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C. N. VAKIL

University Professor of Economics

Bombay

RAILWAYS IN MODERN INDIA

BY

RAMSWARUP D. TIWARI, M.A., LL.B., PH.D.

PROFESSOR OF ECONOMICS, KHALSA COLLEGE, BOMBAY

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PREFACE

THE STUDY of modern commercial policy shows that present political and economic chaos in which the world finds itself is largely due to the faulty economic policy adopted by the leading industrial countries. They developed their industrial structure with the aid of aggressive protectionist economic policy and have tried to preserve their economic supremacy by obstructing the industrial development of backward countries. Further, they have erected Imperial economic blocks. Economic Imperialism has divided the advanced countries into two blocks : " haves " and " have-nots ". The policy of economic 'autarchy' was, therefore, adopted by the countries without, or with inadequate, Imperial possessions in order to make their national economic structure invulnerable from external political and economic forces and aid the reorganisation of their industries on the war basis.

t must be admitted that reasoned nationalism can alone provide a firm basis for internationalism. Rational nationalism must therefore receive due recognition. Advanced countries must be prepared to give up their aggressive nationalism and help the backward countries to build up their industrial system on most efficient lines. International economic relations based on reciprocity between all countries, which have been permitted full latitude to build up their economic system on sound lines, will alone secure most efficient utilisation of the economic resources of the world and a firm basis for world peace. The backward countries, to secure a most efficient utilisation of their economic resources, will have to formulate their economic policy with utmost care and caution. Transport policy is an integral part of the economic policy of every country ; it must effectively serve to promote the national economic interests.

India is an industrially backward country, awaiting a fuller and most efficient utilisation of her economic resources in the interests of her nationals. To secure a more effective utilisation

of natural resources, the Government of India will have to formulate a broad-based economic policy, calculated to promote a rapid and efficient economic development of the country. The industrial and commercial policy will definitely have to foster the growth of Indian trade and industries at the highest pitch of efficiency. In this scheme of economic reconstruction of India, a carefully thought-out national railway policy will play an important part. In short, a proper economic policy, intended to secure a most efficient utilisation of national resources, will help to improve international economic relations and enable the people of every country to realise what Winston Churchill calls "their just and true inheritance". In the following pages, therefore, an attempt has been made to study the nature and working of Indian railway policy in order to find out the directions in which it needs improvement, so as to secure a rapid and efficient economic development of this country.

KHALSA COLLEGE, BOMBAY. R. D. T.

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CHAPTER I.

THE PLACE OF RAILROAD TRANSPORT IN THE GENERAL TRANSPORTATION SYSTEM

Transportation

TRANSPORT, in its widest import, is the conveyance of persons, goods and ideas. But the term is used to denote both the transport organisation and the service rendered by that organisation. The transport organisation has its technical as well as economic aspects: the system and the service. In the study that follows we are primarily concerned with the economic aspect of transport organisation and the service rendered by it, and only incidentally with the system of its technical aspect.

Transportation has played an important part throughout the history of human development. Transport, through its wide and varied ramifications, has revolutionised our entire life, especially economic. (Economics is a science which studies the problems of scarcity which human beings are faced in every day life, concerned with the satisfaction of daily wants.) Transport service facilitates the satisfaction of human wants; it assists alike the production, consumption, exchange and distribution of wealth.

Transport aids production

Production is "the creation of utilities." Economic goods must possess both intrinsic utilities and place utilities. This is so because the aim of production is to satisfy effective human wants, and before a given matter can acquire the ability to satisfy wants it must be given the requisite qualities and form and be carried to the place where it is demanded. An article acquires intrinsic utilities at the stage when it is grown and shaped; but the process of production does not end here. There are three distinct stages in production: creation of the product of the soil, its transformation into consumable goods, and deliverance into the hands of the ultimate consumers. Transport service is concerned largely with the last stage in the process of production.* In order that an article

* It plays an important part at other stages as well, for often raw materials need to be transferred from the places where they are produced or grown to those at which they are transformed into consumable goods.

may fetch a price it must be placed in a place where it is scarce; scarcity relative to the demand is the ear-mark of economic goods and services. Thus, water and air are not economic goods in villages where they can be had in plenty and without any cost. But the same water and air become economic goods in cities, even though their intrinsic qualities remain unaltered, because there is a scarcity of supply relative to the demand for them. The creation of the products of the soil is of little use unless they can be transported to the centre of their transformation into consumable goods. They should be given the form demanded for the satisfaction of the ordinary and universal wants for food, clothing and shelter. Similarly these finished products are of little value unless they can be placed at the door of the consumer. In short, transportation service creates "place utilities," a link in the process of production.† It increases both the productive capacity and efficiency of the economic system and thereby adds to the national dividend of the countries concerned.‡

The Localisation of industries

Transportation agencies help the localisation of industries by enabling the captains of industry to locate their concerns in the place most suitable for them, by annihilating distance. They reduce the time element involved in the process of distribution. By facilitating the quick movement of commodities just after they are produced they have tried to bridge the gap between the date of output and the time of consumption. No doubt the part played by the transport agencies in promoting division of labour and the localisation of industries in the most favoured sites is apt to be exaggerated, by attributing to them too much, but it cannot be denied that they weigh heavily in the balance. Other factors like climate, raw materials, labour force, etc., have their share in determining the location of industries but in the absence of adequate and efficient transport facilities they would be considerably discounted. The importance of transportation charges varies in different industries. If transportation costs constitute a large portion

† "The freight rates on goods are in reality costs of production. The process of production is not complete until the goods are placed in the hands of consumers. This truth is frequently explained by pointing out that production is the creation of utilities, not simply the creation of physical goods, and that transportation produces place utilities. If goods are brought into a community for sale the price must be high enough to cover the cost incurred in shipping them. High freight rates mean higher prices for the goods which are brought into a community. Low freight rates mean lower prices for these goods." *Vide*, Locklin, p. 4.

‡ Transport enables a given flow of resources to produce greater results. *Vide*, Bonavia, M. R.: The Economics of Transport, p. 3.

of the total cost of production, and if large relative to the value of the article produced, they will be a decisive factor in determining the location of the industry. This is particularly true of the industries producing commodities low in value in proportion to their weight and bulk. In the case of those industries where transport costs are only a fraction of the total cost of production and relatively insignificant to the value of the commodities produced, they may play a very minor part in determining the location of the industry. In those cases where transportation charges play an important part, an industry will tend to be located where the transport costs are the least. This may be near the source of an important raw material, the fuel supply, the market for finished goods, or at some intermediate point.

Further, variations in transport charges promote migration of industry. For instance, changes in freight rates have played an important part in some of the recent migrations of industry that have occurred in the United States.* The older industrial centres in the East are faced with very keen competition from the manufacturers located in the Middle West. New England in particular is losing its dominance in manufacturing. This is partly due to increased freight rates in recent years. Similarly some industries are moving from the Middle West to the Atlantic seaboard due to the favourable transport facilities which the seaboard cities enjoy in trade with the countries on the Pacific Coast. The migration of industries from the port towns to the internal centres in India is due partly to the lower transport costs incurred in the latter case. In fact, the location of industries in the port towns in the earlier days was due to the favourable transport facilities they enjoyed ; even today they enjoy relatively lower transport charges.† In short, our conclusion holds true that these two tendencies of differentiation and concentration if allowed free play conduce to economy in production.

All producers are interested in the transport service. Looking to the individual producer we find that his interest in the general transport industry is one of the members of a group who have equal general interest. This is due to the fact that transport charges enter in the cost of production of every producer, and limits his market by restricting his competitive capacity. But this

* *Vide*, D. P. Locklin : Economics of transportation, p. 123.

† *Vide*, R. D. Tiwari : Railway Rates in Relation to Trade and Industry in India.

limitation becomes more serious only when producers are discriminated against one another. So long as the carriers observe business morality the producers have nothing to be alarmed at. When fixing the location of his factory the entrepreneur provides for normal transport costs. It is clear therefore that the producers are concerned more with the relative level of transport charges than with the absolute one. Complaints as to rates are more often in respect of undue preference than of unreasonableness *per se*. So long as all his competitors are equally treated by the transport agencies and if the charges are impartial and fairly stable he has no individual grievance. This is so because if the absolute level of charges is high though temporarily he may suffer and his profits may dwindle, but, in the long run the burden will usually be passed on to the consumer in the form of higher prices. Similarly, if the absolute level of charges is low, the producer is able to enjoy the higher profits resulting from his lower cost of production only temporarily, because this increment in his profits is wrested from him under free competition, and passed on to the consumer. Therefore the producers are concerned primarily with the relative level of transport charges and only incidently with the absolute level.

The Society, however, concerns itself both with the absolute and relative level of transport charges. The burden of an absolute rise in the transport costs falls ultimately upon the consumers, because it is they who enjoy the benefits resulting from the lower costs of transport in the form of lower prices. But, a permanent and absolute rise in the cost of transport, which raises the level of prices and thereby curtails the demand for commodities and services, is detrimental to the society as a whole—both producers and consumers—because in a sense every individual is at the same time a producer as well as a consumer. Though individual interests as a producer rank higher than as a consumer, nevertheless they are not negligible. For social well-being they are much more important. It is due to this fact that the State has tried to regulate the working of transport agencies and helped them in reducing their costs of transport. This shows the vital dependence of the economic system of a country upon the efficiency and sufficiency of the transport facilities it possesses. The efficiency of the industrial structure of advanced countries is in no small measure due to the economy and efficiency of the transport facilities they command.

Transport furthers exchange :

Nature has not distributed all her bounties equally in all parts of the globe. This unequal distribution of nature's bounties conveys the central idea of the unification of the universe. By forcing people to make up the deficiency it spurs the able, the shrewd and the alert. Here lies the struggle for existence, not merely of individuals but of nations, which eliminates the inefficient and helps the shrewd and the capable. Growth of civilisation aims at the unification of the universe, where all component parts enrich *inter se* ; each contributing its own quota and participating in the rest. This maximises social welfare. The agency by which this transference of commodities and services from one country to another is brought about is known as commerce.

The modern system of transportation, by linking together farthest parts of the world, has considerably widened the scope of markets and helped mass production and specialisation. Production is organised on the principle of comparative costs. Long-distance movements of goods and services have become a rule and the modern world has been transformed into one immense market. Weight, bulk, cheapness or perishability of a commodity are no bar to its foreign merchandising.*

Improvements in the means of communication and transportation have helped the division of labour and localisation of industries. What used to be fashioned at home and consumed locally now comes from distant countries. † The Indian farmer to-day consumes goods produced in the most remote parts of the world. Division of labour has become international. Different countries are specialising themselves in the production of those commodities in which their labour and capital are most effectively utilised. Further, economic interdependence amongst the different nations of the world has increased, and the connection has become more intimate and firm. The whole commercial world is as if one closely

* For instance, Lancashire cotton mills can purchase their raw materials from distant markets like the United States and Egypt and market their finished products in the most outlying parts of the world.

† "The most obvious effect of improved transportation is to make available to a community the goods which must of necessity be produced elsewhere. A community without cheap transportation must be largely self-sufficing—Climatic conditions and available natural resources limit the goods which may be produced, and only those products from other lands can be brought in which will stand high transportation costs. Cheap transportation permits other goods to be brought in, so that the products of other lands and climes may become as commonplace as the articles produced at home. A moment's reflection will reveal dozens of commodities daily consumed in any modern community which are not and could not be produced locally." *Vide*, Locklin, D. P. : Economics of Transportation, pp. 1—2.

knit economic entity; what happens in one country has its repercussions in the remotest parts of the world. A shortage of cotton in India affects the Cotton Exchanges in Lancashire and New York, and vice versa. This shows the sensitive and highly organised nature of the world commercial market, due in no small measure to highly developed transport facilities. In short, transport agencies have become necessities for nations, which neither individuals nor governments can ignore.

The growth of important commercial centres of the world, like London, New York, Paris, etc., where people of different nations and stratum of society flock together, and almost all the attractions of these great cities, which further the economic and cultural development of the people, are ultimately connected with the transport service.* The centres of trade and industry owe their prominence to the transport facilities they command. An industry lacking efficient transportation facilities would remain stunted and ultimately perish. Efficient transportation facilities have been rightly called the life-blood of modern commerce.

Transportation and Distribution of Wealth

The relation of transportation facilities to the distribution of wealth is no less important. There are four agents of production: land, capital, labour and enterprise, every one of which contributes its quota to the production of national wealth, and as such is entitled to a fair share in the total yield. We propose to examine the nature of the share of each agent of production in order to find out whether the development of transport facilities has resulted in an increase or decrease of the respective shares, or whether the parties with the added strength resulting from their new position have tried to expropriate the share of their confreres in order to increase their own, and if so, how far this tendency has been strengthened by the development of transportation facilities.

Rent

Taking up rent we find that it has been materially affected by the development of transport system. Rents, both agricultural

* There is an intimate relation between the improvement in communications and the spread of literacy. Closer contact between the different countries and the different parts of the same country, which improved transport facilities bring about, widen the outlook of the people and exercise very valuable educative influence. Cheap and efficient transportation facilitates the exchange of ideas no less than that of merchandise. Isolation, per contra, perpetuates ignorance.

and urban, have appreciably risen with the efficiency of the transport system. Rent of agricultural land is determined by both productivity and location. When we examine the problem presented by the agricultural rent and the reactions of transport upon it we find that both the productivity* and location of the agricultural industry have been affected by the development of the transportation system.† As a consequence of the localisation of industries, there has come about a geographical division of labour, so that some countries have become primarily industrial, due either to natural or acquired, relative or absolute, advantages possessed by them, importing their raw materials from distant foreign countries, while others have devoted their attention primarily to agricultural pursuits. Furthermore, industrialisation is proceeding apace and therefore the demand for and prices of agricultural products have maintained an upward trend. The demand for land in agricultural countries has increased, both as a result of industrialisation and pressure of population, but the supply has not been able to keep pace with the demand and the rent in consequence has risen. With the development in scientific inventions and the higher prices for agricultural products, the productivity of land has also risen because the cultivators have been able to improve their technique.

Rent resulting from location is determined primarily by transportation. Rent of urban sites or buildings depends mainly on location and hence transportation has a very important part to play in the determination of their rent. The relation between the two is so intimate and close that in the same city, or in the same part of a city, it is frequently found that the rent of the site near the junction where two transport agencies meet, or where the two lines of the same transport agency cross, is double or even more than on similar sites not so favourably situated.§ For instance, in

* "Yet even quality of land is influenced somewhat by transportation. As efficiency of movement increases, it becomes easier to secure for application to the land those elements of fertility, such as nitrate and potash, that are needed to adapt it to a particular purpose and are lacking or have been exhausted through long or unwise use." Prof. S. L. Miller: Inland Transportation, p. 10.

† "Another effect of cheap transportation is to extend greatly the area of profitable production for a given market....Many lands would be unprofitable for agricultural purposes if cheap transportation did not enable the product to be shipped to distant markets. Cheap transportation, therefore, tends to increase land rents and values in remoter regions." *Vide*, Locklin, D. P.: Economics of Transportation, p. 2.

