the Railways to provide reasonable facilities for receiving and forwarding the traffic offered to them without any undue discrimination in favour of one group of users or another. There are also certain obligations arising from the role the Railways have played in the economic development of India as in many other countries. The fact that they have shared the main burden in the transport of men and materials for the early development of many countries has led to a belief that they still have a catalytic role to play in the development of backward areas. Hence, there is a persistent demand for constructing new railway lines with low or even negative financial rates of returns in the expectation that these lines will ultimately pay when the expected traffic demand materialises. Similarly, there are the social obligations arising from the fact that the Railways are the major means of mass transit system in our metropolitan cities, providing transport service at concessional fares to the commuting public. All the same, these obligations do not necessarily imply that the entire losses of the Indian Railways can in principle be attributed to the "Social Burdens". All this means that the term 'Social Burdens' needs to be clearly defined, so that the components of losses as may be attributable to the social and political obligations of the Railways may be separated from the components attributable to the slippage of productive efficiency.

THEORETICAL CONSIDERATIONS:

2.2 One of the basic postulates of modern economics is that generalised or indiscriminatory subsidies are economically inefficient and socially wasteful. They cause misallocation of scarce resources thereby reducing the quantum of national output; on the other hand, there is no certainty that they will redistribute income in the desired direction. The strict approach to transport policy would entail the elimination of such subsidies by ensuring that the users pay at least the full marginal resource cost of providing the given service.

2.3 The Railways have conventionally endeavoured to cover their operating costs by cross-subsidisation by pricing their output on the basis of "value of service" principle. The "value of service" principle, however, presumes monopoly position in the market for the

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producer in question. The fact that the Railways have lost their monopoly in the transport market is a past history. They have not only lost business to road transport in both passenger and freight operations particularly with respect to short and medium distance traffic, but in the case of freight they have lost the cream of their business viz., the high value revenue earning traffic to the rival mode. Consequently, the powers which they enjoyed for price discrimination in the past are no longer available today. This point must particularly be borne in mind in working out practicable arrangements for the financial operations of the Railways in the present day circumstances.

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2.4. Cross subsidisation is also not justifiable on economic grounds. It obviously leads to resources misallocation but what is more disturbing in policy terms is that it raises most difficult income distributional questions. For example, if commuter traffic in metropolitan cities were to be cross-subsidised from the earnings on long distance passenger travel, how does one ensure that the real beneficiaries of this cross subsidy would be the low income urban workers whose journeys are subsidised by the high income people who supposedly make most of long distance journeys? Cross subsidisation, even if it were to be monitored properly & in order to ensure that the right groups of people benefit from it, requires massive empirical information whose collection cost would probably be too prohibitive to consider it seriously as a policy prescription.

2.5 If it is correct to assume that the scope for price discrimination available to the Railways has been reduced over time in the face of severe competition from other modes and also that cross subsidisation is undesirable on efficiency as well as equity grounds, then the question is: How should we arrange the financial affairs of the Railways such that the need for subsidy in any form is completely eliminated? Three crucial issues are involved here:

(a) Is it correct to postulate on economic grounds that the Railways can really be operated in such a way that they would never be in need of subsidy in any form in all circumstances?

(b) If, given the nature of their production function, it is correct to assume that the Railway must have a recourse to subsidy under certain conditions, what should be the right economic form of that subsidy? and

(c) Under what conditions can subsidies be really justified in railway operations in the present-day conditions?

2.6. It may be argued that a key to formulating a correct policy on the Railways' social burdens lies in providing right answers to the foregoing questions. Briefly speaking, there are three well-known grounds why it is not realistic to expect that unlike in many other industries the Railways would be able to cover their operating costs particularly in the initial years of their operation:-

(i) Given the technical nature of their production function, the minimum productive capacity which the Railways must create to begin their business generally exceeds the available traffic demand. This is the standard example of technical indivisibility to which other public utility undertakings are also subject.

(ii) Railways not only produce "private goods" desired by individual consumers for private consumption in the form for example, of personal journeys and the carriage of commodities for personal use; they also produce "public goods" such as the use of transport for defence or the maintenance of law and order in the country. While the transport service produced for private consumption can be priced on the basis of market determined preference functions of the consumers, there are no such market-determined indications for the preferences of public goods produced by the Railways. Accordingly, there is no logical basis whereby the Railways can in principle set price for the public goods created by them in broad social and political interests of the nation.

(iii) The Railways also generate some external benefits which they are not always in a position to internalise by charging appropriate prices. For example, the benefits accrued to the employers in metropolitan cities as a result of increased accessibility provided by the heavily subsidised suburban commuter services to the labour market can hardly be appropriated by the Railways through the pricing mechanism. Numerous similar examples of externalities created by the Railways may be cited from economic text books. The point to highlight in the present context, however, is the technical inability of the Railways to charge appropriate prices for all the multifarious services provided by them. Added to this problem is the political constraint in the form of various regulatory devices imposed on the Railway almost everywhere which make it difficult for them to charge the cost-based prices even for those services in respect of which market information on consumer preference is available.

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.2.7 In view of the foregoing considerations, it is not unreasonable to postulate that subsidisation will be an essential element in the financial management of the modern Railway system. This does not, of course, imply that the Railways cannot in principle be run on sound business principles. In fact, it was the expectation of earning large profits that had prompted the promoters of the railway system in the 19th century to invest their funds in this mode of transport. The most central point one must remember is that even if we were to run the railway system on strict business principles with a view to ensuring that they do not incur operating losses, there may still be important technical and economic grounds for the reasons mentioned ~~in paragraph 2.7~~ above which make subsidisation necessary if the Railways are to continue in business playing their vital role in our transport system.

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.2.8 If subsidisation of the Railways under certain circumstances, thus becomes unavoidable on economic grounds, then the next question we have posed is: What should be the form of that subsidy? In this context, we may enunciate another sound principle of modern welfare economies. If payment of subsidy for a particular operation is a must then it must be in an explicit instead of implicit form. Concealed subsidies either in the form of cross-subsidisation or equity participation by the State to the capital structure of a particular enterprise are more wasteful economically than open subsidies in the form of outright grants from the National Exchequer. If, therefore, the Railways are to carry certain social burdens as defined and approved in a democracy by the National Parliament, then it is obligatory for policy-makers to ensure that the Railways receive open subsidies, for example, in the form of outright grants from the Exchequer if misallocation of resources is to be avoided. This procedure is also useful in that it provides a regular opportunity to the policy-makers and ultimately to the nation to assess whether or not the subsidies in question are socially desirable and if so, in what form these should be financed and what their consequences are from the view point of both resource allocation and re-distribution of income.

.2.9 The next question we may now ask is: Are the various items accounting for the Railways present losses in the nature of real social burdens as defined in paragraph 2.8 or are some of them purely the result of inefficient management on the part of the Railways or the institutional constraints imposed on them? The items customarily enumerated as forming social burdens are as follows:

- (a) Commodities carried below cost.
- (b) Suburban and certain short-distance services carried below cost.
- (c) Losses arising on new "developmental lines" constructed to oper. up to backward areas.

- (d) Losses arising on unremunerative branch lines.
- (e) Restoration of lines dismantled during the second World War.
- (f) Losses on account of subsidized housing provided to the staff and development of new townships.
- (g) Losses on account of certain welfare activities carried by the Railways, such as education, health etc.
- (h) Losses on account of employing police force to protect railway property and maintaining law and order on the Railways.

