The Indian **EXPRESS** COLUMNISTS

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Sunday , February 13, 2005

FROM THE RINGSIDE

Laloo should get into driver's seat

The Indian Railways is the world's second largest rail network, covering nearly 65,000 km, divided into three gauges of broad, meter and narrow. It remains the principal means of transportation of freights and services. Safe, speedy and cost-efficient connectivity is central to our competitiveness. It has a glorious history since its modest inception on April 18, 1853, in our economic and social integration. It has truly made India a large, well-connected common market. The health of the Railways therefore is of vital significance.

The heat and the distractions of Bihar elections will be behind him when Laloo Prasad Yadav presents his second Railway Budget two weeks from now. Successive populist Railway Budgets have compounded the financial woes of the Railways. Will this year be different? What is the minimum which we should legitimately expect?

First and foremost is the repair of Railway finances, which is long overdue. This cannot happen without credible tariff rebalancing. Over-charging freight to subsidise passenger traffic is irrational and has bled Railway finances. This distortion needs correction and even if it cannot be done in a single year, a time-table for rebalancing needs to be spelt out. A significant beginning towards this end must be made this year. This implies increase in passenger fares, even though this may not be popular. The freight structure itself is skewed—there is no rationale for one category of freights to subsidise other categories. Inescapable subsidy needs to be borne up-front in the Budget or the cost passed on to the end consumer. Persisting with 13 categories of freight rates (they were even more numerous earlier) lacks transparency and is liable to misuse. It is somewhat analogous to the earlier multiplicity of rates in Customs and Excise. These have since been significantly moderated, with further rationalisation underway. The same example needs to be followed by reducing the number of freight rates to say four. There is also an element of distortion within passenger fares, though not as significant as freights but requiring modest rebalancing.

Second, portfolio rationalisation cannot brook further delay. Over the years, every Railway Minister finds himself either motivated or under compulsion to announce a whole slew of new Railway schemes. The schemes announced by his previous incumbents languish while the Railways energise themselves to implement the favourite projects of the new masters. On taking over from his predecessor, Laloo introduced 15 new express trains to be started in the year 2004. This was in addition to the 17 Sampark Kranti Express trains announced by his predecessor Nitish Kumar in February 2004. Schemes initiated in the 1970s with scant expenditure continue to burden the Railways portfolio even while each year new projects add to the burden of the on-going portfolio. Quite a few of these have negative rates of return. Schemes on which expenditure has been limited or cannot be justified on economic grounds should be dropped from the portfolio. Those which are necessary for overriding social or security considerations for achieving national connectivity should after careful scrutiny be separately provided. The process of adding new Railway projects should be subjected to greater scrutiny than in the past. Invariably, the expanded Railway Board is either cajoled to approve these projects or record their reservation, only to be overruled by the Cabinet Committee on Economic Affairs. This procedure is untenable.

Third, the Railways should take some lessons from what till recently was another large government undertaking, namely Telecom. Even while corporatisation of Railways may not be anywhere in the offing, there is no reason why production activities like locomotives or coach factories should be combined with the service-providing functions. These need to be progressively corporatised. This would hurt nobody—it would improve efficiency, productivity and enable transparent accounting.

Fourth, the expenditure pattern needs re-prioritisation—track renewal, modernisation and safety must have first claim on resources. The Railway Minister has taken a step in the right direction by announcing a five-year (2005-10) Integrated Railway Modernisation Plan (IRMP) involving an expenditure of Rs 24,000 crore. This will require large financing which will not be possible unless internal resources increase significantly. Beyond this, the high-density corridors need additional investment both for capacity augmentation and improving the speed of transit. Freight movement also needs speeding up to compete with alternative means of transport.

Finally, beyond the short-run concerns of this year's Budget, we need to ask ourselves the more basic question of whether we need a separate Railway Budget? Following the progressive nationalisation of Railways and inadequacy of private capital, Railways' accounts were separated from the Government Budget after the Ackworth Committee Report in 1924. Its rationale was to enable the Indian Railways to run on sound commercial lines. This was particularly necessary given the preponderant size of its operation compared to other government transactions. Over the years, this has undergone significant transformation. Far from providing dividend to government, the Railways have relied increasingly on either direct budgetary support or resorted to ever-increasing market borrowings.

The disadvantages of a separate Railway Budget are multiple. It puts railway ministers under a ''political obligation'' to annually announce new schemes, continue with the distortionary tariff and persist with opaque accounting procedures. If the Railway Budget were to be merged with the General Budget, there would be multiple advantages. There would be greatly diminished compulsion to annually announce new projects, quite a few uneconomical; depoliticise fixation of tariff, enabling increasing alignment with the economic costing with indexation to progressive pricing parameters, preferably through an independent regulatory entity. Segregation of service functions with production functions would lead to transparent accounting. The Railways would focus their energies to ensure high-quality, efficient and competitive connectivity. This would not detract from the glory of the Railways. It can continue to shine without the woes of balancing sensible economics with compelling populism. Laloo Yadav is not responsible for the mess he has inherited but has an enormous opportunity to do considerable good even in the short run. The Railways would be back on track.

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