§ "As far as rent depends upon location, the determining factor is transportation, and every improvement or change in the facilities or costs of transportation service must have an influence upon the total amount of "rent" received by the owners of the natural agents and must readjust the distribution of that form of income among its recipients."

Vide, Johnson & Van Metre: "Principles of Railroad Transportation," pp. 5-6.

Bombay city buildings at the tram junctions or local railway stations command higher rent than those not so favourably situated.

Interest

Improved transport facilities tend both to increase and to equalise interest rates.† With the development of transport facilities capital has increased because several economic resources otherwise untapped have been fully utilised and their possibilities explored, while the productive capacity of those already in use has been substantially increased. It is an acknowledged fact that with the aid of efficient means of communication, the capital resources in recent years have recorded a phenomenal increase. Therefore, it is not surprising to note that the capital seeking investment has become abundant and the rate of interest in consequence has declined. This, however, need not alarm the capitalists, and they need have no grudge against the transport agencies, because the latter, by opening avenues of investment of capital, have slackened the decline in the rate of interest, for otherwise the fall would have been very steep.

Labour and Entrepreneur

Transportation has likewise increased both the nominal and real wages of the labourers and raised their standard of living, as we shall discuss in a later section. The entrepreneur has also benefited in as much as his field of activity has been considerably widened and now his skill can have better scope and higher reward. In fact it would not be far from truth to say that the entrepreneur, essentially a modern institution, has been fostered by the development of efficient means of communication. By stimulating the development of trade and industries, efficient transport facilities increase the opportunities for the captains of industry.

Transport and Consumption

We have seen that with the development of transport facilities division of labour and specialisation has become territorial; the extent and scope of the market has widened. This phenomenon is of great importance to the consumer. Division of labour and large-scale production reduce the cost of production per unit of the commodities produced, and these cheap standardised products, with the help of up-to-date transport facilities, find a ready market

† *Vide*, Prof. S. L. Miller: Inland Transportation, p. 10.

both at home and abroad. This minimises the fluctuations in prices by assuring a steady flow of commodities and services.*

Today cheap commodities are made available to the consumer, due to improved transport facilities, increasing thereby the kind, number and intensity of their wants. Multiplicity of wants being a spur to economic activity, the standard of life of the people has risen; production and consumption alike have received sufficient spur. With the rise in the standard of living, people are paying greater attention towards the quality of the commodities supplied to them. There has been an appreciable increase in the quantity as well as variety of consumable commodities. This has proved beneficial to the whole community, but much more to the poor who find that with small earnings they can now command luxuries, no matter how humble.

Mobility of Labour

Wage-earners are producers as well as consumers. Improved transportation has added to their productive capacity† as well as wages in varying ratio. Though nominal wages measured in terms of money may not have risen proportionately, yet the abundance of commodities and their lower price, as a result of the division of labour and large-scale production, has increased the real wages measured in terms of commodities and services. To-day even an ordinary labourer in modern industrially advanced countries commands more leisure and amenities of life than his confrere in relatively backward countries.‡ Besides, to the working man cheap transport facilities have proved a boon. Cheap workmen's tickets are common in industrial countries§. He can with little cost migrate from one place to another in search of an employment and

* "When markets are small and isolated, prices vary widely in different places at the same time and at different times at the same place."

William, S. C.: "The Economics of Railway Transport," p. 42.

† "Transport augments the effective strength of labour and minimises the waste of human energy."

Marshall's Principles of Economics, 7th Edition, p. 673.

‡ About England Pigou writes, "Of late the dominant factor in Englishmen's increased capacity to obtain almost every important commodity is one and the same, namely improved transport; for a main part of what improvements now accomplish is to cheapen transport." It is no wonder, then, if an ordinary English labourer today commands the amenities and luxuries of life of which Elizabeth's nobles could little avail.

Prof. Pigou: "Economics of Welfare," p. 74.

§ "Great social advantage can be derived from the provision of cheap workmen's tickets: for in favourable circumstances this makes it possible for workpeople to live in the country, though working in towns, and thus to bring up their children in healthy surroundings."

Vide, Prof. Pigou: Economics of Welfare, p. 314.

once employed he can afford to keep his family in better conditions. With the help of cheap return tickets, either of the local trains, or tram, or the bus, the working man's family can enjoy country residence, and the slums of industrial cities, aptly characterised as 'veritable dens of epidemics and pestilence,' can be easily dispensed with. For the establishment of better and more amicable relations between labour and capital, the path must be paved by the abolition of slums and increased welfare work with the help of transport facilities.‡ No doubt modern social legislation in advanced industrial countries aims at reaching the goal, and has succeeded in making some improvements, but the pace of legislation must be accelerated.

The conclusion which emerges from the foregoing study of the functions of transportation and the effects of the service rendered upon the social welfare, especially economic,† is that *transport is a compendium of existence : a pre-requisite of well ordered national life. Modern transport with its regularity, safety, cheapness, speed and promptness, has become one of the most essential adjuncts of modern society. By accelerating the mobility of persons and goods, of culture and civilisation, transport has proved itself to be a most powerful agent of progress.* Dr. Marshall dwelling on the English transportation system and industrial development says : "Probably more than three-fourths of the whole benefit she (England) has derived from the process of manufacturing during the nineteenth century, has been through its indirect influences in lowering the cost of transport of men and goods, of water and light, of electricity and news ; for the dominant economic fact of our age is the development not of the manufacturing, but of transport agencies. It is these that are growing most rapidly in aggregate volume and individual power." Per contra, India's industrial backwardness is in no small measure due to her inadequate transport facilities.

‡ "Few social problems are more pressing than the clearance of slum areas and the improvement of housing conditions in our large towns. Anything that will help in the solution of this problem is of the first rate importance. Now, one important aid, though not of course a complete solution in itself, is cheaper transport and more of it. The improvement of transport facilities gives a greater inducement to the town dwellers to reside in the outlying areas and the surrounding country districts.....Transport should thus lead the way in the movement towards decentralisation of urban life."

Fenelon ; "The Economics of Road Transport," pp. 116-17.

† Transport, says Dr. Fenelon, is an essential link in the industry and commerce of the world ; indeed the whole fabric of industry rests upon the assumption that raw materials or finished products can be easily sent to the places where they are required. Industry, commerce and transport are bound up together, for the extension or the development of the one reacts upon the others.

Vide, The Economics of Road Transport, p. 10.

It is essential for economic, political and social progress, and helps people to live a high, rich and full life, because it has touched every part of life; production, distribution, the home, the school and the church have all been influenced by the driving power of transport. By breaking the old barriers of time and distance, transport has transformed our social, religious, educational and economic institutions. It is a de facto barometer of progress. Kipling has rightly said that transportation is civilisation. Let us therefore pass on to discuss the nature of railway transport industry and its peculiarities which would enable us to understand better the place of railway transport in the general transportation system of a country.

Railroad Transport : a phase of general transport

Transport service, the nature and utility of which we have studied in the preceding section, is rendered by different types of organisation and in different forms known as road, rail, river, canal, ocean and air. As a study, every form of transport is of fascinating import; here we propose to study railway transport.

Nature of Railway Transport

The Monopolistic nature of railroads differentiates them from all other transport undertakings; it is an epitome of all their peculiarities. We shall analyse the nature of monopoly with special reference to railroads so as to locate precisely the peculiarities of railway transport.

The conception of monopoly has varied from time to time. Modern conception of monopoly is the unified single handed control of the supply, marked by the clear absence of competition. Competition is suppressed through co-ordination and amalgamation, in order to control prices. Thus large-scale production, large-scale management, or grant of privileges do not of themselves prove the existence of monopoly. The acid test of monopoly is power to regulate prices.

The prospect of high profits is a spur to monopoly. The monopolist, obviously, so regulates the supply as to get the maximum monopoly gains. So the monopoly price is a price calculated to yield maximum net returns to the monopolist. The monopolist can and does succeed in compelling the public to pay continuously, for the commodity or service supplied, a higher price

than that warranted by free competition. But the monopoly price, though usually, is not invariably higher than the corresponding competitive price.

A monopolist may not exact from his customers maximum monopoly gains and may charge a price lower than the competitive price with a view to future development of his business. Here the motive force impelling the monopolist to charge lower price is far from philanthropic; there is a complete harmony between the interests of the monopolist and his customers. He sacrifices a portion of his immediate gains with a view to getting more than proportionate future gains. When so functioning the monopolist is like those savers of capital who postpone the present enjoyment of their savings to some future date so as to get additional income on their savings in the form of interest.* It is with this aim of encouraging the shippers that railway managers are often seen to carry a part of their traffic if it covers its bare prime costs. Sometimes they may haul materials even at a loss.

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

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

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

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

The railroad is a typical industry of decreasing costs. This is due to more complete utilisation of the plant and the larger size of the plant. The interest on the capital invested as well as the proper upkeep of bridges, tunnels, etc., is a fixed charge. Of the operating charges only a part varies with the volume of traffic carried. The proportion of fixed charges being higher, the cost of handling traffic goes on falling until the maximum capacity of the plant is reached.

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

The so called "competition of markets" is the best indication of the competitive tendencies in the working of railroads. The

* According to Prof. G. L. Wilson the total investment in transportation facilities in the United States is approximately $61,250,000,000 or about one-sixth of the national wealth. This sum is distributed among the various transportation facilities as follows: highway transportation, $28,000,000,000; steam railroads, $26,000,000,000; electric railways, $3,000,000,000; water transportation, $2000,000,000; air transportation, $1,250,000,000; pipe lines, $1,000,000,000.

† Nearly two-thirds of the total costs of a railway are constant, and only one-third variable.

‡ "At the present time, public authority is loath to permit the construction of rival railway lines, but even if this were not true, the construction of a competing railroad would be a hazardous undertaking, as many investors learned to their sorrow during the era of railroad building in the United States. Traffic may be sufficient to yield one railroad a handsome profit, and at the same time be insufficient to enable two railroads to pay operating expenses." Prof. D. P. Locklin: "Economics of Transportation," p. 141.

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

producers from different countries of the world or from different parts of the same country, being customers of different railways, compete against each other in common markets. This tendency towards competition has been strengthened by the reduction in cost of transport and rapid development in transport facilities creating a single world market available for every producer. Things being produced for a distant market the carrier has a common interest with the producers it serves, being itself a joint producer with them and hence lowers its charges in order to help them to compete successfully. This co-relation between the interests of the shipper and the carrier is significant. Railways foster industries and industries feed railways. Both absolute and relative level of freights is adjusted. If a carrier offers lower rates on its lines it will be an incentive to other industrialists served by other carriers to demand lower rates lest their rivals may exterminate them. To-day even a slight advantage possessed by an industrialist in production, which includes the transport facilities he commands, is enough to enable him to drive out his rivals from the field.* *Ceteris paribus*, that road will secure the greater number of industries and have the more rapid development of local traffic whose local rates are the lowest. This is an important limitation on the monopoly of railroads.

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

Railroad capital immobile over short periods

In the railway industry mobility of capital holds good only over long periods; over short periods capital is immobile. If a merchant has invested his capital in a business from which capital can be withdrawn without substantial loss, he will suspend his

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

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

business temporarily or permanently if it becomes unremunerative due to competition. But competing railroads cannot do so easily. A competing railroad is compelled to work its lines even though it does not get any profits at all. To this is due the ruinous competition between railroads. In their eagerness to get more traffic the railroads not infrequently offer reduced rates to large shippers. But, due to the sensitiveness of the modern industrial mechanism, favoured rate offered to one shipper immediately causes vibrations and affects the entire system, so that other railroads are of necessity led to follow suit, because rather than let any particular item of traffic go elsewhere, the railway manager will accept any rate which yields something, however slight, over and above the operating expenses incidental to that traffic. This is so because very little of the capital invested in a railroad can be withdrawn; it is sunk once for all and irrecoverable. Besides, many of its expenses are independent of traffic. Three-fourths of the expenses continue even if it stops working. All the savings that can be effected are direct operating charges, which bear a very low proportion to the heavy fixed charges. Last, but not the least, is the fact that the railway plant is of very little use in any other business.* All these facts clearly demonstrate that railroads are committed to their task. So, when the railroads begin to compete they forget business ethics and make reckless wars. The history of railroads shows that an insolvent railroad ruins not only itself but also its rival. This has pernicious effects upon the business morality of the community.

This relative short-period immobility of railroad capital does not place the railways at the mercy of the shippers. Industrial competition protects railways from being exploited either by the shippers acting in combination or by the State. The railway is identical with the capitalist seeking the most profitable investment. Capitalists finding profits below the natural level back out of an industry in such wise that supply being reduced prices rise and the remaining members in the business obtain adequate profits. Though this mobility of capital in the case of railroads is true only over long periods, nevertheless it is very important. No doubt, the extent to which railroad capital is immobile the investor is deprived of

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

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

the advantage of industrial competition. But the need for fresh investments occurs from time to time, and it is then that the investor is given an opportunity to exercise his selection and if he finds that investment in railroads is not remunerative he will withhold his investment and direct it to some better field. Thus the construction of new lines will be discontinued and the quality of service provided on the old lines will deteriorate. In every progressive community the demand for transport services is ever rising and if artificial restrictions curtail the supply, the prices will rise thereby inviting new industrialists or those already in the field to improve the transport service. Thus, railroads are industrial enterprises entitled to fair remuneration on their investment. Neither the shippers nor the carriers possess complete monopoly.

Railroads : Public Benefactors

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

Railroads : Public Beneficiaries

Public utilities hold a peculiar position because of their economic, social and legal status. Public service industries require a special legal grant known as franchise, a right to do business which is quasi-public in character.‡ Besides, the State confers upon them certain privileges and rights; they possess the right of

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

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

‡ Some private corporations are organised for a purpose which is of a public nature or, rather, for a purpose which renders them particularly beneficial, if not necessary, to the public and are, for this reason, called quasi-public corporations; and, because of their quasi-public nature, they are sometimes given rights and privileges that are not granted to other corporations, as the right of eminent domain. For example, railroad companies engaged in the common carriage of passengers and goods are quasi-public corporations in this sense." *Vide* Clark, W. L., and Marshall, W. L.: Corporation Law, p. 49.

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

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

Relation of Railway Transport to other forms of transport

In the earlier part of this chapter an attempt was made to explain the functions of transportation and the relation of transportation service to the production, consumption, exchange, and distribution of wealth. Railway transport has played an important

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

Edgeworth, Vol. I, p. 191.

† In the regulation of all quasi-public corporations it is now recognised that certain powers inhere in the legislature as directly representing public will, but that such legislative power must be exercised within the limits fixed by the Constitution as interpreted by the courts. The legislative function is essentially that of the prescription of services and the determination of rates—in short, that of positive regulation. This branch of government may function in either of two ways : it may by specific legislation prescribe rates, fares, classifications, and even service, or it may enact general laws requiring that all rates, fares, etc., be reasonable and provide for an administrative body or commission to determine what is reasonable in a particular case." *Vide* Prof. Miller, S. L. : "Inland Transportation," p. 264.

part in the economic and general advancement of nations and therefore it behoves us to record in brief its functions before we proceed with our study, because it would help us in locating the place of railway transport in the general transportation system.