2.10. It is clear that not all the items mentioned above can technically qualify for consideration as social burdens of the Railways on the criteria ~~outlined in paragraph 8 above~~. These criteria are listed below in summary form once again:

- i) Technical indivisibility;
- ii) Creation of public good; and
- iii) Externality.

It may be seen that except items (a) and (b), none of the items listed above as social burdens can meet the criteria laid down. Indeed the two particular items mentioned above, viz. losses due to subsidized housing (f) and certain welfare services provided by the Railways (g), are part of the normal activities of any other public sector enterprise, which wants to provide certain welfare services to its employees. Even the expenses incurred on protection of property are in essence part of the normal operation of any productive enterprise. The most difficult problems conceptually arise with respect to items (a) to (d) mentioned above. Of these, the principal justification for the first two items rests probably on grounds of social equity. Item (a), for example, represents subsidies by and large for commodities of mass consumption whose movement below cost may be considered socially desirable on income-distributional grounds. Similarly, subsidisation of suburban commuter travel may be justified on grounds of urban land use planning on the assumption that the social benefits generated by the resultant decongestion of urban areas may more than offset the cost of subsidy provided through the Railways. Of course, both these are clear cases of hidden subsidy which we have already rejected as policy prescriptions on economic efficiency grounds.

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2.11 This leads us finally to the consideration of items (c) and (d), viz., the losses on account of developmental and unremunerative lines operated by the Railways. All the three criteria listed above one way or the other provide justification for subsidising these losses in modern welfare economics. The real point is that while the social gains supposedly resulting from these lines tend to be widely distributed over the region served by them, the losses are naturally focussed on the accounts of the Railways. The quantification necessary for arriving at scientific decision in this matter is most difficult methodologically and also costly in money terms. The judgement for including these items under social heads is therefore in final analysis a political decision.

2.12 The Committee's approach to this problem therefore boils down to this that if subsidies are to be justified for the operation of the railway system, they must be based on the strict economic rationale outlined in the foregoing paragraphs.

CHAPTER III

ENUMERATION AND DISCUSSION OF SOCIAL BURDENS ON INDIAN RAILWAYS

3.1. The problem of social burdens started rearing its head only after the ownership and management of the Railway system came to be vested in the Government. Even though the Railways carried moiety of "social burdens" before 1965-66, they had enough cushion to absorb this burden since its quantum was comparatively low. It was only when both the staff costs and material costs began rising steeply and the Railways got into "red" year after year, since 1966-67, that the question of some relief being afforded to the Railways in the matter of social burdens assumed importance. The problem was further accentuated by progressive transfer of high rated traffic from Railways to the Road Transport. In the result the Railways became only bulk carriers of heavy goods and raw materials for industries which accounted for about 84% of the total revenue tonnage transported by Railways in 1976-77, against 58.2% in 1951-52.

3.2. The important components of "Social burdens" developing on Railways are discussed below:-

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A: GOODS TRAFFIC

3.3 Indian Railways are the biggest carriers of goods traffic in the country. Since most of the traffic movement is generally in commodities which have comparatively lower value but greater density, viz. coal, limestone, dolomite, stone, sand, foodgrains, salt, iron ore and other ores etc., the Indian Railways are required to carry bulk of this traffic across the sub-continent at comparatively low rates.

3.4 Under the provisions of Indian Railways Act 1890 especially Section 27 of the Act, Indian Railways are under an obligation to provide reasonable facilities for receiving and forwarding traffic offered to them without any undue preference or discrimination against any person or class of goods. Because of this legal position the Railways' freedom to choose traffic is inhibited and the Railways cannot refuse to carry any goods offered to them. In fact at times transport of essential commodities like foodgrains, salt, coal, limestone, dolomite, iron ore etc. are required to be given higher priority under instructions from the Government. On the other hand the road transporters who are mostly privately owned do not suffer from any such constraints. In the result road transporters prefer to carry the cream of traffic which is high rated leaving the low rated traffic to Railways.

3.5 The goods traffic carried by Indian Railways can be placed in certain well defined categories as under:-

(i) To the first category belongs the traffic in essential raw materials like coal, iron ore, manganese, gypsum, limestone, dolomite, other ores, lime, sand, china clay etc. which are required as basic raw materials for various industries. Railways have been carrying this traffic at low rates on the ground that these are of low value and are mostly mineral product and therefore, cannot bear heavy freight rates. The net result is that about 51% of the Indian Railways goods traffic which comprises of these items, is of such a nature that the Railways carry it either at cost basis or even at below cost. (Refer paras 3.9 and 3.10).

(ii) The second category of traffic consists of items which are required by the common man as a part of his daily needs and which affect his budget. These commodities are foodgrains, salt, sugar, fruits and vegetables, edible oils, gur, shakkar and Khandsari, firewood, charcoal, bidi and bidi leaves, kerosene oil, provisions and matches etc. These commodities account for nearly 14% of the total goods traffic on Indian Rlys. In respect of these commodities, because of social and political considerations, the Railways are obliged to carry this traffic at below cost.

(iii) The third category of traffic carried on Indian Railways like chemical manures, paper, oilseeds, oilcake, coal-tar and bitumen, cement, livestock, bamboos, fodder and dry grass, bricks and tiles, soda ash, caustic soda, sugarcane, organic-manures are such items where again the Railways in the overall interest of national economy are restrained from imposing cost-oriented freight rates because these commodities are

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either industrial raw materials required for sugar mills, paper mills, oil mills, or required for construction of roads and other nation building projects or required as cattle fodder or utilised for agricultural production or for augmenting milk supply etc. These items account for nearly 15% of the total goods traffic of the Indian Railways.

Thus on about 80% of the goods traffic carried by Indian Railways there is not much of a scope for the Railways to make profits or cross subsidise the losses on the carriage of other commodities.

iv) High Rated Commodities: This traffic consists of commodities like timber, jute, electric goods, cotton, non-ferrous metals, tea, rubber, glassware, tobacco, piece-goods, wool, soap, colour & dyes, leather, paints and varnishes etc. Progressively during the last two decades the Railways have been steadily losing this traffic to the Road. In the circumstances, any enhancement in the freight rates for these commodities would result in loss of this traffic further to the Road. This has also resulted in diminution of Railways capacity for cross subsidization.

3.6. The only commodities thus left for the Indian Railways to make up their losses, are iron and steel and mineral oils. The classification of iron and steel and mineral oils is already very high and the incidence of freight on the prices substantial. In addition pipe lines are coming up all over the country for the carriage of POL products and it is quite on cards that in no distant future the pipe lines will become the major carrier of POL products. In fact crude oil even now moves only by pipe lines. With the completion of Mathura-Salaya pipe line a major dent will be made in the POL traffic to be carried by the Indian Railways. As regards iron and steel traffic there is already a tough competition, and the road hauliers have started capturing a sizeable quantity of this traffic from the Railways.

3.7. The old theory of cross-subsidization of traffic by making money on high rated commodities to cover up the losses on the carriage of low rated commodities therefore, does not hold good any more. If the Railways attempt cross-subsidization by enhancing the freight rates for iron and steel and POL traffic, they may progressively lose this traffic also.

3.8. In the event if the Railways are to eliminate losses on goods traffic, the only alternative is to increase the freight rates on carriage of such of the commodities which are being transported at present at below cost, irrespective of the fact that those commodities are used by the common man, that these constitute industrial raw materials or that these are required by the Community for various purposes.

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3.9 It has been estimated by the Railways that the loss in the carriage of various low rated commodities incurred by the Indian Railways from 1970-71 to 1977-78 is shown below:-

<u>Year</u>	<u>Total loss (In crores of Rs.)</u>
1970-71	52.00
1971-72	54.00
1972-73	55.00
1973-74	115.40
1974-75	45.61
1975-76	41.67
1976-77	66.65
1977-78	<u>69.42</u>
	<u>498.75</u>

3.10 The commodity-wise break up of the losses for the year 1977-78 is given below:-

	(In crores of Rs.)
Foodgrains	40.88
Fodder	3.84
Salt for edible use	9.46
Fruits & Vegetables	2.04
Oil seeds	1.16
Gur, Shakkar & Jagree	3.78
Bamboo	1.50
Firewood & Charcoal	2.59
Livestock	1.31
Ores other than iron & Manganese	0.33
Edible Oils	1.86
Molasses	<u>0.67</u>
	<u>69.42</u>

3.11 It has been estimated by the Railways that if the Railways are to recover the cost of carriage of those commodities on which they are incurring losses, by suitably increasing the freight rates, the incidence on prices would be an increase of about 4 paise/5 paise per kg. only for foodgrains, salt, gur and edible oils and of the order of 2 paise/3 paise per kg. only for oilseeds, firewood, charcoal and other items. The Committee are of the view that the Railways should be permitted to increase their freight rates for these items, since freight rate hike will only marginally increase the price of these commodities. The proposed increase will neutralise the loss incurred by the Railways completely and relieve the Railways of this heavy social burden.

3.12 However, if the Railways are not permitted to raise the freight rates as proposed in the overall national interests, the Committee recommend that the losses incurred by the Railways in the carriage of these commodities should be reimbursed to them in full by the Central Government.

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B. SUBURBAN AND NON SUBURBAN FARES

3.13 The Railway Convention Committee 1973 were of the view that it was the responsibility of the State Govts., Local Authorities, Public and Private Sector Undertakings and other major industrial and business concerns to provide residential accommodation to their employess (who form the bulk of commuters on suburban services) near their place of work or in the alternative to provide them with suitable transport facilities. The phenomenal increase in suburban traffic according to the Committee "is a pointer to the fact that no integrated planning has taken place in this vital sphere." The Committee agreed in principle with the Ministry of Railways that the continuous deterioration in their financial position since 1966-67 had now brought them to a stage where it was no longer possible for them to bear the losses on suburban services.

3.14 The Convention Committee further urged that extremely low suburban season ticket fares were responsible for not only causing heavy over-crowding in suburban trains but also in concentration of the offices of the Government, Public Sector and Private Sector in the heart of cities in Bombay, Calcutta and Madras. If the season ticket fares were not so low, either these offices would be located near the place of the residence of employess or in the alternative these organisations would provide residential accommodation along with offices away from the heart of the city. On economic grounds the concessional fares are not at all justified and in fact the fare structure should be such as to be disincentive to further concentration of population in these cities.

3.15 Another result of these low season ticket fares is, that they have discouraged the growth of other important cities. But for these low fares, a number of satellite cities would have grown and the people would not have to spend 3 to 4 hours of their daily time for travelling to and from office and home. From this angle it is also very necessary that huge concentration of population in cities like Bombay, Calcutta and Madras is discouraged so that peripheral and satellite cities could grow. This will also help in bringing down the price of land, which has so steeply shot up in these cities.

3.16 A study of the bus fares in these suburban cities shows that neither any monthly reduced season ticket fares are given by Transport Undertakings, nor any reduced fares are charged. In fact bus fares in Bombay are much higher compared to rail fares specially the fares for the express buses which favourably compare with the fast suburban services. It therefore appears equitable that the rail fares in these three cities are not lower than the bus fares on per ticket basis. It is also a matter for consideration as to whether Railways should give reduced monthly season ticket fares when the road transport undertakings do not give the same facility to the daily commuters travelling by bus. However, it may not be advisable to completely do away with the monthly season ticket fares because of the long history and because ~~xxxxx~~ this facility has been availed of by very large number of population in these three cities. But there is a

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trong case to reduce the quantum of concession given to monthly season ticket holders. The Committee accordingly recommend that the rail fares for suburban services should not be less than bus fares for the corresponding distance in the cities of Bombay, Calcutta and Madras and in any other suburban area where suburban fares are introduced in the future. The Committee as an ad hoc and first step accordingly recommend that monthly season tickets fares should be fixed on the basis of 24 journeys in a month i.e. 24 single journey fares must be charged from each monthly season ticket holder in these three suburban areas. The present practice of issuing quarterly season tickets on the basis of 2½ times of monthly season ticket fares should also be discontinued forthwith.

3.17 The Committee appreciate that it will not be possible for the Ministry of Railways to enhance the season ticket fares at one stroke. Accordingly, the increase should be progressive and gradual, but the entire process should be completed within a period of three years so that this legacy of losses on suburban fares does not continue for more than three years. The Committee also recommend that till the Railway Ministry enhance the season ticket fares upto the level at which the cost is covered they should be fully compensated for the losses on this account from the general revenues and they should be allowed to appropriate the incidence of losses from the dividend payable by them. With a view to ensure that there is no difficulty in fixing the amount of compensation, the figures of losses should be pegged at the level of losses on suburban services for the year 1977-78.

3.18 The Committee further recommend that the special fare table in force for second class upto 50 Kms. should also be abolished for suburban and non-suburban sections because specially low tariff for short distances tends to artificially divert the traffic from road transport to Railways even though the road transport may be more economical for the short journeys and the present subsidisation of short distance passenger traffic by the Railways is not justifiable on broader economic considerations. Further the Railways have pointed out that the passengers tend to misuse this lower fare table by splitting journeys and thus depriving the Railways of their legitimate revenue. The increase in fares as a result of the abolition of this lower fare table will range from 5 paise at the lowest distance of 10 kms. to 25 paise at the distance of 50 kms. which is only marginal.

3.19 The Railways also incur substantial losses as a result of various travel concessions, which include concessions to students, teachers, kisans and concessions on journeys to hill stations. These concessions date back to a period, when the railways wanted to attract passenger traffic by giving various concessions so that the accommodation on the trains was fully utilised. In the present situation when there is over-crowding in most of the trains, giving of concessions appears anomalous. Without passing any value judgement on the need for subsidy for any specific group the committee are of the view that these subsidies should not be given by the Railways and having considered all aspects the Committee feel that all such concessions should be abolished. In case any subsidy in the case of travelling of any of these categories is considered desirable on broader socio economic consideration it will be more appropriate if these are provided by the concerned department/organisation such as Agriculture, Labour, Community Development, Education, etc.