Being the offspring of modern industrial organisation, based on capitalism and mass production, the railroads have reacted upon it and stimulated the tendency towards concentration and standardisation. It cannot be denied that by far the greatest influence was exercised by railways in bringing about the industrial revolution of the second half of the nineteenth century. In fact, the modern industrial world was brewing in the tea-kettle, the boy Watt is said to have watched, which suggested to him the possibility of the steam engine. The mechanical force of steam led to factory system and centralised manufacture. The introduction of the railroad, a hundred years ago—the substitution of mechanical power for muscle to do the work of transportation on land—started an economic revolution. The railroads made possible the rapid settlement and industrial development of the continents. It brought about the territorial distribution of production, each section growing or making the things it was best fitted to produce or manufacture; it built up large cities; wealth accumulated rapidly, and standard of living rose steadily. The economic revolution inaugurated a new social order capable of indefinite improvement.

No doubt, manufacturing centres would have existed even if cheap and efficient railroad transport had not come to their aid, but they would have been smaller, more numerous and more scattered than what they are today. Railroad transport facilities have narrowed the margin between the value of the commodity at the factory and at the place of consumption and have stimulated the tendency towards large-scale production to the benefit of the consumers. In fact it is the cheapness of carrying by railroads and steamships which has made it possible to get the fullest benefit from the so-called law of increasing returns from manufacturing. The law of increasing returns is the most generic effect of transportation. Railroads facilitate the most effective apportionment of community's labour. Exchange of commodities and services is also most effectively promoted by railways. Even a slight advantage in production is utilised in modern community, with the

help of cheap and efficient railroad transport, which adds to the social welfare of the community. So far as the transport of commodities, over longer distances, at high speed, is concerned, railroads have demonstrated their superiority over other agencies of inland transport—river, canal or road—and have thereby become the sole inland carriers of certain classes of traffic, as we shall presently review in detail.

Let us therefore try to study the relation of railroad with other transport agencies. Rail, road, river, canal, ocean, and air are different modes of transport, each having a definite place in the general transportation system. Each mode has its own place where it works economically. The most dominant tendency of the modern age is the increasing variety of the means of communication, harmonious and supplementary in relation to one another. All the means of communication are interdependent and one begins almost directly where the other ends. The origin of each mode of transport can be traced to a definite need of the society, which it is intended to serve economically, albeit with the intensive and extensive development of the different transport agencies and the enlargement of their spheres of action the original relation of a supplementary character is being replaced by competition in certain spheres. The over-lapping of the spheres of activity has led to wasteful competition.

Rail-Road-Transport

To take up motor transport and its relation to railroad. The automobile is essentially a product of the twentieth century but in a very short time it came to prominence and today occupies an important place in transportation system of every industrially advanced country. Motor trucks and buses have become essential to business, especially since the World War.*

The truck renders rapid, flexible and a more individual type of transport service. For short routes the motor truck is indispensable and superior to railroad or any other modes of transport because of its safety, regularity, mobility, speed, frequency and cheapness. It offers door-to-door service and picks up passengers at any point en route. Studies indicate that the motor truck is used mostly for carrying manufactured goods, articles

* Refer to J. Phillimore's "Up-to-date Motor Road Transport for Commercial Purpose," Preface, P. V.

of high value in proportion to weight and bulk, and that more than three-fourths of the tonnage is moved to distances less than 30 miles. During recent years the length of haul has tended to increase. For commodities possessing low value in proportion to their weight and bulk motor transport is uneconomic. During the World War motor truck served as a long-haul and has been able to retain its place since then. In this capacity it bids to offer some competition to railroads, but the community gains to the extent the cost of motor transport is lower than that of railroads.

However, motor transport has by no means been entirely competitive. It has been found that the suburban traffic, for which both railroads and motor trucks cater, handled by the former has by no means been diminished. Economic and efficient means of transport create traffic and increase both their own profits and the material welfare of the community. The motor truck, by offering its services at the exact time and place convenient to the shipper, creates new channels of traffic hitherto untapped by railroads. In fact railway companies are now using motor trucks on their branch and feeder lines and for relieving congestion of traffic especially at the terminals. The problem of terminal congestion, the result of defective methods of terminal distribution, which has been causing anxiety in the leading industrial countries, is being effectively solved by the proper co-ordination of rail-motor transport. Motor truck by door-to-door service and delivery has eliminated a great deal of waste. Thus, the car and the truck are very effective complements to the railroads in most suburban sections. They also promote an extensive industrial and agricultural development around the railroad station, increase the property value and stimulate business activity. They develop cities and help the outlying growth.*

Motor trucks have a very useful function to perform, side by side with other transport agencies, if only properly co-ordinated. "A road with lines of motors moving in opposite directions will carry more traffic than a railway can, and motor wagons can, pick up and deliver much more easily and under many more conditions than a railway can."† The automobile has shown

* The trend of modern cities, due to industrialisation, is towards further suburban development calling more and more short-distance transportation; people move to suburbs and factories are transferred to outlying districts where rents are lower.

† Marshall: "Trade and Industry," p. 500.

admirable and quick response to transport requirements of the civilised world, unparalleled by railway industry. Being more adaptable to the needs of traffic, it has achieved success in a decade, which the railroad took a century to attain.*

Railroads, then, have no cause to be suspicious because the motor transport is intended to feed and supplement rather than replace the railroad traffic, especially the freight traffic. It has been aptly stated that the role of the motor vehicle is not to do what the railroad is already well-equipped to do successfully and satisfactorily, but to do what the railroad is not able to do at all, or else does only with difficulty and imperfect success. Being essentially a short-haul carrier, motor service has helped the railroads to concentrate on the more economical long-haul transport, in which they possess marked superiority over other land carriers. The truck has a decisive advantage on short-hauls and the railroad on long-hauls.†

In short, the vast bulk of the motor transportation rendered is entirely in new fields which have increased the demand for railroad services. In particular, it should be recorded that the automobile has proved a benefactor to the farmer and brought immense freight to the railroads which could not be tapped otherwise. It makes up a vital gap in the organised transport system of a country, which is uneconomical for the railroads to attempt.‡ Thus, motor service is an addition to, rather than a substitute for, the services previously rendered by the railroads; it is an essential tributary.

Rail and Road Competition

We have stated in the preceding section the economic functions of rail and motor transport and pointed out their limitations. But, with the aid of better mechanical inventions,

* Grupp: "Economics of Motor Transport," p. 19.

† Railroads should cease catering for short-haul and less-than-carload shipments, and they should, for efficiency and economy, be entrusted to motor bus.

‡ "The motor truck, bus and private passenger car have made a rich contribution to the economic and social welfare of the United States. Farm production has been increased. Isolation has been taken out of country life. The producers of raw material have been assisted in bringing the products of remote sections to market or to railroad or steamship depots. The motor has aided mining and manufacturing, expedited the delivery of raw materials, the moving of goods within the industries and the distribution of products. Local deliveries from retailer to consumer have been quickened. The whole process of production and distribution has been facilitated.

"The private motor passenger vehicle has extended the social and business activities of millions of people, while the passenger bus has become a part of the transportation system of virtually every city and town."

Johnson, Huebner and Wilson: "Principles of Transportation," p. 372.

the automobile is extending its sphere of activity and the railroads having tucked up their sleeves are determined to strike down their new rival. The war has begun. Fair competition doubtless improves the quality of the service, but destructive warfare among carriers, unfair discrimination among shippers, and price cutting below reasonable rates are in the interest neither of the carriers nor of the public. It will be recollected that the overlapping in the spheres of activity has resulted in cut-throat competition between the two carriers in almost every industrially advanced country. The problems presented by this competition are common, albeit its intensity varies, in different countries, according to the sufficiency and efficiency of the transportation system.

Rail-Road Competition in the United Kingdom

The efficiency of automobile transport in a country depends *inter alia* upon its road system. In what follows, we propose to study the problem of motor transport and its peculiarities as presented by the British transportation system. The nature of the competition will be best understood by studying the rate structure of the two carriers.

Few people realise the intensity of the competition between rail and road and the extent to which rates reductions have been extended to attract traffic in the duel. There was an apparent check imposed upon the railways in lowering their freight charge to meet this competition. But the check was more apparent than real and its difficulties were soon got over, so that the railways could participate in the duel without any fetters. The railwaymen complained that while Parliament has laid down that they shall be subjected to a standard schedule of charges their competitors are unfettered in their discretion and can quote whatever rate they choose. But the seemingly inconvenient position was overcome by resorting to exceptional rates. The quotation of exceptional rates is doubtless regulated by the Rates Tribunal, but the latitude permitted to the railway companies is sufficiently wide, so as to enable them in ordinary circumstances to meet their requirements without any expressed permission of the Rates Tribunal. Thus, when the exceptional rate quoted is lower than the standard rate from 5 per cent. to 40 per cent. the railway company can use the discretionary power and quote the requisite

rate immediately. When, however, the exceptional rate is lower than the standard rate by more than 40 per cent. the consent of the Railway Rates Tribunal must be secured. Applications of this sort have become too numerous, due to automobile competition, so that the Tribunal has perforce to devote one day in a month for these rates only. Furthermore, the applications for exceptional rates have become so common and the permission is so frequently granted that the business community takes scant notice and they are not even published in the newspapers. No wonder, therefore, if the magnitude of rate cutting is rarely realised by the general public.

It will be recalled that the motor truck had demonstrated its importance during the Great War and its place in the general transportation system has been recognised since then. In the post-war period there have been extraordinary developments in the road-transport industry so that it would be difficult even for those who are intimately connected with the industry to form precise opinion upon the different aspects of its development. The apparently permanent factor of today is swept aside to-morrow by the appearance of some new and unexpected element. It would not be far from truth to say that the history of the development of road transport is one continual story of the unexpected. Who, amongst those who took part in the birth struggles of road transport at the opening of the century, could have envisaged its developments as we know it to-day ? To the discerning mind the forward march in the development of road transport is gaining in velocity with every year and notwithstanding the immensity of the problems it has created public opinion demands that road transport shall continue to develop to its utmost capacity and that the problems it creates must be considered subsidiary to the advantages it confers. Therefore, the motor truck gradually extended its scope and efficiency and the encroachment upon the sphere of railway working has proceeded apace, so that to-day the competition has assumed a serious form. Let us then proceed to analyse the practical aspect of this problem. The existing standard rates in Great Britain came into operation in January 1928, and since then numerous exceptional rates have been granted by the railways to meet the competition. In the year 1928, the railway companies granted 100,531 exceptional rates of which 4,561 were less than 40 per cent.

and 5,450 more than 40 per cent. below the standard rate. In 1929, about 144,476 exceptional rates were granted of which 12,994 were less than 5 per cent., and 2,564 more than 40 per cent. below the standard. The year 1929 was comparatively good for the railways, and when traffic declined in 1930 there was a drop to 111,480 in the number of new exceptional rates, 101,061 being between 5 and 40 per cent. below the standard and therefore requiring no sanction by the Railway Rates Tribunal, 8,210 being less than 5 per cent., and 2,218 more than 40 per cent. below the standard. The estimated figures of 1931 showed that the Tribunal sanctioned 7,600 rates which were less than 5 per cent., and 2,050 which were more than 40 per cent., below the standard; with 93,600 rates between 5 and 40 per cent., below the standard the total number of new exceptional rates was thus 103,250. In short, in four years the railway companies granted nearly 460,000 new exceptional rates, and it is no exaggeration to state that in certain classes of traffic the standard charges bear little relation to the actual rate at which they actually carry their traffic. In a census taken of the four amalgamated railway companies' freight traffic it was found that in classes 1 to 27 about 76½ per cent. of the traffic carried was carried at exceptional rates.

Let us take concrete instances to illustrate the precise nature of the reductions offered by railway companies to prevent the traffic passing to their road competitor or to obtain a share in the traffic that is being carried by the rivals. The L.M. and S.R. Company was granted by the Tribunal an exceptional rate for groceries which was 70 per cent. below the standard, on the plea that at the reduced rate they would be able to draw considerable amount of traffic which was then passing by road. Similarly the railway companies found that wool traffic was passing mainly by road, and, being anxious to draw the traffic off the road, they got together and thought of making a concerted attempt to draw the whole of wool traffic back to the railways. They hoped to get back the traffic if the railway rates were reduced to the level of charge made by the road haulier. The freight charge was the crux of the whole problem. In the case of another group of exceptional rates suggested by the L. and N.E.R. it was suggested that if necessary reductions in rates were made a very heavy tonnage of traffic which is now passing by road would come to the railways. It was hoped that the traffic

of something like 200,000 tons a year would be regained, and the Railway Rate Tribunal granted the reduction within two minutes.

In one case the Tribunal granted permission to group 25 articles into one class, even though most of them were lower than that class. Here the traders were considering the question of putting on their own road transport, and it was to avoid losing this traffic to road transport that the railway company had to quote exceptional terms. A proposal was put forward for a low exceptional rate for fish between Stonehaven and Glasgow, and here again it was stated that there was very large tonnage of this traffic which the railways had lost *in toto* to the road. When the applicants were asked whether later on there would be an application for a similar reduction in the rate from Aberdeen, the reply was that sometime ago the L. and N. E. R. lost all the Aberdeen traffic to the road, but got a rate similar to that applied and thereby regained the traffic. The L. M. & S. Railway applied for the sanction to quote a rate on sulphate of copper 65 per cent. below the standard rate and gave the assurance that the revenue would be greater even if the traffic was carried at so low a rate, and that even though the bargain was bad it was better than getting nothing. In another case the same company asked for sanction for low rates between the Hull port group and Newcastle port group, and towns in Lancashire, affecting about 100,000 tons traffic carried annually. It was admitted that in so far as the existing traffic was concerned, this would mean a loss of gross receipts as well as net receipts. The traffic was, however, beginning to leave the railway, and if the existing rates were continued the time would come when the net receipts would be reduced through loss of traffic to a lower level than that at which they would stand if the lower rate was sanctioned. Otherwise, probably they would get no receipts at all, for the traffic would all go by road.

For Warrington and Warenham glycerine traffic, amounting to several hundred tons, rates 61 per cent. below the standard was submitted, and it was stated that though it was a long haul of 240 miles, the traffic was all going by road. A member of the Tribunal pointed out that this rate equalled about 62½ per cent. of the pre-war rate, and he asked whether that was enough, and whether it would give anything by way of overhead charges. The Railway representative replied, "We have to keep on giving these

lower rates in order to get traffic. There must come a time—I am not for one suggesting that it has now come—when if the low rates, the rates on which the greater bulk of the traffic is passing, continue to increase, then the other traffic which is going at economic rates is not in itself producing enough revenue to meet your revenue." He instanced the case of an omnibus with 15 passengers paying the cost of running plus a reasonable profit. If they got five more passengers at one penny each that was an additional profit of 5*d*. If, however, the omnibus had only three passengers and they, with the five additional passengers, did not pay for the cost of running, it was obvious that from a commercial point of view the omnibus was not paying and should be taken off the road. The railways could not carry all their traffic at 39 per cent. of the standard rate, but the concession applied for, being applicable for special traffic, might contribute something to meet the overhead charges after covering the out-of-pocket expenses. It was therefore thought advisable to carry the traffic at reduced rates than not to carry it at all.