- 3.20. The Committee therefore recommend that the hill concession should be withdrawn forthwith during the busy season and if at all any hill concession is to be given, it should be given only for the period from November to March, i.e. during the off season.
- 3.21. As regards travelling concessions to Kisans, Industrial labour etc. the Committee recommend that these concessions should also be immediately withdrawn. The Railways do not have adequate coaching stock for running special trains and special bogies and even if they have such stock the exiguous resources should be utilised in dealing with the normal traffic.
- 3.22. The concessions to students and teachers, however have a long history. The Railways encourage travelling among students, so that they can see the country. The Committee recommend that this concession should be given only to such students and teachers as go on educational tours and not for travelling to their home towns and back to the place of their education. The concessions given to students at present for other than educational tours should accordingly be withdrawn.
- 3.23. The only concessions where continuation is justified in the view of the Committee are: concessions to Cancer patients, T.B patients, disabled and handicapped persons, leprosy patients, Red Cross and Nurses, NCC and Bharat Scouts & Guides going in parties or for camps.
- 3.24. The Committee have been advised that the Railways are incurring losses on passenger and coaching traffic. Besides withdrawals of specific concessions, the Committee is of the view that the Railways should improve their costing technology and ensure that their pricing for passenger and other coaching services is never below the cost. It should be ensured that the cost is correctly worked out and that the passenger fares for each class of travel, parcel rates, luggage rates and rates for postal traffic, military traffic and for other coaching services are not fixed below what it costs the Railways to provide these services.

C. UNECONOMIC BRANCH LINES

3.25. The loss incurred by the Ministry of Railways on maintaining/running of Uneconomic Branch Lines during the past five years i.e. 1972-73 to 1976-77 is given below:-

<u>Year</u>	<u>No. of Lines</u>	<u>Loss in crores of Rs.</u>
1972-73	127	11.39
1973-74	139	19.90
1974-75	142	26.14
1975-76	132	25.75
1976-77	114	20.00

3.26. The question of closing down or dismantling certain uneconomic branch lines has been considered by the Government from time to time. The observations and recommendations made by some of the Committees on the issue are briefly indicated below.

3.27. The Indian Railway Enquiry Committee, 1936-37, under the Chairmanship of Sir Ralph L. Wedgewood had observed as under

"Closing of branch lines - We find that insufficient attention has been given to the question of closing unremunerative branches, particularly in cases where there may be reason to think that the branch has been rendered unremunerative by the development of motor transport.

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On the question generally, we see no justification for the maintenance of an unremunerative branch line service at the expense of the Railways as a whole or of the general tax payer, and we consider that, apart from exceptional cases, such services should be withdrawn. This applies particularly to narrow gauge lines, which, with their speed limitations, are quite unequal to facing bus competitions. In the general interest, the sooner the situation is recognised the better."

3.28. The Committee on Transport Policy and Coordination

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(1966) had observed as under: :- 22 :-

"If alternative facilities have been or are capable of being developed to a point that the requirement for transport could be met substantially by means other than the Railways, and at no higher cost to the economy, there should be no hesitation in giving up an existing branch line which is proving unremunerative and will not serve any object which cannot be met otherwise at lesser cost. In a developing economy, there cannot be undue rigidity in regard to means of transport, so long as the overall requirements can be satisfactorily met. In recent years, this conclusion has been reached in one country after another and in India also, the necessity for adjustments of this nature has to be accepted.

3.29. The Estimates Committee (1967-68) stated as under:

The Committee would suggest that the recommendation of the Committee on Transport Policy and Coordination regarding closure of unremunerative branch lines should (1966) be implemented by the Government. For this purpose, the Central Government should impress upon the State Governments that while giving licences or permits for road transport, they should keep in view the broad national interests. They should also extend full cooperation to the Railways in closing such of the unremunerative branch lines on which losses incurred by the Railways are not commensurate with the public utility service, and where such closure could be effected by developing alternative transport facilities, at almost the same cost to the economy, to serve the needs of the areas concerned."

3.30. The Public Accounts Committee (1968-69) observed as under:

"The Committee agree that the sound principle of providing transport at the lowest cost and to maximum 3.29. advantage of the economy should outweigh all other considerations in deciding upon the retention of unremunerative lines. In view of the growing difficult financial position of the Railways, it is desirable that an early decision should be taken about the operation of those lines on which the Railways have been persistently losing heavily. The Committee considers that in the case of marginal lines, the Railways should intensify their efforts to attract more traffic so that these can be made to pay their way."

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3.31. In 1969 the Government appointed a Committee under the Chairmanship of the then Deputy Minister for Railways to review the working of uneconomic branch lines. The Committee inter-alia recommended closure of a few uneconomic branch lines, but this recommendation could not be implemented because of objections from ^{the concerned} State Governments.

3.32. The Administrative Reforms Commission in their report on Railways in their Recommendation No.28 (reproduced below) also commented on advisability of closing down the unremunerative lines.

Recommendation No.28

28(1) The question of continuing unremunerative lines should be constantly reviewed by the Railway Board so as to ensure that as far as practicable, Railway finances are utilized for the running of commercially acceptable or potentially profitable lines.

28(2) As a first step, the Railway Board should consider the closure of unremunerative lines where adequate alternative modes of cheaper transport exist and where such closure will not adversely affect public interest including any important economic activity of the area, such as industrial or mining activity.

28(3) There should be high level discussions between the representatives of the State Governments and the Railway authorities to settle the question of continued running of uneconomic lines, so as to ensure that local considerations are duly taken into account in deciding the question of closure.

3.33. The Railway Convention Committee, 1973 also made

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recommendations on the subject which are reproduced below:-

The Committee further note that the Administrative Reforms Commission had also come to a more or less similar conclusion when they observed that the Railway Board should consider the closure of unremunerative lines wherever adequate alternative modes of cheaper transport existed and where such closure would not adversely affect the public interest including any important economic activity of the area. The Commission had emphasised that the question of continuance of unremunerative lines should be continuously reviewed by the Railway Board so as to ensure that as far as practicable Railway Finances were utilised for running of commercially acceptable or potentially profitable lines and wherever running of uneconomic lines was continued in the public interest, the losses may be made good out of the public revenues, State or Centre.

The Committee feel that the whole question of continuing the operation of uneconomic Branch Lines calls for a critical and objective review with reference to the realities of the situation and keeping in view that the Railway Finances are utilised in the best interest of the State and how far the existing alternative modes of cheaper transport could replace the uneconomic train services. The Committee also recommend that the Railways should identify the branch lines which are marginally unremunerative and could be made economically viable with minimum investments and take concerted measures in close coordination with the State Governments, trade and industry to improve their financial results.

So far as the other branch lines are concerned, the Committee note that the State Governments are averse to the closure of even those lines which do not serve any purpose. The Committee consider that if such lines are to be continued indefinitely in spite of recurring losses and with no possibility of their becoming viable in the foreseeable future, the only alternative is that the authorities, who desire these to be run, should share with the Railways the unavoidable losses.

The Railways have pointed out that one percent of the capital at charge of the Railways as on 31st March,

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March 1964 is paid to the State Governments in lieu of the passenger fare tax. Out of this, a fixed sum of Rs.16.25 crores is paid annually to the States while the remaining is given as contribution towards states' share of Railways' safety works, the total amount paid during the quinquennium 1969-70 to 1973-74 being the order of Rs.90.9 crores. It is only fair and equitable that the State Governments who are averse to closure of uneconomic branch lines, should come forward to meet the losses.

3.34. It will be seen from the above that the consensus of opinion throughout ^{is} in favour of closing those branch lines which are unremunerative, and where the transport needs of the area can be adequately met by road services. Such a course of action is in the overall public interest and in keeping with the accepted policy of rail-road coordination.