Thus we see that the rate structure of the railways has been rudely shaken by road competition and the exceptional rates quoted by the railways to meet the competition are far more numerous than is generally realised. It is needless to say that these rates have stimulated the development of British trade and industries and are indeed welcome to that extent. Railways on their part have received the necessary spur to efficiency and economy and they have been put to their test by their formidable competitor, Railways in their working have always erred on the side of conservatism and therefore they have been reluctant in quoting exceptional rates, but they have been forced to concede. Exceptional rates are inherent in the very nature of the railroad industry, for they help to utilise the unused capacity of the railway plant and under normal conditions of trade and traffic they are very frequently used by an enlightened railway manager to help the shippers and create thereby traffic for the railways. Increase in the number of exceptional rates is therefore a *sine qua non* of efficiency and economy in railway working, because the requirements of trade and industry change more rapidly than do the railway tariffs and therefore a shrewd and alert traffic manager quotes exceptional rates to meet promptly the traffic requirements,

without waiting for or resorting to alterations in the general classification. If motor competition provides this much needed spur to efficiency it augurs well and should therefore be welcome to all concerned. But in certain cases the competition has pressed the reduction in rates much beyond the desirable limit and to protect the interests of the carriers as well as the general public the need of regulation has been felt. As will be seen from the instances quoted above, the rates applied for have been so low that the Tribunal have felt it necessary to inquire whether the traffic receipts would cover the out-of-pocket expenses.

The Railway Rates Tribunal had a very difficult task to perform because the applications were too numerous and the time, looking to the intricacy as well as the delicacy of the problem of railway rates, was too short. They have shown reluctance to sanction rates which are exceptionally low, going very carefully into the reasons why the companies are prepared to offer what appear to be uneconomic rates for certain selected classes of traffic. Where the companies have been able to satisfy them that the low rates for which the application has been made are absolutely necessary to retain traffic, or hold out the reasonable prospect of regaining traffic which has been taken from them by road transport, the Tribunal have sanctioned some rates which are 70 per cent. below the standard, and there have been cases where the new rates sanctioned have been 73 per cent. below the standard. In a number of cases application has been made to reduce exceptional rates previously sanctioned by the Tribunal. In view of the fact that the sanction of the Tribunal is necessary only where the exceptional rates quoted are within 5 per cent. or more than 40 per cent. below the standard charges it is clear from the nature of the applications that the exceptional rates originally sanctioned have failed in their object of attracting traffic passing to railroads and that the railway companies are making a fresh endeavour to realise their objective. The true situation is that faced with an attempt by the railways to regain the traffic, or, in other words, to attract the traffic already carried by the road carriers by offering an inducement of lower rates, the road competitors in their turn have promptly replied by lowering their charges. Indeed it would be presumptuous to assign the total blame on either party in the absence of State regulation calculated to bring about a proper

co-ordination of different transport agencies because competition resulting from the overlapping of the spheres of activity is inherent in the transport enterprise. But, without any fear of contradiction, it can be said that this cut-throat competition is not proving beneficial to either form of transport or the business community; albeit it may get some immediate profit, is not likely to benefit in the long run. The community needs an all-round development of the transportation system, where each constituent part functions within its own economic limits, and this is precisely what the cut-throat competition sets at naught.

Competition intensified

The competition, adverted to above, has been intensified by the industrial depression and the increase in heavy motor-lorries. With the setting in of the trade depression, railway traffic received serious setback and therefore more special rates were offered to keep the traffic moving. In the first three months of 1932 the traffic carried by the four railway companies decreased by about 4,000,000 tons as compared with the corresponding period of the last year—and 1931 was one of the worst years the railways have had. The increase in the number of heavy motor-lorries engaged in road transport forced further reductions in railway freight. In short, the advent of the heavy motor-lorry, particularly in a time of depression, created very serious complication not only between the rail and road transport agencies, but between the road carriers themselves. Rate-cutting between the road carriers became a common factor.

As a result of this unhealthy competition the freight charges were reduced to a level undreamt of by either of the carriers before the setting in of the depression. The Tribunal granted exceptional rates to the railways, to protect them from ruin, which had no relation with the original rate, as referred to above. Therefore, it does not come as a surprise to note that many of the new rates can hardly be classed as economic. They are put forward to attract competitive traffic and the railway companies make no secret of the fact that it would not be possible to carry the whole or anything like the whole of their traffic at similar rates. They have been forced to reduce their rates in self-preservation, as they admitted before the Tribunal. This is evident from the fact that the new rates were applicable on competitive traffic alone.

Truck Rates

Not content with the measures they had taken to meet the competition from the road haulier, the railway companies resorted to a novel plan of action. The L. & N.E.R. applied to the Tribunal for a sanction to introduce truck rates to meet road competition, as an experimental measure. The new rate was limited to traffic in both directions between London, Chelmsford, Ipswich, and Colchester, because in this area the railway had suffered considerably from the successful competition of road operators. This experiment proved a success and therefore further permission was obtained to introduce a similar rate in some other competitive areas. Similarly, sliding scale rates have also been sanctioned.

In short, the position as it stands today is that freight charges for competitive traffic have fallen considerably below the normal level. Railway rates about 72 per cent. lower than the standard rates have been sanctioned in some cases, both for goods and passenger traffic which the railway companies were anxious to regain or retain. The result of the wholesale application of the exceptional rates, however, has been to reduce the average rate for freight traffic far below the standard, and the level of the average rate is dropping year by year. The railways argue that these lower rates have to be quoted to retain the traffic which would otherwise be diverted to roads. This feature of rate structure has become very significant. The ability of the road carriers to carry traffic at lower rates, according to railway companies, is due largely to lack of proper state regulations and inadequate taxation.

Royal Commission on Transport

This question of highway expenditure and the taxation of users thereof, particularly motorists, was investigated by the Royal Commission on Transport. The Minister of Transport admitted in the memorandum submitted to the Commission that data did not exist for forming any accurate estimate of the proportion of the present cost of the improvement and maintenance of highway which should properly be borne by the users of motor vehicles. "It is far more difficult matter to attempt to strike a balance between the value of the highway system to motor users as a class, and its value to the community as a whole, as a general means of communication and social intercourse. Nor is it easy to decide whether the burden of taxation is fairly and properly distributed

between the users of different classes of motor vehicles in proportion to the use which they make of the highway system, the wear and tear they cause, and the cost of meeting their requirements in respect of such matters as strength of construction, width, ease of gradient, alignment, etc."* Notwithstanding the difficulties with which the problem was hedged, the Commission, after a very careful and detailed scrutiny of the evidence placed before it, found that roads cost sixty million pounds yearly to maintain and develop. About two-thirds of this was found by ratepayers as a whole and one-third came from the Road Fund. But road transport, it was found, contributed actually a much larger sum, which was retained by the Chancellor and applied for general revenue purposes. The road vehicle owner was found to pay by way of fuel tax and licence duty combined between fifty and sixty million pounds a year. The Commission, therefore, came to the conclusion that in future one-third of the cost of the highway should fall on the rate payer and two-thirds should be borne by the motorist.†

The Salter Committee Report

The Railway Companies, however, did not like the recommendations of the Commission and brought pressure upon the Minister of Transport to set up another Committee. To placate the railways, Salter Committee was appointed, even though the Report of the Royal Commission was awaiting action. The first question dealt with by the Committee was the incidence of highway costs in relation to the contributions of the different classes of mechanically propelled vehicles. They had to find a proper basis for allocation of costs to facilitate an economic division of traffic. They found that the relative contributions needed correction and that, especially for certain classes of commercial goods vehicles, they needed to be increased. After going fully into the cost of the roads the Committee decided that of the £60,000,000 a year, at which the annual expenditure of the roads was assessed, £23,000,000 should be paid by commercial motor vehicles, an increase of £2,500,000 on the sum actually paid. They submitted a new scale of duties to raise the increased amount recommended. This scale provided that the heavier vehicles should pay a greatly increased tax, it being pointed out that when the current scale was fixed it stopped

* Memorandum quoted by the Royal Commission, para. 236.

† Para. 249.

at 5 tons unloaden weight and that a 10-ton vehicle paid no more in licence duty than a 5-ton vehicle. The mechanically propelled vehicles which do not consume petrol and therefore escape the petrol duty but are equally responsible for wear and tear of the roads were also to be subjected to heavily increased taxation. Heavy vehicles used in port areas for the conveyance of goods from docks to warehouses, etc., being regarded as most suitable for the specialised and limited category of transport, should, it was suggested, receive a rebate of 25 per cent. of the licence duty.

The Committee further decided that some regulation of goods motor vehicles was necessary and that it could be enforced only through a licensing system. The issue of licences to be conditional not only on the payment of the appropriate contribution towards the annual road costs but also of fair wages and conditions of service and the maintenance of vehicles in a state of fitness. They held that the hauliers with the right to carry the goods of the public should be subjected to greater regulation than ancillary users who only carry their own goods. The report discussed the representations made on behalf of the railways that, having regard to their own obligations as to publicity and control of rates, somewhat analogous obligations should be imposed on road hauliers. The Committee held that the licensing authority should have the right of access to information as to rates charged, if he considered it relevant to the discharge of his duties, and that the licensing system should be brought into immediate operation and that the Minister should examine the question of publication and control of rates in consultation with the Central Advisory Committee with a view to the establishment, if necessary, of a system for the publication and possibly the control of rates.

It was, however, pointed out that extravagant expectations must not be entertained by those interested in the railways as to the effect of such increased taxation, or of this combined with such additional regulation as the Committee thought to be in the public interest, in forcing back traffic to the railways and so restoring their fortunes. This method of alleviating the general railway position has its most obvious and inevitable limitations. The Committee said: "The correction of the incidence of highway costs may mean that each class of road transportation is in future paying its own real economic cost. But the withdrawal from the

railways of all classes of traffic which find road transport economical, even on this corrected basis, may still create a situation on the railways which must react seriously on other industries. Railway transport caters for all industries; and its traffics have been built up on the principle of charging less than a proportionate cost of service to certain traffics and more to others. The limitation of charges in the first case has been possible because the railways were also carrying the other class of traffic. Even when we have corrected the incidence of highway costs, therefore, the broad question remains, whether it is possible to retain in permanent equilibrium two systems, the economic cost of service being the guiding principle of charge for one set of industries, and 'what the traffic will bear' for the other. It must be recognised that some industries whose goods are now carried by the railways on the latter principle —and whole community dependent upon them,—would be most seriously affected if they were charged the full proportionate cost of service."

The road interests strongly opposed the recommendations of the Salter Committee affecting road cost allocation and argued that they should only pay the difference between the old outlay on roads and the increased outlay attributable to the advent of motor transport. As the revenue from the fuel tax and the taxation of motor vehicles totalled about £59 million, they said that motor transport already actually paid more than its share of the cost of road upkeep. Of the total annual contribution of about £60 million to the Exchequer made by road transport agencies, only about £22 million was allocated to the roads, and the balance had therefore to be made good by the local ratepayer.

The Road and Rail Traffic Act was passed in 1933, implementing the recommendations of the Salter Committee. The goods road transport was to operate under a licence to be issued by the Chairman of the Traffic Commissioners. There are three types of licences —known as A, B or C. The first, known as Public Carriers' Licence, is valid for two years, and must be obtained by carriers transporting goods for third parties. The second, known as Limited Carriers' Licence, is valid for one year and applies to vehicles carrying goods either in connection with the owner's business or for hire or reward. The third type of licence, valid for three years, applies to manufacturers or enterprises using their

own vehicles for their own purposes. The disputes respecting the issue of licences to be settled by an Appeal Tribunal of three members created by the Act. The taxation of motor vehicles was also raised substantially. The changes have led to marked improvement in the road services and the railways have failed in their objective of crippling road traffic by heavy taxation. The motor truck has put the railway authorities on their guard and improved their efficiency materially. The public has benefited a great deal from the improved efficiency of the transportation system. The problem of proper co-ordination of the transport facilities has thus been materially facilitated. The road transport is now covering almost its full social costs. There is an effective system of inspection of motor vehicles for mechanical condition and fitness to travel. Insurance rates have been raised so as to yield a normal profit. Labour conditions and wages are also regulated. Equitable taxation and effective regulation have eliminated wasteful competition and promoted co-ordination.

It should be made clear that we have studied in detail the relation of rail and road transport in Great Britain because it brings out the economic functions of the carriers and the important problems arising therefrom. Such a study is specially useful for countries relatively backward in industrial evolution as a safe guide in formulating a proper transport policy for future economic development. This point, however, should not be pressed too far, because every country has its own peculiar features and the practical problems which arise therein have to be tackled with great skill and ingenuity and the solution is peculiarly its own. In the light of what has been outlined above we propose to examine the rail and road competition in India.

Rail-Road Competition in India

The use of motor-truck, both for goods and passenger traffic, is increasing rapidly in India and the question of rail *versus* road motor transport is drawing the attention of the railway authorities as well as the public. The Government of India have made definite efforts through official enquiries * to ascertain the steps to be taken to put an end to the unhealthy competition and effect a proper co-ordination of road transport with railways. In view of this it is

* Mitchell-Kirkness Report on the state of Road and Rail Competition and the Wedgwood Enquiry Committee Report.

necessary for us to enquire into the present state of affairs of both the carriers.

Indian railways have taken up a very hostile attitude towards the road haulier, and, having glaring instances of other advanced countries before them, they have come out with full determination to exterminate their rival; to nip it in the bud is their aim. "The problem is one," runs the Administration Report, "that has come to stay, and there can be no slackening, therefore, in the attention that railways have given and are giving to this question."* This shows the railway attitude towards the problem.

In India, rail and road competition is confined largely to passenger traffic and it is of a relatively recent origin, because in the Railway Board Report of 1925-26 there is no mention of this fact at all. The Report for 1926-27 remarks: As has been the experience in other countries, Railways in India are beginning to feel the pressure of road motor competition. At present this is especially felt in the neighbourhood of large cities and suburbs, but in some parts of the country motor services which run parallel to or short-circuit railway lines have also made their appearance. The general policy adopted by Railway Administrations is to meet such competition by endeavouring to afford to the public equal or better railway service than road transport can give while taking full advantage of the additional business brought to the railways by such motor transport as can act as feeders or distributors.† The Report then proceeds to give the details of the competition and the areas affected. The introduction of the new motor bus service slightly affected the first and second class traffic of the B. B. & C. I. Ry. in Bombay. Similarly, the sections of the E. I. and E. B. Railways in the suburb of Calcutta were affected by the motor bus competition. In Rangoon the number of suburban passengers steadily decreased in the last three years due, *inter alia*, to motor bus competition. The competition was not merely confined to suburban traffic, but the motor truck penetrated even in the interior and had drawn traffic off the railways. In the area served by the N. W. R. road motor traffic rapidly developed, especially between Kalka and Simla, Lahore and Amritsar, Amritsar and Batala, around Jullunder, between

* *Vide*, Report of the Railway Board, 1929-30, Vol. I, p. 39.