3.35. The Railway Convention Committee have also recommended that wherever running of uneconomic lines were continued in public interest, the losses may be made good out of the public revenues, State or Central.

3.36. It may be mentioned that the Ministry of Railways have approached the State Government concerned to agree to the closure of some of these lines from time to time. However, the State Governments have not favoured closure of these lines nor have agreed to re-imburse the losses incurred by the Railways in running these lines.

3.37. The Committee are of the view that the Ministry of Railways should not continue to bear these losses. The Committee accordingly recommend that the Ministry of Railways should address the State Government concerned

once again to agree to the closure of these uneconomic branch lines and give them six months time during which the State Government should agree to the closure of these lines or alternatively to re-imburse the losses incurred by the Railways in maintaining/running these lines. If the State Government concerned agrees to close the uneconomic branch lines the problem should normally be over. In case the State Govt. do not agree to close the uneconomic branch line or no reply is received by the Ministry of Railways within a period of 6 months the loss on this account should be fully reimbursed by the Central Government to the Ministry of Railways. To begin with the losses to be reimbursed by the Central Government on the uneconomic branch lines should be pegged to the figure of losses during 1977-78.

D. NON-WAGE BENEFITS TO EMPLOYEES
AND WELFARE ACTIVITIES

3.38 Consistent with the concept of a welfare public undertaking, Railways provide for their staff a large number of Non-wage benefits, such as health and medical services subsidised housing and educational assistance to the employees' children, etc. The cost of these services adds to the social costs of the Railways. For the year 1976-77, the estimated out-lay on staff amenities work out to Rs.61.24 crores against Rs.60.40 crores in 1975-76.

3.39 The Committee however, feel that the expenditure incurred by the Railways on providing health and medical services, subsidized housing and educational assistance to the employees is a part of the overall staff policy and therefore, there is no case for making any re-imbursement to the Railways on this account.

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E. Government Railway Police.

3.40 The history of the Government Railway Police is practically the history of the creation of the Police on former East Indian Railway when the distribution of cost of the Police between the Railways and the Government were decided to be done on the basis of the nature of the duties order or 'Crime' performed by them. When the Watch and Ward Organisation was created by the Railways, the Railway Police were relieved of the duties of watching Goods Shed, Yard etc. As per the recommendations of the Railway Police Committee of 1907 full cost of the Police post deployed on crime duty was to be met entirely by the Government whereas expenditure on the rank and file of the Government Railway Police detailed for order duties was to be met entirely by the Railways. The Railway Police Expenditure Committee of 1937-38 endorsed the views of the Railway Police Committee of 1907. From the above it is clear that though the entire responsibility and liability so far as Government Police is concerned, fall within the jurisdiction of the State Governments, the Railways have been paying a sizeable portion of this cost due to historical reasons.

The Ministry of Railways feel that correctly it should be entirely the responsibility and liability of the State Governments to bear the cost of Government Railway Police since the Railways have their own protection force for looking after and protecting Railway property. There is no justification now for the Railways to share expenditure on Government Railway Police with the State Governments as the State Government Police deputed for Railway work perform only law and order duties.

3.41. The Committee have carefully considered the matter and after examining all the aspects of the issue have come to the conclusion that the cost of the Government Railway Police should be shared by the State Governments concerned and the Ministry of Railways on a fifty fifty basis.

F. MILITARY TRAFFIC

3.42 The Railways are also carrying Military Traffic and Defence materials at rates which are below cost. Since it is the responsibility of the Ministry of Defence to bear the entire expenditure incurred on Defence account the Committee are of the view that the Railways should not be asked to subsidise military traffic. The Committee accordingly recommend that the present basis of booking military traffic at separate rates should be discontinued and normal tariff rates should be charged for military traffic both for passenger services and goods traffic.

G. POSTAL TRAFFIC

3.43. The Railways have fixed contractual rates for carriage of postal traffic mail, etc. These rates also do not cover full cost. The Committee recommend that the Railways should not incur any loss in the carriage of postal traffic, and the P&T Board should fully re-imburse the Railways the losses incurred by them in carriage of postal traffic.

H. Ferry Services

3.44. The Railways operate a number of Ferry services which are maintained purely for the benefit of rail users of the particular area. These ferry services are running at a loss and can easily be replaced by contractor run ferry service. The Committee accordingly recommend that either the Railways should fix economical rates for the ferry services, / they should be allowed to withdraw these uneconomical services so that these uneconomical services are replaced by contractor run services.

/But if for some reasons, they are not permitted to do so,

SOCIAL BURDEN ON RAILWAYS IN OTHER COUNTRIES

4.1. The Ministry of Railways have carried out a detailed study in regard to the problem of Social Burdens in Foreign Railways from which it is evident that the phenomenon of carrying social burdens is not peculiar to Indian Railways alone. It is indeed a built-in feature of Railway systems the world over. The increasing operating cost, staff cost, maintenance cost, decline in 'production' and competition from other modes of traffic have brought financial difficulties to many railway systems of the world. In spite of these, railway traffic had to be operated in certain sections even though it is not economically viable in their own right. To cover up such deficits grants are sought and given by the Government. In some countries, they are made in the form of revenue grants or subsidy to cover specific deficits while in others the growing railway deficits have been relieved by various other means. In most of the countries, the Railways are now compensated for the losses they incur in consequence of their public service obligations, such as operation of uneconomic services, complying with price restraint orders and carrying certain traffic at concessional rates etc. The practice in this regard varies from country to country, but the reliefs are mainly in the following forms:-

- (a) out-right grants to cover the deficits;
- (b) soft loans to meet the accumulated burdens; and
- (c) the facility of writing off or writing down accumulated debts and unproductive capital.

Such compensation is generally in the form of subsidies to meet losses from unremunerative passenger services continued to be operated in public interest, as in the case of Britain, Canada, France and USA and/or short distance traffic including suburban passenger traffic as in the case of Germany. Subsidies are also given to cover losses from charging uneconomic fares and freight rates or tariff freezes in pursuance of Government's socio-economic policies as in the case of Britain, Canada, West Germany and France. In addition some of the foreign railways receive compensation in a number of other forms like subsidy for payment of interest as in the case of West Germany and Japanese Railways, writing down of capital liability as in the case of British Railways, payment of local taxes at reduced rate as in the case of Japanese and West German Railways and subsidies to cover revenue deficit as in the case of Japanese, West German and British Railways.

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4.2 The detailed position in regard to the specific forms in which relief has been provided in other countries, on the basis of information available, is given below:-

BRITAIN

- (i) Writing down of capital and debt more than once. Outstanding debt amounting to £705 million, which had earlier been converted into non-interest bearing loan without a fixed repayment schedule, was written off altogether in 1969.
- (ii) Grants for maintenance, pending removal excess track and signalling capacity. Such grants were of the order of £12 million in 1970, £7.5 million in 1971, and £8 million in 1972 and £2.8 million in 1973.
- (iii) Subsidy for losses from unremunerative passenger services continued to be operated in public interest, which rose from £62 million in 1970 to £91 million in 1973.
- (iv) Compensation for losses arising out of charging uneconomic fares and freight rates in line with the Government policy. Social grants of £27 million each were given under this head during 1971 and 1972.
- (v) Subsidy to cover revenue deficit. In 1972 an amount of £32 million was given for covering cash flow shortfall. This was interest free, but Government had reserved the right to ask, under certain circumstances, for a refund of the whole or part of the amount.
- (vi) Exemption from payment of excise duties on diesel oil.

FRANCE

- (i) Subsidy for losses from unremunerative passenger services continued to be operated in the public interest, and losses arising out of charging of uneconomic fares and freight rates. These subsidies which were of the order of 2,091 million French Francs in 1968 rose to 6,641 million French Francs in 1972.
- (ii) Exemption from payment of excise duties on diesel oil.

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CANADA

Compensation for tariff freezes and relief for uneconomic passenger services. This amounted to 110 million in 1977. Under Canadian legislation suburban services are not entitled to Federal Government aid, but uneconomic commuter operations can be subsidised by provincial Governments and local authorities.

WEST GERMANY

- (i) Compensation for losses in short-distance passenger traffic.
- (ii) Compensation for retention of uneconomic fares and freight rates. Such compensation is payable to the Railway when the Federal Minister for Railways over-rules increases in fares and freight rates suggested by the Railways. These reliefs have been of the order of 24 to 28 million DM during the period 1970 to 1972.
- (iii) Contribution towards payment of interest. This amounted to 837 million DM in 1973.
- (iv) Contributions for meeting current deficits. These rose from 1,393 million DM in 1971 to 2,300 million DM in 1973.
- (v) Contributions towards investments of the order of 500 to 525 million DM during 1971 to 1973.
- (vi) Contributions towards increased pensions to Railway personnel, children's allowance, social security insurance scheme for workers and employees and treatment of TB patients, which added upto 1,458 million DM in 1973.
- (vii) Subsidy for the maintenance and operation of level crossings which rose from 180 million DM in 1971 to 335 million DM in 1973.
- (viii) Reduced rates of local taxes.

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The nominal DB deficit is arrived at only after taking account of a very large sum of Federal compensation and support under various heads. The biggest component is compensation for the Government's pegging of local passenger traffic fares at uneconomic levels, and the availability of still further discounted fares to special groups of users.

In 1977 this compensation alone amounts to £632 millions. Since 1972 the DB has been assured of at least 74% of its direct operating costs in the local passenger traffic sector, a proportion recently raised to 85% in the case of the Hamburg, Frankfurt and Munich conurbation services. Even so, the DB complains it is losing money at present fare levels, which is not surprising when one is told that even after a recent 25% fare increase - the first in two years, incidentally, - some categories of heavily discounted fare payers, school children particularly, are covering as little as 10% of their movement costs.

Another major item is the sum put up by the state to cover railwaymen's pension provisions. Then there is a subvention to help meet interest on the vast loans the DB still has outstanding in the open market, even though a great deal of DB's borrowings to cover its post-war reconstruction have been taken over by the Federal Government. Other subsidies, which include a grant towards level crossing maintenance (and the DB has 9,500 of them on its 'core' network alone) and compensation for the Government imposed low tariffs on mineral traffic out of the Saarland, bring the total Government support taken into account before determination of deficit to £1.8 million.

In addition to the above the DB gets investment grants which in 1977 are likely to total to about £532 million and are budgeted to rise to cover £700 million by 1981.

JAPAN

- (i) subsidies and grants for rehabilitating the finances and rationalisation of operations of Japanese National Railways, which rose from 8.3 billion Yen in 1969-70 to 30.20 billion Yen in 1971-72.
- (ii) Deferred payment facilities for interest on debt owed to Government and relending of the interest on Government loans and Government guaranteed debt in the form of interest free loans.

4.3 From the above it will be seen that in recent years, the Government in various countries have been greatly concerned with the problem of "social burdens" on their Railway systems and have tried to devise various methods to relieve the Railways of these burdens in order to turn up their finances.

C H A P T E R - V

The Committee wish to place on record that the Convention Committee had observed that the Railways should urgently evolve an acceptable methodology of costing their services which will enable them to determine with maximum accuracy losses relatable directly to social burdens carried by them. The Committee also note that the Ministry of Railways have appointed two other Committees - one to go into matter pertaining to tariff and the other to go into matters relating to capital restructuring. Although it would have been of great help if the Committee on Social Burdens had the benefit of the reports of the above two Committees but since the Rail Tariff Enquiry Committee is likely to take some time in submitting their final report, the Committee have no alternative but to finalise their recommendations based on the available data and without the benefit of the report of the Rail Tariff Enquiry Committee.

The Committee are of the view that there is no case at all on economic or other grounds for giving subsidies as these lead to distortions in the economic sense. However, if the Government at all decide that in regard to certain items subsidy should be given then such subsidies should be given explicitly and not indirectly. Normally if the Ministry of Railways are permitted freedom in enhancing their freight rates and fares the question of subsidy would normally not arise, either direct or indirect. However, if there is a specific Government decision taken at the highest level and as a result of the same the Railways are stopped from exercising their freedom for enhancing their freight and fares they should be entitled to a direct subsidy to compensate them for the losses which they would incur because of the Government's decision which does not permit them to enhance their freight and fares upto the level to cover their cost.

Keeping the above observations in view the following recommendations are made:-

- (1) the Committee recommend that the Railways should be permitted to increase their freight rates for items which they carry below cost since the increase in freight rates to neutralise the loss incurred by the Railways would be so small that it would hardly have any effect on the market prices or at best only marginally increase the price of those commodities. If the freight rates are increased suitably, it will neutralise the loss incurred by the Railways and would completely relieve the Railways from this heavy social burden. (Para 3.11).

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(ii) However, if the Railways are not permitted to enhance the freight rates as proposed by them in the overall national interests by a Government decision, the losses incurred by the Railways in the carriage of these commodities should be reimbursed to them in full by the Central Government. (Para 3.12)

(iii) In regard to Suburban services, the committee recommended that there is no case for charging such a highly concessional tariff. Keeping in view the high cost of providing essential services in the metropolitan cities, in fact there is a case for introducing a tariff which will act as a dis-incentive to further accentuate the congestion problem in the metropolitan cities. The Committee therefore, recommend that the single journey rail fares for suburban services should not be less than Bus fares in the metropolitan cities of Bombay, Calcutta and Madras and in any other suburban areas where suburban fares are introduced in future. The Committee also recommend that to begin with the monthly season ticket fares in the three cities of Bombay, Calcutta and Madras should be fixed on the basis of charging 24 single journeys in a month. The present practice of issuing quarterly season tickets on the basis of 2½ times of monthly season ticket fares should also be discontinued forthwith. (Para 3.16).

(iv) The Committee appreciate that it will not be possible for the Railways to enhance the season ticket fares at one stroke. Accordingly the increase should be progressive and gradual and the entire process should be completed within a period of three years, so that Till the Railway Ministry enhance the season ticket fares upto the level at which the cost is covered they should be fully compensated for the losses incurred by them on suburban traffic from the general revenues

[this legacy of losses on suburban fare does not continue beyond a period of three years.]