† *Vide*, Report, p. 47.

Kohat and Peshawar, Kohat and Bannu and along the Khyber Railway. The G. I. P. Railway had to face the competition of 36 motor services for passenger traffic on different parts of the area it serves. Similarly, the M. & S. M., S. I., R. K., and other railways also felt the competition of motor bus service. This was the condition of rail and road competition in 1926-27.* The general conclusions which emerge from the aforesaid description are that the motor truck has penetrated in the interior of the country and caters primarily for passenger traffic.

This competition continued to gather momentum. Road motor competition, observes the Report,† continues to be a problem engaging the close attention of all railways whose interests are being prejudicially affected by the intensification of this competition on the old established routes and its extension into newer areas. Where a road short-circuits the railway route, it is recognised that railways can do little, if anything, to meet this competition. The position, however, is different where the road runs parallel to the railway line, as in most cases, and it is here that the railways have to consider organising counter-measures to regain and retain their traffic. The Report thereafter gives the details of competition affecting different railway systems and the measures adopted by the railway authorities to meet the same. From the particulars it is clear that the competition increased more in the interior. Thus, for instance, the B. B. & C. I. Railway felt more severe competition on the Nadiad-Kapadvanj section and Hansi-Bhiwani-Hissar area. On the E. B. Railway, Calcutta-Budge Budge, Phaltala-Khulna, Daulatpur Khulna, Narayanganj-Dacca, Kishanganj-Katihar, and Calcutta-Barrackpore sections were affected by the competition, the G. I. P. Railway introduced special coaches to meet competition on Poona-Lonavla, Badnera-Amraoti and Nagpur-Katol sections. Between Sholapur and Pandharpur permanent reduction in third class fares was made to compete with bus services. Similar measures were taken on other railways as well.

Commenting on the situation, the Report of the following year, therefore, remarks: This is one of the many problems that have come up within recent years and which railway

* *Ibid.* p. 48.
† *Ibid.* 1928-29, p. 46.

administrations fully recognise is one requiring special investigation and the adoption of measure varying according to the special conditions in the different areas affected. More frequent and rapid train services in some cases, a re-adjustment of the timings of the existing trains in others and the quotation of special reduced fares in a few cases have brought back to the railways some of the traffic which had been diverted to the road. Other measures, such as the opening of out-agencies for booking of passengers, have also been considered but the problem is one that has come to stay, and there can be no slackening, therefore, in the attention that railways have given and are giving to this question.* The competition continued to increase on all the railways.†

The Railway Board Report for the year 1930-31, explaining the situation, states that there was no abatement in the extent to which railways continued to be subjected to the competition from road motor transport during the year. The problem is one presenting in many respects the same difficulties that have been experienced by railways in other countries, and further competition in this country is only limited by the lower ratio of road to railway mileage. Generally it may be said, adds the Report, that wherever there are metalled roads motor buses ply for hire, provided the population is sufficient to support the traffic, and buses continued to increase in number upto the traffic's full requirements and frequently exceeded it. Information received by the Railway Board shows that the road services are usually not properly organised in that they run to irregular timings and usually not until a full complement of passengers has been obtained, do not have settled charges, and are frequently in excess of requirements. Thus before the setting in of the depression the motor truck had made its mark as a competitor of railroads.

The depression multiplied the difficulties of the railroads and the motor truck gradually improved its organisation and efficiency, with the result that competition has since then tended to increase in its severity. The extension in the range of the motor truck has seriously challenged the monopoly of railways and diverted a part of the traffic.

* *Vide* Report 1929-30, pp. 38-39.

† Refer, *Ibid.* pp. 39-41.

The Mitchell-Kirkness Committee, appointed to investigate the state of road and railway competition, reported in 1933 that the railways were losing about Rs. 2 crores* from passenger traffic alone due to road competition. Further, they found that though the range of motor transport for the carriage of passengers was usually short, there were a number of cases where passenger buses carried traffic in competition with the railways for distances over 50 miles, as will be seen from the following table † :—

Bombay-Poona	..	..113 miles.
Nasik-Kalyan	..	.. 89 ,,
Kolhapur-Poona	..	..135 ,,
Bagalkot-Belgaum	..	.. 85 ,,
Dharwar-Kolhapur	..	..125 ,,
Madras-Vellore	..	.. 82 ,,
Nagpur-Amraoti	..	.. 96 ,,
Nagpur-Chhindwara	..	.. 92 ,,
Fyzabad-Barabanki	..	.. 68 ,,
Benares-Allahabad	..	.. 82 ,,

From the evidence collected the Committee felt that in future the range of motor transport may considerably increase and affect both long and short distance passenger traffic on the railways.

As regards the transport of goods, they found that motor vehicle competition had not developed to any great extent. The N. W. R. was chiefly affected by organised motor transport agencies, and the rates charged were lower than those levied by the railways. In respect of the transport of vegetable and other perishables road carriers offered serious competition with the N. W. Railway for longer hauls. For instance, fruits were carried from Rawalpindi to Delhi, a distance of 477 miles. Other railway systems had not remained completely immune from road competition in the carriage of goods traffic. The E. I. R. and the E. B. R. also reported a certain amount of competition in Bengal. The E. I. R. reported that vegetables, country tobacco, and miscellaneous articles were carried by buses in competition with the railways between Calcutta and Katwa, a distance of 117 miles ; Calcutta and Raniganj, 120 miles ; and Calcutta and Asansol, 113 miles. Thus, by the end of 1932, the motor truck had increased its sphere of activity

* Para. 14.
† Para. 16.

and the length of haul; both passenger and goods traffic were covered. It is, however, essential to note that a substantial portion of the traffic carried by the truck was new and only a part was diverted from the railroads.

The range of motor truck competition with railroads has been steadily increasing, with improvements in the organisation and services of the road carriers. For instance, the N. W. R. reports severe competition from road motor for passenger traffic. "A new feature of this competition has been the formation of organised companies which run motor services to regular timings and at fixed charges. Their activities extend also to parcels and goods traffic, the commodities most affected being fresh fruit, vegetables, piece-goods, wheat, groceries, haberdashery, ghee, etc."* Similarly, the competition on other railway systems increased, though its intensity varied according to the condition of roads and the traffic available. In 1935 the annual loss of railway traffic to roads was estimated to be Rs. 3 crores, which rose to Rs. 4½ crores by 1937.†

In 1937 the E. I. Railway reported that road competition had become general throughout the system, the focal points being large centres, such as Calcutta, Gaya, Patna, Benares, Allahabad, Cawnpore, Lucknow, Agra, Delhi, Saharanpur and Dehra Dun. Both short and long lead traffic were affected, the former for practically all descriptions of merchandise, and the latter mainly for the higher rated commodities such as manufactured goods, spices, fruits, etc.‡ The G. I. P. Railway authorities stated that road competition for passenger, parcels and goods traffic continued to be severe and has since extended to traffic for long distances and for bulky goods. The M. and S. M. Railway reported that road competition was spreading all over the area. It is significant to note that the road competition has been increasing notwithstanding the measures taken by the railways to combat the same. In 1939, the E. I. Railway reported that competition for goods traffic showed signs of increase during the year particularly in the United Provinces and Bengal and in respect of long distance through traffic to and from the Punjab.§ On the N. W. Railway road competition was found to be "more acute than ever." These facts

* Report of the Railway Board, Vol. I, 1934-35, p. 43.
† *Vide* Wedgwood Committee Report, para. 169.
‡ Report of the Railway Board, Vol. I, 1936-37, p. 52.
§ Report of the Railway Board, Vol. I, 1938-39, p. 68.

prove that roadmotor transport has come to stay in India and that the problem of co-ordination of rail-road transport should be immediately taken up to avoid waste of our economic resources. We shall review in the last chapter the steps hitherto taken for eliminating the wasteful rail-road competition and suggest the lines on which future policy should proceed.

To sum up, the automobile industry has recorded a very rapid development and as a result of the extension in its scope it has encroached upon the sphere of railways—though precise demarcation of the sphere is difficult—and the contest between both these transportation industries has become so keen in most of the advanced industrialised countries that State interference has been called in to improve the situation. This is clear from the detailed review of the conditions in the United Kingdom. In India, however, the competition is not so keen, and yet the railways have taken up a hostile attitude. As a matter of fact the growing competition of motor vehicles in recent years has led the railway authorities to the false belief that motor vehicles are an obnoxious and undesirable rival encroaching on their field and hence they have taken up the sleeves and the contest has begun. But in spite of this hostility the motor truck has come to stay. The railways have recognised this fact and yet they have not given up their hostile attitude—nay, they are getting strong with it. This policy of railway *versus* roads is detrimental to the interests of the contesting parties as well as the general public. This leads to the needless waste of national resources. Both means of transport are equally essential. There is nothing to choose between the two, for each in its individual sphere is equally important. It has been rightly said that if railways are the arteries the roads are the capillaries and one would not do without the other, because the limitations of the one are the advantages of the other and *vice versa*. The railways are essentially confined to their rails and so the area they serve is limited. Therefore, the road carriers open out the interior, enabling easy access to nooks and corners, to secluded villages and remote farms. Without good roads and road carriers mobility would be hampered and markets restricted because transport openings not only promote local movements but feed the railroads for long hauls too. This is especially true of agricultural countries. It may be noted that of all agricultural

countries, India needs motor trucks most, which should link up the agricultural areas with the important trade centres or railway junctions, so as to facilitate the distribution of their agricultural products. It is the crushing need of the Indian agriculturist and the considerations of his poverty, greater distances over which the motor truck can be usefully plied, insufficiency of inland water communication and impossibility of reaching all its parts by railways weigh heavily in favour of road communication. The isolated nature of agricultural operations rarely provides alternative means of transport. Road carriers generally provide the sole means of contact between the farm and the market, the civilised city and the rural hamlet and upon their proper development depend the facilities of distribution, extent of market, quickening of educational progress and general agricultural and economic prosperity. Therefore sooner the strife between the road and rail is brought to an end the better for all concerned; the hostile attitude should be substituted by a spirit of mutual goodwill. There should be a well-planned all-round development of transportation facilities, more so because the available transport facilities are far from adequate to the requirements of Indian trade and industries. Co-ordination should be the watchword of our policy because each mode of transport has its own sphere in which it works economically. Each supplements the other. They confer benefits *inter se*; the needs of the one are supplied by the other. With the extensive and intensive development in the transportation industry, characteristic of the modern age, the overlapping of individual service is bound to come up, but it should be regulated by a proper scheme of co-ordination.

Rail-Water Transport

Having discussed the relation of railways to road transport we shall now review, in brief, their relation to other transportation agencies. Let us take up water transport which is one of the major forms of transportation. Viewed historically we find that it operated as an important link in trade relations, domestic as well as international, long before the railroad locomotive was invented, and to this day its place has not been questioned. Water transport is an essential supplement of railroad transport, though there has been an overlapping of spheres to some extent.

So far as ocean carriers are concerned they supplement the railroads ; the one feeds the other. The ocean carriers bring very large quantum of traffic from the far off countries and land them at the ports, to be carried by the railroads to their respective places of utilisation or consumption. The railroads, likewise, with the help of other land carriers collect traffic from scattered and distant sources and carry it over to steamship depôts. In fact, through rail-water shipments have become the rule of the day; there are direct arrangements between the carriers. Through export bills of lading are the common feature of modern commerce.

However, coastwise and inland water transportation has not been entirely supplementary to railroads. In some spheres it has supplemented while at others replaced railroad transport. It has checked railroad monopoly and affected to a marked degree their rate structure. Water transportation has operated as an automatic regulator of railway rates. For hauling articles low in value in proportion to their weight and bulk water transport is more economical than railroad transport. It would be idle to deny that the competition of these water transport agencies has increased the efficiency of railroad services. At the same time it needs be noted that overlapping of the spheres of activity of these carriers has led to wasteful competition which should be eliminated by systematic co-ordination. This remedy has been tried with marked success in advanced countries, in forms best suited to the economic conditions and requirements of individual countries ; it has proved an efficacious tonic for the evils of wasteful competition. The competition between railways and coastwise steamship companies in India is too well known to be reiterated.* The co-ordination of facilities is essential. The condition of river transport is still more deplorable. Railroads have practically ruined the river transport of this country.

Even a casual glance at the physical relief of the country would show that India is plentifully supplied with a network of rivers and would lead one to believe that there was extensive water transport. But the present conditions of these waterways hardly justify that belief. The river systems of Northern India as a

* See other chapters. Refer also Ghose's Monograph ; N. B. Mehta's "Indian Railways ;" Acworth Committee's Evidence Vols., etc.

means of communication have been ruined. A representative of the Steamer Companies serving these parts giving evidence before the Industrial Commission said: "We used to run up to Allahabad at one time. That has been knocked out by the railway competition and bad condition of the rivers. In my time we used to run up to Benares, but some of the channels were bad. We also ran up as far as Fyzabad but had to give up on account of the river Gagra being so bad.* Similarly, the other rivers are also rapidly deteriorating due to the competition of railroads and the withdrawal of water for irrigation. A witness before the Industrial Commission definitely said that the withdrawal of water from the Ganges for irrigation affected the interests of navigation and the Upper Ganges was dried up twice by the amount of water they took in the dry season from the upper reaches.† Progressive deterioration of our rivers, particularly since the last decade of the last century, has adversely affected the movement of internal trade and we are, through sheer neglect and indifference, destroying one of the most important means of communication for which other countries are expending enormous sums.‡ Thus, river transport has declined due to parallel construction of railways, or the closer weaving of rail-net in these parts; secondly to their increasing use for irrigation purposes; and thirdly, to the general neglect of the rivers evident from the lack of any organisation to protect their interests against the actively fostered railway policy or against the vagaries of nature as well as the absence of the sinews of organised finance or the support of any administrative machinery. It cannot, therefore, be gainsaid that there should be no battle between the railways and the waterways because both are essential for economic development.

Rail and Air Transport

Air transport is another important form of transportation which we shall briefly review. In this form of modern transport India is just a beginner and cannot therefore claim very much. As compared with other countries the growth of air transport facilities is very meagre. For instance, the mileage of regular air routes in 1939 was about 8,325 in India, whereas Great Britain

* Evidence, Vol. II, p. 271.

† *Vide*, Evidence, Vol. II, p. 272.