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With a view to ensure that there is no difficulty in fixing the amount of compensation in this regard, the figures of losses should be pegged at the level of losses on Suburban services for the year 1977-78 - the last completed financial year for which the figures are available (para 3.17)

- (v) The Committee recommend that the special fare table in force for Second Class upto 50 Kms. should be abolished. Passengers tend to misuse this lower fare table by splitting their journeys. The marginal increase as a result of this measure will range from 5 paise at the lowest distance of 10 KMs. to 25 paise at the distance of 50 KMs (Para 3.18).
- (vi) The Committee recommend that the Hill concessions should be withdrawn forthwith during the busy season. If at all any hill concession is to be given it should be given only for the period from November to March i.e during the off season (para 3.20).
- (vii) Concessions to students and teachers should be continued subject to the proviso that these concessions should be given only to such students and teachers as go on educational tours and the concessions given to students at present for other than educational tours should accordingly be withdrawn.
- (viii) The concessions to cancer and T.B. Patients, blind persons, disabled and handicapped persons, Leprosy patients, Red Cross and Nurses, N. C. C. and Bharat Scouts and Guides going in parties and camps should continue. (Para 3.23)
- (ix) As regards the Uneconomic Branch Lines, the Committee are of the view that there is no case to continue these uneconomic branch lines and the Ministry of Railways should forthwith take necessary steps in this regard. The Committee recommend that the Ministry of Railways should address the State Governments concerned once again to agree to the closure of these uneconomic branch lines and give them six months time during which the State Government should agree to the closure of these lines or alternatively to fully re-imburse the losses incurred by the Railways in maintaining/running these lines.

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If the State Government concerned agrees to close the uneconomic branch lines the problem should normally be over. In case the State Govt. do not agree to close the uneconomic branch line or no reply is received by the Ministry of Railways within a period of 6 months the loss on this account should be fully reimbursed by the Central Govt. to the Ministry of Railways. To begin with the losses to be reimbursed by the Central Govt. on the uneconomic branch lines should be pegged to the figure of losses during 1977-78. (Para 3.37).

- (x) The Committee are of the view that the expenditure incurred by the Railways in providing health and medical services, subsidised housing and educational assistance to the employees is part of their duty as a model employer and therefore, there is no case for making any re-imbusement to the Railways on this account. (Para 3.39).
- (xi) The Committee have carefully considered the matter and after examining all the aspects of the issue have come to the conclusion that the cost of the Government Railway Polices should be shared by the State Govts. concerned and the Ministry of Railways on a fifty fifty basis. (Para 3.41).
- (xii) The Committee recommend that the present basis of charging Military traffic at separate rates should be discontinued and normal tariff rates should be charged for Military traffic both for passenger services and goods traffic. (Para 3.42).
- (xiii) The Committee recommend that the Railways should not incur any loss in the carriage of Postal traffic and P & T Board should fully re-imburse the losses incurred by them in the carriage of Postal traffic. (Para 3.43).
- (xiv) The Committee also recommend that the Railways should fix economic rates for the Ferry services. If for some reasons they are not allowed to fix economic rates for the Ferry service they should be allowed to withdraw these uneconomic services so that these uneconomic services are replaced by contractor run services. (Para 3.44).

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- xv) The Committee feel that the Railways should improve their costing technology and ensure that their pricing of goods, passenger and other coaching services is never below the cost. The Railways should ensure that the cost is correctly worked out and that the freight rates, parcel rates, luggage rates, rates for postal traffic, rates for military traffic rates for other coaching services and passenger fares for each class of travel are not fixed below what they cost the Railways to provide these services. (Para 3.24).

The Committee are glad to place on record their high appreciation of the efficient and the devoted manner in which the Member-Secretary and his staff have performed their job and have enabled the Committee to finalise this report in such a short time.

Shri D. Shankaraguruswamy and Shri V. Sundaresan have submitted separate note which are placed as Annexure II and III.

M.S. Gill
Advisor, Finance
Ministry of Railways.
Chairman

D. Shankaraguruswamy
Jt. Secretary, Ministry of Finance
MEMBER

P.N.S. Bedi
Director, Traffic Commercial
Ministry of Railways
MEMBER

B.B. Mahajan
Jt. Secretary, Ministry of
Shipping & Transport.
MEMBER

V. Sundaresan
Jt. Director (Railways)
C&A.G. Office.
MEMBER

Prof. M.Q. Dalvi
UNDP Adviser on Transport Policy
Planning Commission.
MEMBER

R.N. Saxena
Jt. Director, Traffic Comm'l./f
Ministry of Railways
Member-Secretary.

GOVERNMENT OF INDIA (BHARAT SARKAR)
MINISTRY OF RAILWAYS (RAIL MANTRALAYA)
(RAILWAY BOARD)

No. FREL/77/21/84.

New Delhi, dated: 11.1.1978.

O R D E R

In pursuance of Recommendation No.20 (Para 2.68) of the 9th Report of the Railway Convention Committee, 1973 on 'Social Burdens on Indian Railways', the Railway Ministry have decided to constitute a High Level Committee to review the entire question of subsidising the Railway so as to cover unavoidable losses on passenger traffic, suburban as well as non-suburban, unremunerative branch lines, and goods traffic, and to work out a practicable financial arrangement taking into consideration similar practice obtaining on other foreign Railways. Views of the other concerned interests may be obtained by the Committee. The Committee should also examine the manner in which the cost of social responsibility on Education, Health and guarding of Railway property incurred by the Railways can be shared with the States or Central Revenues.

As amended by Corrigendum dated 24.5.78.

2. The title of the Committee shall be "High-level Committee on Social Burdens".

3. The Committee will consist of:-

1. Shri H.K. Bhalla	Advisor (Finance)	.. Chairman
Shri M.S. Gill	Advisor (Finance)	.. Chairman (w.e.f. 1.11.78)
Shri Jagdish Lal	Director Traffic Commercial Ministry of Railways	.. Member
Shri P.N.S. Bedi	Director Traffic Commercial Ministry of Railways	.. Member (w.e.f. 1.11.78)
Shri D. Shankaraguruswamy	Jt. Secretary Ministry of Finance	.. Member
Shri B.B. Mahajan	Joint Secretary Min. of Shipping & Transport	.. Member
Shri V. Sunderasan	Joint Director (Railway Audit)	.. Member
Shri M.Q. Dalvi	U.N.D.P. Advisor on Transport Policy, Planning Commission.	.. Member
Shri R.N. Saxena	Joint Director Traffic Commercial (Rates), Min. of Railways.	.. Member Secretary

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- 2 -

4. The Committee shall finalise their recommendations, findings by June 1978.
5. The Headquarter of the Committee will be New Delhi. The Members of the Committee will be eligible to draw TA/DA in accordance with the normal rules applicable to them.
6. The Chairman of the Committee will be the Controlling Officer for the purpose of their TA/DA etc.
7. The FA&CAO/EG, Northern Railway, will be Accounts and Disbursing Officer.
8. The expenditure is debitable to Grant No.2, Annexure 'D', Item No. 2, Misc. Special Establishment".

Sd/-

(J.K. Razdan)

Deputy Secretary, Railway Board.

The FA & CAO/EG,
Northern Railway,
New Delhi.

No.ERBI/77/21/84.

New Delhi, dated: 11.1.1978.

Copy to the Chief Auditor, Northern Railway, New Delhi.

Sd/-

for Financial Commissioner, Railways.