‡ America, taking cue from Germany where astonishing amount of traffic is carried at low rates on rivers, has set about to develop to the utmost her own water resources for inland transportation.

had 26,679, Germany 31,880, France 38,750 and the U. S. A. 63,656. The progress in mileage has also been relatively slow as compared with that in other countries. Great Britain increased the mileage from 11,670 in 1933 to 26,679 in 1937, whereas in India the increase was from 5,180 to 8,325 during the same peiod. India has also organised internal regular air service which has been developing during the last few years. The mileage flown has increased from 153,680 in 1933 to 622,193 in 1937. The passengers carried have risen from 155 in 1933 to 1,178 in 1937. The tonnage of mails carried has increased from 10.5 tons in 1933 to 61.2 tons in 1937. Here, again, India is considerably backward as compared with other countries. Looking to India's need for this form of transport one finds that the country is admirably adapted for the development of civil aviation because of the long distances separating its commercial centres and its vast economic resources. But the greatest impediment to a rapid development is the general poverty of the Indian masses and comparatively backward industrial development of the country. This limits the progress and popularity of air transport service in India. In the western countries, the air services are supported by their high stage of economic development, comparative prosperity of their people and the substantial tourist traffic that continually moves in and across these lands. In India, the only support that has hitherto come, and can come in the near future, is largely from the business houses of the five main port towns, and only to a limited extent from other towns in the earlier stages. This, however, should not be taken to mean that there is no future for civil aviation in India. Far from it. What we want to emphasise is that there are certain difficulties in the initial stages and these being overcome there is a vast field for civil aviation in this country. There can be little doubt that Indian public would give adequate response to civil aviation as it did in the case of railroads and automobiles. The limited experience of the last few years proves this beyond doubt. Indian public has shown good response to aviation facilities. In short, aviation has a bright future in India.

Aviation is essentially a product of the present century; it demonstrated its success during the first world war and has made rapid strides since then. Since the signing of the Armistice air

transportation has come to the front rank and achieved successes of outstanding importance. The first commercial air service was started in 1910 in Germany, and since then commercial aviation has made rapid progress.* It is a great commercial success as a practical instrument of fast transport.

The superiority of air transport lies in its independence of the nature of the surface over which it operates and its speed. It provides rapid, long-distance transport service at moderate costs. Yet the air transport service has not been able to compete with other transport services because of its comparative higher costs. It has been fostered by the State help,† for otherwise it would not have been able to operate regular services on the strength of its passengers and merchandising traffic, which does not cover even operating expenses. Besides, the service supplied to the travellers and shippers is not thoroughly satisfactory; it lacks safety ‡ and regularity.§ Ceaseless efforts are, however, being made to operate air lines with regularity, despatch and safety sufficient to establish the air transport service as an important channel of commerce. The efforts in this direction have met with success, yet the service is of a character to supplement rather than supplant other transport services. Railroad transport has nothing to fear from commercial aviation.

A Plea for Co-ordination of Transport

Thus, each mode of transportation has certain advantages and limitations peculiarly its own and there is a basic differentiation in the services each can efficiently and economically render. It is this basic differentiation co-existing with competitive tendencies to overlap the respective spheres of utility and duplicate service, that makes out the strongest case for co-ordination on economic grounds. The economic principle of substitution is as effective in the use of transport methods as elsewhere and the use of different forms must be according to the relative merits of each of them so

* "Year by year the routes have grown longer, the amount of flying has increased, better machines have been produced, ancillary organisation has developed, traffic has expanded, safety and regularity have improved. In general, the commercial aeroplane has emerged from the experimental stage and has proved itself a practical instrument of fast transport."

Fenelon: "Transport Co-ordination," pp. 42-43.

† It is a heavily subsidised industry.

‡ Commercial aviation is less safe than any other established system of transportation for hire.

§ Certain amount of unreliability is due to weather interference.

that the maximum service may be got of them at the minimum cost. An efficient transport system needs to provide a variety of forms of conveyance, each suited to the relative demand for it, avoiding as far as possible wasteful competition or duplication. This can be best achieved by the method of co-ordination, thereby allocating the sphere proper to each and at the same time weaving them in a systematic whole. This is being tried in leading industrial countries with desired success.

To sum up, railroads hold a very prominent position in the transportation system of advanced countries ; it is a vast and vital enterprise of a nation. By following a constructive policy of economic development, railways can completely revolutionise the methods of production, distribution and consumption. Railroads have contributed more towards the rapid progress of nations than any other mode of transportation. In short, the railway service is the fulcrum of economic activity. In the following chapters, therefore, we propose to study in detail the railroad problems in India in order to find out the directions in which the transport facilities can be improved and efficiency increased. In the next chapter the evolution of Indian railway system and its financial structure will be reviewed.

CHAPTER II.

EVOLUTION OF INDIAN RAILWAY SYSTEM AND FINANCE

In the present chapter we propose to survey the development of Indian railway policy and finance so as to explain some of the more important peculiarities of the railway policy as it is followed today. The problem needs to be studied in its proper historical setting. Thanks to the conservatism of those at the helm of the Indian railway management, our rates policy is replete with relics of time-worn conventions and fallacies which have long been discarded by progressive countries. These uneconomic practices seek their justification in historical associations to be briefly surveyed in the pages that follow.

The Indian railway policy is traced back to the days of the East India Company, when the railways came to be projected in this country. The period under study has been divided into three different phases : (1) the period of guaranteed companies ; (2) the period of direct State construction and management ; and (3) the period of mixed State and Company enterprise.* To this has to be added the fourth phase of Indian railroad development known as the *era of nationalisation*, which has been accepted in principle as well as practice on the recommendations of the Acworth Committee. In fact, the fourth and the last phase is more important than the rest, because it has witnessed revolutionary changes in the traditional railway policy, which has hitherto been impervious to public opinion ; and today the portents of responsiveness are discernible.

The early extension and the guarantee system

The credit of being the first promoters of railway enterprise in India rests with the British capitalists, who formed two private

* See Bell, H. : "Railway Policy in India," p. 57

corporations in 1845,* known as the "East India" and the "Great Indian Peninsula" railway companies, empowered to construct lines from Calcutta to Raniganj and Bombay to Kalyan. The Madras Railway Company was also incorporated to start the lines from Madras to Arkonam. The Government of India believed that a free grant of land was a sufficient inducement to attract British capital and enterprise, and hence the companies were asked to commence their works without a guarantee of dividends either during construction or after the completion of their works. The Government retained the power of regulating the profits of the railway companies.† But the investor did not see eye to eye with the Government of India. The companies found that it was impossible to raise funds without Government guarantee, and it was feared that otherwise the projects would soon have to be abandoned. The guarantee was believed to be a *sine qua non* ‡ of railroad extension in this country. The Government of India was also too willing to help the sponsors of railway development in view of the military, political and commercial importance of a network of railways in India.

The Home Government, however, was averse to the grant of a guarantee. The problem of guarantee was hedged with obstacles and protracted the birth-pangs of railway development in India. But it was Lord Dalhousie who brought the scheme of railway construction in India into actual fruition. In his able minute, dated 20th April, 1853, which constitutes the *raison d'être* of the Indian railway policy, Lord Dalhousie declared himself unequivocally in favour of private agency, under the supervision and control of the Government, to the construction of railway lines on behalf of the Government by its own officers. He held that the withdrawal from other duties of large number of officers required would be detrimental to the public interest, and that the conduct of commercial undertakings is no part of the proper business of the Government. Further, he fully realised the necessity of railway construction in India and favoured the introduction

* The early efforts to construct railways in India may be traced back to 1832, when a railway was contemplated between Madras and Bangalore, and several efforts thereafter of which nothing definite came out.

See Dr. N. B. Mehta : "Indian Railways," pp. 13-17.

† Letter of the Government of India, dated 9th May, 1846.

‡ Minutes by Lord Hardinge, the Governor-General of India, dated 28th July, 1846.

of British capital and enterprise for the same. It was thought then that railway construction would be better carried out by the English engineers and better financed from Lombard street That was a milieu of laissez-faire and free trade. England was in a railway mania and private enterprise was given an unbridled sway. "I hold," said Lord Dalhousie, "that the creation of great public works, which although they serve important purposes of State, are mainly intended to be used in those multifarious operations which the enterprise, the trade, and the interests of the community, for ever to keep in motion, is no part of the proper business of a Government."

As a far-sighted and sagacious statesman, who with his penetrating insight could discern through the veil of remote future, Lord Dalhousie had fully realised that the new India which he had created, knitting together the disconnected and distant areas resulting in an extensive territorial homogeneity, by his forward policy of conquest and annexation, could be made safe only if the collective resources of all the parts would be available for the protection of the whole.* He had visualised the fiction of controlling India mainly from the sea-board, and the strategic superiority which a net work of railway lines, connecting different inland strategic positions with each other and with the ports, would impart to a country of long distances. He realised that swift despatch of troops would increase the effective military strength, for it has been aptly remarked that the strength of an army lies on its legs. He had gathered invaluable experience as the President of the Railway Board in England and was convinced that in the far-reaching scheme of the Empire building, consolidation formed the necessary complement of conquest.† Thus, he was convinced of the importance of railways both for internal order as well as for defence against external aggression.‡

In his zeal for military occupation, Lord Dalhousie did not fail to appreciate *the commercial and social advantages* that would

* Dwelling upon the political interests which the developments of transport facilities would promote, Lord Dalhousie wrote, "It cannot be necessary for me to insist upon the importance of a speedy and wide introduction of railway communication throughout the length and breadth of India. (A single glance cast upon the map recalling to mind the vast extent of the Empire we hold; the various classes and interests it includes, the wide distances which separate the several points at which hostile attacks may at any time be expected; the perpetual risk of such hostility appearing in quarters where it is least expected; the expenditure of time, of money and of life that are involved in even the ordinary routine of military movements, would convince the urgency of speedy communications.")

† Lord Mayo, by Hunter, Rulers of India Series, pp. 12-13.

‡ See Hunter's Lord Dalhousie.

accrue from the introduction of railways and thought that they would be inestimable. "The commercial and social advantages," he wrote to the Court of Directors, "which India would derive from their establishment are beyond present calculation. Great tracks are teeming with produce they cannot dispose of. Others are scantily bearing what they would carry in abundance if only it could be conveyed whither it is needed." (Every increase of facilities for trade has been attended, as we have seen, with an increased demand for articles of European produce in the most distant parts of India."*)

It cannot be too strongly emphasised that Lord Dalhousie accurately gauged out the important role which India would play both as a supplier of cheap raw materials to the British industries and as a market for their finished products. We, however, cannot accept the view that he desired India to reap the similar benefits which the introduction of railways had conferred upon Europe. The correct view seems to be that being an imperialist he rightly wanted to perpetuate the British domination over India, both political and economical, and his railway policy was a skilful move in the proper direction. Having pre-eminently British interests before him, he wanted to exploit the numerous untapped resources of this vast continent, replete with potential wealth, so as to fortify British commercial supremacy. This fact is self-evident from the various trunk lines outlined by Lord Dalhousie,† joining the interior of each presidency with its port and connecting the several provinces with each other. This conclusion is further strengthened by the high cost of construction of railway lines. Political and military advantages being the motive of the sponsors of railway development in India, the Secretary of State thought that they were being cheaply bought all with their cost, and no considerations of economy could be acceptable lest the extension should receive a setback. However, we should not be understood to mean that Indian railways have been an unmixed evil for the Indian taxpayer. Far from it. (Several advantages have accrued to Indian trade, industries and commerce from the construction of railways, knitting together this vast country into one unit. But it is significant to

* Quoted by Dr. N. B. Mehta: "Indian Railways," p. 12.

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

note that these considerations were not so important to the alien conquerors, unfamiliar with the life, customs and manners of the people.

Railway Contracts

Lord Dalhousie, who had been in touch with railway construction and operation as a member of the Railway Board in England, was exceptionally fit for the task that he proposed to undertake. He succeeded in convincing the Home Government of the necessity and practicability of building railways in India, and, after a protracted controversy, the policy supported by him was adopted. It was decided to entrust the construction of railways in India to private agency. This final decision on the part of the Home authorities led to the conclusion of contracts between the East Indian and the Great Indian Peninsula Railways and the East India Company, and the final contracts were drawn up, on the terms known as guarantee. Subsequently five other railway companies were registered to undertake the construction of railway lines. The Sindh, Punjab and Delhi Company was registered in 1855. The Eastern Bengal Railway Company was registered in 1857. The B. B. & C. I. Railway Company was registered in 1855. The Madras Railway Guaranteed Company was registered in 1853.

Terms of the Guarantee

Under the terms of the guarantee, the companies received for a period of ninety-nine years a guarantee of five per cent. per annum upon the capital expended by them on the undertakings and sanctioned by the Government. The interest was to be paid from the date the capital was subscribed ; and in order to eliminate the uncertainty of exchange, a fixed rate of 22*d.* to the rupee as exchange for remittance of interest charges was agreed upon. Land was provided free of charge by the State for the railways and for all works connected therewith. The Government retained the power to exercise stringent supervision and control over the affairs of the railway companies. The Government also retained the right of sharing equally with the Companies the surplus profits whenever they exceeded the guaranteed minimum. Of the surplus, one-half was to be paid to the Company and the other half to be applied in the first instance towards the payment of the interest on

the debt, and then towards the extinction of the debt itself. Thereafter it was to be applied to augment the dividends of the Companies, as an inducement for an active, energetic and economical management. At the end of ninety-nine years the land and the works were to become the property of the State, the rolling stock and the other movable property to be paid for at a fair value. The Government had the option of purchasing the line within six months after the first twenty-five or fifty-five years, the value of the property being determined by the mean market value of the shares and capital stock during the preceding three years. The Companies, too, had the option of surrendering their lines after completion upon giving six months' notice, when the Government was bound to refund the sanctioned outlay. So also the Government was empowered to take over the line in case the Company failed to find capital, on payment within six months of the capital outlay.* As a result of this co-partnership,† or dual control, the Government was to approve the rates and fares chargeable and could require a reduction of these when the net receipts exceeded ten per cent, but could not exercise effective control over tariffs.‡

Introduction of British capital and enterprise

Lord Dalhousie, being pre-eminently an individualist, favoured the introduction of British private enterprise in every commercial and semi-commercial undertaking, because Indian capital and enterprise was not forthcoming. He was anxious to see English capital and enterprise holding dominant position in Indian trade and industries, the potentialities of which he had gauged out fully, and the absolute guarantee given to capital employed in the construction of railroads was a leaven prophetic of the extensive employment of British capital and enterprise in India. In this policy he was helped by the Board of Control at home which held, "It must be an object of very high importance to attract the investment of British capital, skill, and enterprise, to undertakings for the improvement of our Empire."§

* For details of the terms of the guarantee, first chapter of Horace Bell's "Railway Policy in India" is instructive. In the absence of detailed official information this book has been of great help.

† Lord Dalhousie held that railways were national works, over which the Government might justly exercise a stringent and salutary control, at once for the interests of the State and for the protection of the public.

‡ For details refer to the Chapter on Rates and Fares.

§ Davidson: "Railways of India, 1863," p. 339.

Loss resulting from the import of foreign enterprise

So far as the introduction of British capital was concerned, it had enough justification, inasmuch as Indian capitalists were not forthcoming to undertake these projects. British capital was therefore indispensable.* But the accepted policy of the time, instead of importing foreign capital, led to the importation of foreign capitalists as well, which resulted in a colossal loss of revenue to the Indian Exchequer. Public debt is not necessarily a sign of national poverty ; it is an essential feature of public finance and if productively utilised it develops the national resources and adds to the international credit of the country. But the distinction between a country which imports foreign capital and manages its own affairs, and a country which invites foreign capitalists, both to invest foreign capital and to exploit its resources, is quite obvious. In the former case borrowing country is apt to shake off the burden of foreign capital by prompt economy, while in the latter the tendency will usually be to multiply the burden by reckless extravagance. This is so, because if foreign capital is managed by the national enterprise the tendency will be to develop the resources and add to national assets, whereas the imported enterprise will, in self-interest, ceaselessly try to strengthen its vested interests, irrespective of the benefits conferred on the nationals. Moreover, if a country which thus invites foreign capitalists also assures them of a fat and secure rate of interest on the capital expended, it certainly commits an act of economic suicide.† Besides, he does not explain the necessity of pledging the full security of the State and fat guarantee, in face of all the potential wealth of the country and the security of life and property resulting from strong centralised Government, to attract a portion of the surplus capital in England which was earnestly seeking scope for safe investment.‡ Further, it should be noted that no systematic attempts were made to attract the Indian capital to enter the field. In short, Indian capitalists,

* "There is no denying that capital in India was lacking and that foreign capital was needed for the development of the country." Dr. N. B. Mehta : "Indian Railways," p. 18.

Indian capital was shy, so that of nearly £86 millions raised up to 1869 less than one per cent. was subscribed in India. Administration Report, 1869-70.

† C. N. Vakil : "Financial Developments in Modern India," p. 193.

‡ Thorton giving evidence before the Parliamentary Committee of 1871 said, "I do believe unguaranteed capital would have gone into India for the construction of railways had it not been for the guarantee. Considering how the country is always growing in wealth and an immense amount of capital is seeking investment, which it cannot find in England and goes to South America and other countries abroad. I cannot perceive that it would persistently have neglected India."

Dutta : "India in the Victorian Age," p. 354.

if not positively discouraged, were not at any rate actively encouraged in this direction. If local resources were properly tapped, Indian capital would certainly have shown some response, however inadequate.*

Defects of the Guarantee System

Favourable terms offered to the Companies resulted in a ready subscription of capital. Millions were being subscribed every year. But the whole system was marked by a *clear absence of incentive to economy.* The guarantee of excessive interest on the capital expended considerably undermined the motive for strict economy and energetic conduct of the railroad enterprise in this country. This is not all. It definitely encouraged extravagance. The only oasis of thrift in the desert of thriftlessness and extravagance was the remote prospect of a share in the excess profits. But this was too remote to induce economy. In fact, the contingency of drawing surplus profits had the same effects as the lottery has in inducing the people to subscribe. The investor so long as he was assured of 5 per cent. on the security of the revenues of India cared little for the productive use of the capital expended. "It was immaterial to him whether the funds that he lent were thrown into the Hooghly or converted into brick and mortar." † The engineers and agents of the companies had no incentive to do their work economically and efficiently because the shareholders did not take even the faintest possible interest.‡

Lack of active, economical and energetic management led to extravagant construction of railroads in India. The initial cost of construction increased considerably.§ The actual cost of construction of the lines was found to be far in excess of the original estimates. It should be noted that the original estimate was about £15,000 per mile for double, and £9,000 per mile for single lines ; but after actual construction it was found that the great trunk lines had cost no less than £20,000 per mile for about three thousand miles. Sir Arthur Cotton in a paper read in 1869 before the East India Association

* This experiment was successfully tried in 1863.

† Evidence of Mr. Massey, quoted by C. N. Vakil: "Financial Developments in Modern India," p. 195.

‡ Mr. Laing.

§ The average cost of construction per mile of guaranteed Companies .. £17,000
By the E. I. £22,000
By the G. I. P. £20,000
These figures do not include the cost of land which was given free.

pointed out that the highest cost of any line was 27.5 millions for about 1,280 miles, plus 20 per cent. for simple interest and land came to 33 millions, which was £25,000 a mile.*

Broad gauge (5′—6″) adopted on the Indian railways as a compromise of the popular English gauge, looking to the conditions of India then, was a costly luxury. The gauge adopted was in fact broader than the English standard gauge. There was no need for such a broad gauge. Even the sponsors did not offer any justification. *Local needs of trade and commerce were sacrificed for strategic considerations.* This further strengthens the plea that the sponsors of Indian railways were dictated by purely British military and political interests. Double tracks were laid, the necessity of which did not arise even after a generation.† Mr. Robertson examined the question of gauge in 1901 and came to the conclusion that the metre gauge served the economic requirements of the country better than the broad gauge. The standard gauge in Europe and America is 4′—8½″. He therefore recommended the adoption of European and American gauge for India. Even Sir Henry Burt, a member of the Acworth Committee, admitted that the adoption of 5′—6″ gauge was a mistake and that full advantage had not been taken of the gauge. Besides, the break of a gauge is a constant source of inconvenience to the users of railways and puts a serious handicap upon the development of Indian trade and industries. The Government of India unfortunately did not accept this recommendation of Mr. Roberston. The Acworth Committee reconsidered the question of gauge and recommended that "the situation as it exists at present must be faced as a broad problem affecting the whole of India, and examined from the engineering, operating and financial side by a special commission of two or three of the rate experts who can be found after careful search, not in one country alone." This question still awaits proper solution.

* But the cost varied widely from one railway to another. Thus while the E. I. R. cost about £25,000 per mile, the Madras Railway and the Great Southern of India cost only £12,000 and £8,000 respectively.

The Rt. Hon. W. N. Massey told in his evidence before the Parliamentary Committee of 1872 that the E. I. R. had cost £30,000 per mile.

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

Imperial Gazetteer, Vol. III, p. 367.

Cost of construction was further increased by frequent alterations in routes and the outbreak of the Mutiny. Consequently the earnings of the railways, which would have defrayed interest charges on reasonable capital expenditure, fell short of the actual total requirements and the deficit had to be made good from the State revenue. *Thus, higher guarantee, indifference of the companies and incompetence of the Government Officers* conspired to place a heavy burden upon the Indian Tax-payer.*† Here it should be noted that the availability of cheap labour, and a comparative absence of expense on land and on legal matters relieved the burden which would otherwise have been substantially greater.‡

However, this does not imply that the guarantee system has any inherent defects, because it has been successfully tried where the State created a machinery to exercise stringent and salutary control. Excessive guarantee coupled with the lack of adequate State control and supervision neutralised the benefits that the guarantee system could confer upon India. Further, the absolute and onerous guarantee was responsible for the undue delay in executing the scheme of construction and the inadequate facilities resulting from the frequent friction between the officers of the co-partners, though the equally important causes were peculiar political and geographical difficulties associated with the schemes. The intention of Lord Dalhousie, however, was to secure efficient and economical construction of railways, and to achieve this he had laid down that "the interest will not be guaranteed by the Hon. Court upon any sum to be expended until it has satisfied itself that this sum, which it is proposed to raise for the construction of any extent of railways, is not more than sufficient for the work, well and economically carried on, or without some secure provision for the completion of the lines within a period to be named....if these conditions be observed it cannot be correctly said that all inducement to economy and exertion is lost. These will be requisite to enable the railway company to construct the line within the sum and time allotted to it." But his aims were hardly realised in practice. *He created a faulty machinery which clouded and eclipsed his noble ideals.*

* See Evidence of the Select Committee of 1872.

† R. C. Dutta: "India Under The Victorian Age," p. 354.

‡ Administration Report, 1859.

The Burden of the Guarantee

Thus, the construction of Railways by guaranteed companies, carried on till 1870, was expensive, dilatory and complicated. It placed a heavy burden upon the Indian taxpayer and militated against the rapid development of railways.* The extent of the financial burden can be gauged from the following statement.†

Year.	Loss to the State £000 omitted.	Year.	Loss to the State £000 omitted.
1858-59	606,	1864-65	1,554,
1859-60	797,	1865-66	24,
1860-61	1,096,	1866-67	684,
1861-62	1,397,	1867-68	1,492,
1862-63	1,541,	1868-69	1,652,
1863-64	1,635,	1869-70	1,498,

The total burden of the guarantee was nearly fourteen millions sterling. This financial burden was accompanied by a rise in prices and wages, and the scarcity of money coupled with famines in different parts of the country aggravated the difficulties of the situation. Exchange troubles and the losses resulting therefrom added to the burden. It has been aptly remarked that an extravagantly constructed railway is a permanent financial failure and hinders the provision of more lines, whereas a cheap and efficient railway means a provision of greater mileage. The country wanted an extensive scheme of light lines with slow speed and moderate costs. The dilatory nature of railway construction in India and the setback resulting from the heavy initial costs of the lines can be gauged from the following figures :—

The growth of railways under the original guarantee system.‡

Year.	Mileage.	Year.	Mileage.	Year.	Mileage.
1853 ..	22	1860 ..	838	1867 ..	3,937
1854 ..	73	1861 ..	1,583	1868 ..	4,017
1855 ..	173	1862 ..	2,353	1869	4,287
1856 ..	275	1863 ..	2,490	1870 ..	4,833
1857 ..	295	1864 ..	2,936	1871 ..	5,078
1858 ..	432	1865 ..	3,323	1872 ..	5,383
1859 ..	626	1866 ..	3,530	1873 ..	5,872

* Thorton says that the guaranteed companies took 20 years to make nearly 5,000 miles of railways, an average of 265 miles annually. This is not certainly a good progress commensurate with the investment.

† Compiled from the Appendix to the Acworth Committee Report.

‡ Compiled from the Acworth Committee Report.

Conclusions

The failure of the guaranteed railways, the increasing financial burden of the guarantee, and the urgency of railway extension forced the authorities to find a solution out of the impasse. The extension of railroads could not be staked and yet even the warmest sponsors of railway enterprise could not justify the extravagance of the cost of construction. It was questioned as to whether it is reasonable, or consistent with the true interests of India, to continue a system under which the State revenues have to bear the whole risk and can derive no direct benefit from railway construction, in preference to one under which with probably reduced risk the whole of the direct benefits can be added to the public revenues and made available for reducing taxation or preventing the imposition of new burdens. It was thought that the State construction of railway lines would be the proper palliative.

State Construction of Railways (1869—1882)

The inherent defects of the old guarantee system had become too patent and were subjected to searching criticism from eminent authorities like Lord Canning,* Sir J. P. Grant,† Sir Laing,‡ Sir Davison, etc. The policy of constructing railways on the Guarantee System had become an exploded fallacy. Had the system been at least a financial success, probably it would have remained unimpeached. But as it was, the system, uneconomical in construction and wasteful in administration, tottered under the weights of accumulating burden until it was finally crushed.

Attempt to attract capital with subsidy

While the continuance of the original guarantee system was being questioned, because of its rampant evils, attempts were made to secure the construction of lines, with the help of a subsidy, as distinct from a guarantee. But the terms offered failed to

* Objecting to the working of the guarantee system he said that the State should limit the guarantee strictly to such amount of capital as had been necessary.

Minute of Lord Canning, No. 2 of 29th November, 1858.

† He condemned the guarantee system as involving the evil of double management, and said, "the double management is a great evil. The necessity of submitting to so great an evil is the vice of the system."

His Minute on the F. B. R., dated May 5, 1857.

‡ The Rt. Hon. S. Laing expressed the opinion that under the Guarantee System the companies had no incentive to economy, which neutralised all the advantages of private enterprise. He thought that the agency of companies for raising capital was costly. "No doubt, as in all round about processes, we pay dearer than if we did the same thing directly."

attract the required capital and the two guaranteed companies,* which had begun work, found themselves after a few years unable to proceed without further assistance from the Government, and were converted into guaranteed companies like other companies in 1867-68. *Thus, the attempts to construct Railways with independent companies had been a failure,* and the Secretary of State for India informed the Government of India of his decision to revert to the guarantee system. The Government of India, however, took exception and held that the sphere of influence of the companies should be curtailed because they are apt to be comparatively inefficient, inconvenient and even politically dangerous to the Government, due to latter's responsibility for interest. But, the Secretary of State for India was unable to concur with this view. Therefore new contracts were entered into with the Oudh Railway and the Carnatic Railway, which were provided with the guaranteed interest. Attempts were also made by the G. I. P. and the B. B. & C. I. Companies to raise capital for the construction of feeder lines on terms of a subsidy, but no investors were forthcoming.

This period of experiments in railway construction was full of failures,† and the serious burden that it entailed upon the State finances strengthened the proposal for State construction which Sir Lawrence had made to the Secretary of State, Lord Northcote, in 1867. Subsequent developments further fortified the proposal for the State construction of railways ;‡ and prior to his departure from India, Lord Lawrence ably put his case, both from the financial and administrative points of view, in his formal minute dated 9th January, 1869.

Minute of Lord Lawrence

Lord Lawrence's able minute revolutionised the railway policy in India. Railway construction then, especially in India, involved not merely risk bearing but risk taking too, and as the

* Indian Branch Railway Company, afterwards known as Oudh Rohilkhand Railway in Northern India and the East Indian Tramway Company in Madras.

† Sir John Lawrence wrote : " the Government of India has for several years been striving to induce the capitalists to undertake the construction of railways in India at their own risk and on their own responsibility with a minimum of Government interference. But the attempt has entirely failed, and it has become obvious that no capital can be obtained for such undertakings otherwise than under a guarantee of interest fully equal to that which the Government would have to pay if it borrowed directly on its own account."

‡ His proposal was further strengthened when the Secretary of State declared in 1866 that the Government of India should carry out political lines.

Despatch No. 3, dated 16th January, 1869.

State shouldered both kinds of risks it had to be adequately compensated. But in practice, the position was just the reverse. The Government could derive no profit from the most successful railways, while it shouldered the entire loss of those which did not pay. "The whole profit goes to the companies and the whole loss to the Government," was the general complaint. He ably refuted the arguments of the sponsors of the railway companies and considered all the advantages accruing therefrom as illusive. With better knowledge of the country and its people and a just appreciation of the value of Government engineers and the economy and efficiency in construction, Lord Lawrence was able to make out an unassailable case against the then prevalent practice and to banish for many years a system under which the State was responsible for the loss of working, with a very remote prospect of a share in profits. This relieved the State revenues of a very severe pressure. The Government could secure at least as great an ability to carry out the works as companies did, and with no greater outlay. It was emphasised that the Government should secure for themselves the full benefit of the credit which they lent and the cheaper agencies which ought to be at their command.