Copy to:

1. The Chairman and Members of the Committee.
2. The Ministries of Shipping & Transport, Finance, Planning Commission and Office of the Comptroller and Auditor General of India.
3. The General Managers, all Indian Railways including CLW, DLW and ICF and DG/RDSO and Heads of all attached and subordinate offices.
4. PSS to MR, CRB, FC, MT, OSD(G)SECY, DMT, DA, DF(B) Railway Board.
5. Cash-I: II: III: G: G(Acc): G(Pass): F(E)II (with 4 spares): RCC(5 spares): and TC-II (with 5 spares) Branches, Railway Board.

ANNEXURE - II

Note from Shri D. Sankaraguruswamy, Jt. Secretary,
Ministry of Finance, Department of Expenditure
(Plan Finance Division).

This High Level Committee has been constituted in pursuance of recommendation No.20 of the Convention Committee and the terms of reference specifically require the Committee to review the entire question of subsidising the Railway so as to cover the unavoidable losses on passenger traffic etc.

2. The moment the question of losses is taken up for consideration automatically the question arises as to what is the correct cost and what should be the price? In regard to costing the Convention Committee itself has observed that the costing techniques need further be refined so as that the cost of carriage of various commodities is determined on scientific basis and the freight structure is rationalised accordingly. In any such costing it is implicit that suitable norms of efficiency should be evolved and adopted. Owing to the requirement for the Ministry of Railways for an urgent report it has not been possible for this Committee to go into the question of current costing and efficiency. But this does not detract from the urgent and great need for evolving costing techniques etc. as pointed out by the Convention Committee and also for establishing efficiency norms taking into consideration the performance of the Railways over a long period say past 20 years so that erratic trends over short periods are eliminated.

3. The Committee's approach has been that all subsidies should be abolished and that if at all any subsidy is to be given it should be explicit. Such an arrangement would mean that to cover deficits subsidies would have to be given from the general revenues. While considering any such question it is to be born in mind that it may be inappropriate to finance from general revenues losses incurred for benefiting a section of the society. While I agree on theoretical considerations that it would not be correct to encourage cross subsidisation and in the case of Railways at present this is of limited applicability yet to the extent possible it is necessary that the Railways take care of part of the losses by such an operation as a practical measure. The practice of cross subsidisation is not something new to the Railways and is common to many other public sector undertakings e.g. Electricity Boards which supply power to the Agriculture sector at a highly subsidised rate and they try to make up part of it by suitable adjustment in the tariff of the other consumers.

Note from Shri V. Sunderasan, Joint Director (Rlys)
C&A.G. Office, New Delhi.

In the context of the observations of the Public Accounts Committee that "there is a need for rationalisation of the tariff policy vis-a-vis the cost of services provided by the Railways" and their recommendation that "the question of restructuring of freights and fares on the basis of cost plus profit may be remitted to an Expert Committee for a thorough examination" as also the observations of the Railway Convention Committee emphasising the need for rationalising the freight and fare structure on the basis of traffic costing studies bringing charges in closer alignment with costs over the years, the Government of India have appointed in September, 1977 a Rail Tariff Enquiry Committee to make a comprehensive examination of structure of fares, rates and other charges for public traffic as also for post offices and military traffic and other ancilliary and incidental matters and to make recommendations for their modification. The Committee have been required to bear in mind, among other relevant considerations, the necessity for enforcing measures to improve operational efficiency of the Railways, since the "cost plus" approach alone may lead to the economy being overburdened with an excessively high freight and fare structure. The terms of reference of this committee are very wide. They are to examine amongst other things the structure of fares, rates and other charges for public traffic carried by passenger. trains and/ or goods trains in all its aspects and ancilliary and incidental matters such as packing conditions, and booking and delivery of, and payment for traffic; to examine the structure of fares, rates and other charges by passenger. trains and/ or goods trains as also ancilliary and incidental matters. The Committee have been required to recommend the modification which should be made bearing in mind among other relevant considerations the interests of common man, the requirements of developing economy and importance of making the Railways financially viable and possibility of increased operating efficiency.

for post office mails and military traffic carried

In the circumstances, in my view, this Committee may perhaps only take note of the financial burdens imposed on the Railways in carriage of certain items of public traffic, post office mails and Military traffic as also by the concessional fare structure in vogue in the Suburban Rail Services. It would not be desirable for this Committee to take upon itself the responsibility to suggest modification and changes in the freight and fare structure in respect of this restricted sphere of traffic when a more comprehensive examination of those matters in all aspects is being undertaken by the Rail Tariff Enquiry Committee. Further any recommendations by this Committee in this regard would suffer from the draw back of being based on inadequate data and incomplete examination as the Committee have not conducted any special studies thereupon.

Contd...

For these reasons I am of the view that the proposed recommendations on these matters contained in paras 3.11, 3.12, 3.16, 3.17, 3.18, 3.42 and 3.43 of Chapter III and sub-paras (i), (ii), (iii), (iv), (v), (xii) and (xiii) of Chapter V of the draft Report should be substituted by a recommendation worded more or less in the following manner.

"The Committee has taken due note of the financial burdens imposed on the Railways on these counts. They have however chosen not to make recommendations for reducing the same, as these would have to be in the nature of modification and change of freight and fare structures which are the subject matter of a comprehensive examination by the Rail Tariff Enquiry Committee, constituted by the Government of India in September 1977.

ANNEXURE - IV

While I generally agree with the recommendations made in the report, I am setting out in this note a few points by way of amplification.

While I agree with the recommendation made in para 3.11, I would like to add as a justification in support of the recommendation the fact that the subsidised freight rates charged by the Railways for transportation of these commodities, has been one of the major factors inhibiting the growth of inland water transport even in areas where it could provide cheaper mode of transportation. River transport is suitable only for carrying these bulk commodities and the IWT operators are, therefore, not able to attract traffic in these commodities in competition with the Railways as they are not in a position to cross subsidised freight rates for these commodities by charging higher freights for other high-value goods.

Again while I agree with the recommendation made in para 3.21, I would like to add that if any subsidy in the case of travelling to any of these categories is considered desirable on broader socio-economic considerations, it will be more appropriate if these are provided by the concerned Department/Organisation such as Agriculture, Community Development, Labour etc. It will then be possible to restrict the subsidy to really deserving cases such as farmers owning less than prescribed area of land, labour drawing less than prescribed level of wages etc.

In para 3.23, a positive statement has been made that the concessional fares are justified only in certain categories mentioned in that para. This pre-supposes that the Committee has gone into justification for each case of concessional fares which is not the case. I would, therefore, wish to add that in regard to other categories for which concessional fares are at present offered by the Railways, the justification for the continuance of the concession may be examined by the Railways. In any case, it was understood from the Railways representatives that the loss in the revenue involved in these concessions is not sizeable and it should be possible for the Railways to bear this loss from its own revenues.

In para 3.37, it has been recommended that in case the State Governments do not agree to close the uneconomic branch lines or no reply is received by the Ministry of Railways within a period of six months, the loss on this account should be fully reimbursed by the Central Government to the Ministry of Railways. If this recommendation is accepted, it is obvious that no State Government would ever agree to either the closure of a line or reimburse losses incurred by Railways in maintenance and operation of an uneconomic branch line within a period of six month of the communication sent by the Railways, the Railways should normally be at liberty to close the uneconomic line. The question of reimbursement of losses by the Central Government should arise only in case of lines which the Central Government desires to be continued notwithstanding the fact that the State Government has not agreed to reimburse the Railways for the losses involved in maintaining these lines.