With the appointment of the Duke of Argyle as the Secretary of State for India in 1869 and the succession of Lord Mayo as the Viceroy, the history of Indian railways took a turn for the better. Lord Mayo's Government entirely agreed with Lord Lawrence in his railway policy and in March of the same year (1869) the Government of India again pressed for a definite change. The opinion of the Government of India on this question was very instructive and persuasive and hence our reproducing it here *in extenso* needs no apology. "An extravagantly constructed railway," they opined, "is permanently a financial failure. To a poor country like India this lesson is of exceptional importance. Here the needful capital for railway construction can only be obtained at the risk and under the guarantee of the State. An unsuccessful railway is therefore a public burden. Resources which might otherwise be applied to the extension of material or administrative improvements are permanently diverted to provide for the payment of interest on capital which has been misapplied, and remains unproductive. Even in a country of such extraordinary wealth and productive power as England the wasteful

expenditure of railway capital has become a serious evil, and it may be affirmed with the most complete certainty that if India cannot manage to provide itself with railways which shall so far pay, or at least be able to cover the ordinary rate of interest on the necessary capital, the progress of railways must very soon be stopped, or the finances be brought into a condition of extreme disorder."*

The despatch of the Government of India, able and convincing, won the cause, and the policy of State construction was accepted in 1869. The Secretary of State, fully concurring with the despatch, stated, "the time has now arrived when both in raising and in expending such additional capital as may be required for new lines in India, the Government should secure for itself the full benefit of the credit which it lends and the cheaper agencies which ought to be at its command."†

The problem of gauge re-examined

The finances of the country at this time were heavily strained and the Government of India could have no smooth sailing. Therefore, in view of these difficulties, which hindered the development of railways in the country, the Government of India resolved to re-examine the gauge on which railways had hitherto been constructed in India. After a searching enquiry it was found that undue importance had been attached to the uniformity of the system. In a country like India where the distances to be traversed are great and State finances strained, it was in the national interest to have a well-stretched net of light railways, linking together numerous distant centres of production than to have a few lines on a gauge too costly for the taxpayer to bear. At this point we recall Lord Lawrence who argued that "wholly to reject railways for a country which is not able to support the lines of the most costly description is quite unreasonable, and if, on a further examination in detail of the probable cost and returns of any of the lines, which otherwise seem desirable, the expense of the ordinary gauge seems prohibitory, while lines of the narrow gauge would be financially practicable, I should consider it a most

* Despatch No. 24, 11th March, 1869.

† Despatch dated 15th July, 1869.

In his speech on the financial statement for India before the House of Lords, he stated that the Government could borrow one per cent. less than through the agency of companies.

mistaken view to reject the narrow gauge line."* The truth of this remark was realised and the break of gauge was accepted as a necessary evil imposed by insuperable financial difficulties. Thus, the Indian metre gauge system was the child of financial necessity and expediency.

The Government of India, therefore, proposed to divide the railroad requirements of the country into two classes, the trunk lines, and their tributaries or feeders; it was on the latter class that the Government resolved to centre its attention in the near future. These secondary lines were to be sufficiently extensive so as to form a system in themselves and were to be best adapted to the needs of the country. The metre gauge, by effecting economy and eliminating waste, was expected to contribute towards the earlier consummation of the necessary extensions. The Indus Valley and Lahore-Rawalpindi lines were the Trafalgar of Indian gauges and the decision given was in favour of narrow gauge. The Despatch of the Duke of Argyle, the then Secretary of State for India, is a very important one in the history of gauge question because it empowered the Viceroy, Lord Mayo, to have the final decision.†

The metre gauge was adopted as being economical and financially more practicable; all the lines constructed in the next decade were on this gauge, the most important amongst them being the Rajputana-Malwa, the Indus Valley, Punjab Northern and Northern Bengal. The metre gauge was a distinct boon to the country. It afforded sufficient and much needed means of communication to poorly populated and backward districts; the cost of construction was relatively cheaper mile for mile than the broad gauge,‡ and it swept away the bugbear of the evils of gauge which threatened to inflict on the country permanent source of embarrassment.§ The Government of India were well aware of the evils attendant upon a break in the gauge of a railway system but the circumstances demanded a cheaper gauge.

* Quoted by H. Bell: "Railway Policy in India," p. 22.

† Despatch No. 72, dated 26th October, 1870.

‡ The metre gauge cost only £6,470 per mile, while the most economical lines constructed under the guarantee system cost more than £13,000 per mile. See Dr. Sanyal, p. 118.

§ See Horace Bell: "Railway Policy in India," p. 249.

Regulation of State expenditure

With the adoption of the policy of State construction large schemes were at once undertaken and for financing the same capital was raised directly by the Government. Construction was rapidly pushed ahead even though it entailed heavy expenditure. This created the necessity of placing a limit on expenditure. After the investigation of the Select Committee on Indian Finance, Lord Salisbury,* the Secretary of State for India, laid down in 1874 three important principles for the guidance of those entrusted with the task of railroad construction. Firstly, no works should be constructed out of loans except those expected to repay the interest on the capital outlay, including interest during construction. Secondly, famine preventive works might be made out of the revenues of the year and if that proved insufficient recourse might be had to borrowing. Thirdly, all loans for public works should be raised in India, it being inexpedient to raise the Home Charges in England. Government of India had suffered heavy losses from exchanges due to the continued fall in the value of silver, and hence it was decided to bring down expenditure on "extraordinary works" within the amount which could be borrowed in India on advantageous terms. This was a very useful change. The limit of total Government expenditure on railways was placed at pounds two millions and a half.

In 1877 the Famine Insurance Scheme was inaugurated and it was laid down that half the Famine Grant should be remitted to England for the reduction of debt, because the London money market was the only source from where money could be borrowed in times of financial stringency, and the other half to be appropriated at the discretion of the Government of India to the extinction of debt, to the relief of famines, or to the construction of Protective works, not necessarily directly remunerative, but productive in the sense of guarding against a probable future outlay in relief.

The question of financing Public Works in India with borrowed money was again examined by the Select Committee of Parliament in 1878-79. The Committee disapproved the latest scheme of the Government of India, which was to accept for five years as a dead weight upon Indian revenues the loss due to existing public works adding to it 25 lakhs of rupees out of the

* Despatch of the Secretary of State, dated 23rd July, 1874.

Famine Grant to pay for the interest on the sums raised for the new famine protective works, because it contained no provision either providing against the works once constructed becoming a permanent charge upon the Indian revenues or setting a limit to that charge. It involved a breach of the principles of the Famine Grant. The only remedy which the Committee could safely believe in was to limit the amount of the annual capital outlay, and to that effect it recommended that the construction of new works should be limited to those schemes alone which are estimated to be productive; that the annual maximum to be expended in financing the public works in India be regulated, and for the time being it was limited to two-and-half million pounds; that such loans should always be raised in India unless the difference in the rate of interest was so great as to afford full compensation for the disadvantages of borrowing in England. As regards the reduction in the heavy costs of maintenance they recommended that the number of Europeans in the Public Works Department should be reduced.*

Rationale of the new policy examined

We shall proceed to examine the rationale of the imposition of a definite limit to expenditure on public works. We have already seen the burden which the guarantee system had placed upon the Indian tax payer. The sponsors of retrenchment wanted to restrict borrowings in the English money market and increase the stake of the Indian people in Public Works. This step was calculated to reduce the uncertainty and speculative nature of the Indian credit and to stop the annual drain in the form of interest charges. Indian credit had stood very high for many years and it was feared that an increase in borrowings would lower the value of Indian securities. From the past experience it can be easily said that these fears were unwarranted.

Borrowing by itself is not undesirable. Public debt is not necessarily an indication of the weak financial position of a country; it is the nature of the borrowing which is the true barometer. Borrowed capital, productively utilised, helps to strengthen the economic position of the borrowing country, inasmuch

* "The numbers admitted to Cooper's Hill, with a view to their employment in the Public Works Department, should be carefully adjusted with regard to the future requirements of the services, and that the establishments in India should be at once reduced."

as it furthers the production of new capital, leaving behind a substantial portion after paying the interest charges. No doubt it is highly desirable that the capital exported out of the country, in form of interest charges on the foreign loans, should remain in the country itself and help the economic development; and for this local resources and intelligence should be tapped. But this state of things, though highly desirable, is not always feasible. Not every country has internal resources enough to provide all the capital necessary for promoting many-sided national advancement. This necessitates borrowing from foreign countries. Therefore, if India had, as a matter of necessity, to borrow from outside, London money market, the first central reservoir of capital, should have been tapped, only material consideration being the rate of interest charged.

Financial difficulties were not insuperable and did not warrant an absolute limit being placed upon capital expenditure. The country badly needed efficient transport facilities. Famine and draught further pressed the need. Between 1874-79, the country was visited by a succession of most serious and widespread famines resulting in an appalling loss of life. Protection could be afforded against such calamities by the extension of irrigation works which increase the productive capacity, and the improvement of the transport agencies, by which the surplus produce of any area be rapidly diverted to that in which famine may be impending. Railway facilities are very important in mitigating the intensity of famines, and as such their extension was necessary in the interest of the country. To finance these schemes money could be borrowed in London money market and the evils of excessive interest charge and exchange fluctuations minimised with due caution by the Government of India.

In day-to-day administration the limit placed on the productive expenditure was not strictly adhered to. Although the Government of India tried to confine capital outlay on productive works to an annual sum of two-and-half millions, in actual working it could never keep within that limit. Up to 1879-80, the expenditure was never below £3½ millions and averaged more than four millions per annum.* Besides, from the time the Famine Insurance Scheme was inaugurated, the main aim of the Government of India was how

* For details see Dr. Sanyal: "Indian Railways," p. 84.

best to utilise a part of the grant for carrying out their extensive plans of public works, without any respect to the principles of the Scheme.* This policy is a clear indication of the earnest efforts made by the Government of India to push ahead the extension of railways in the country, though it can be fairly criticised for having unduly prejudiced the construction of irrigation works in India which were perhaps better needed for rural welfare. The distinction may apparently seem to be invidious. Railways had undoubtedly helped to mitigate the intensity of famines, but the use of famine insurance grant for this purpose, to the starvation of irrigation works, was questionable. Government tried to push on railways at any cost. Finding its borrowing powers limited, it did not hesitate in utilising Famine Insurance Grants. Without entering into the controversy of railways *vs.* irrigation, we can safely say that the policy of placing precise limit on railway expenditure was detrimental to the interests of our country.

Lord Hartington's Policy

The Secretary of State for India, Lord Hartington, approved of the recommendations of the Select Committee and in 1881 laid down in precise and clear terms the policy to be pursued by the Government of India in the construction of Public Works. The State was to plan and construct these public works with prudent economy and due regard for the finances and capacity of the country. Productive and protective works were precisely defined.† Only those railways were to be regarded as "productive" that would within five years of their completion pay at least four per cent. on their capital outlay, including interest in arrears upto that date. "Protective works," on the other hand, though not directly remunerative, were necessary to guard against future expenditure on famine relief. So also it was announced that the construction of railways by private capital should be encouraged on the exclusive security of the success of the undertaking without a guarantee.‡ In case this policy of attracting private enterprise

* Prof. Vakil says that prudence and economy in construction were also disregarded. See "Financial Developments in Modern India," pp. 203-04.

† The distinction between the public works was purely artificial and technical. Outlay was estimated on arbitrary rate and an equally arbitrary rate of interest was fixed upon. See Strachey: "Public Works," p. 422.

‡ The Secretary of State thought that although "upto the present time no companies have been found willing to undertake the construction of railways without a guarantee..... an endeavour should be made to encourage the raising of capital through private agency, on the exclusive security of the success of the undertaking."
Despatch of the Secretary of State.

was found impracticable, the alternative suggested was a modified system of guarantee, so restricted in respect of time and rate of interest as to create amongst the subscribers a real interest in the efficient and economical administration of the venture. This policy, however, proved too rigid and had to be modified. The expected return of 4 per cent. was too optimistic an estimate, unwarranted by previous experience.

The Policy proved too rigid

If the Government of India had tried to follow strictly the policy outlined by the Secretary of State it would have meant slow growth of railways in India and spelled ruin of national resources. The Famine Commission of 1880 laid great stress on the need of railway extension in order to protect the people from the ravages of famine and estimated that for the substantial protection of the country against famines it was necessary to construct about 5,000 miles of new railways, of which about 3,000 miles were to be for " protective purposes." According to the new policy about 30 years would have been required to cover up the total mileage, whereas the Government of India thought it wise to construct them in four or five years. In view of the restricted powers of the Government of India, this could be done only by enlisting private enterprise.* Thus, the new restrictions placed by the Secretary of State drove the Government of India to seek the aid of private enterprise. This marks the beginning of a new chapter in the finances of Indian railways.

Conclusions

To sum up, the experiment of State enterprise had more than justified itself; railways grew rapidly and especially the State railways were a paying concern from the beginning. Till 1881, the State constructed more than 2,710 miles. The restrictions imposed upon the borrowing powers of the Government of India were arbitrary and rigid, and proved detrimental to the economic interests of the country. As a consequence of undue restriction, railways in India did not expand to meet the wants of growing trade and industries, but expanded rather according to the capacity of the Home authorities to yield to the pressure of private companies in England. Besides, the most serious defect of the policy was that

* In his Financial Statement of 1881-82, Sir E. Baring said that the annual outlay of 2½ millions was transparently inadequate, and approved of the desirability of attracting private enterprise with minimum aid.

the growth of railway lines was designed to further the export and import trade, rather than the internal trade. So far as this tendency is concerned, the policy outlined by Lord Dalhousie was followed with growing vigour and his dreams of knitting together India in that particular way were being gradually realised. The trunk lines that he had planned out were executed, and the policy of constructing feeder lines, pursued under the State construction, strengthened the same tendency, by knitting even the most distant villages to the ports. It is necessary to emphasise this aspect of the railway policy because the railways instead of knitting different centres of trade and industries directly with one another in fact linked them to ports. It is not surprising therefore if the extension of railway lines thus planned and executed has placed an immense handicap on the development of Indian trade and industries by adding substantially to the cost of transport. (We have developed this point in a separate and detailed study of our rates policy and shown the extent of loss that internal trade and industries have to bear, apart from the permanent loss that has been wrought by the unnatural localisation of industries.*) Besides, it should be noted that the railway policy was not regulated primarily in the economic interests of the public. The absence of adequate contact between the railway authorities and the commercial opinion of the country was the greatest stigma of the policy pursued. *In short, the progress of Railways in India up to 1882 was marked by the lack of definite national policy.*

Railway Policy and Finance, 1880-1921: (State and Private Finance)

The occurrence of famines, and great sufferings and devastations with which they were accompanied, impressed upon the Government of India the gravity of the situation and the importance of extending railways which would considerably mitigate the intensity of famines, if not prevent them. The Famine Commission, 1880, was of opinion that the extension of railways and irrigation works are the best and often the only means of securing protection from the extreme effects of draught and famine. It is the duty of the Government to make such disasters impossible. The policy enunciated by Lord Hartington in 1880 was found to be too rigid. The annual expenditure of 2½ million

* *Vide*, Tiwari, R. D.: Railway Rates in relation to Trade and Industries in India.

pounds was not enough for building railways in order to protect the people from the ravages of famines. It was a question of saving lives. Besides, it was not only the Government and the people of India who were interested in a more speedy development of railways, but also the British merchants, because the inefficient and inadequate transport facilities were putting a serious handicap upon the country's supply of raw materials and its demand for British manufactures. In fact, both the internal and external trade of the country was feeling the adverse effects of the rigid railway policy. Thus, the need for the speedy construction of railways, urgently required not merely for protection against famines but for the development of trade as well, called in a reversion of the policy hitherto in force.

The new policy of financing railroad extension

Since the acceptance of State agency for the construction of railways in India the Government were constructing both remunerative and unremunerative lines, the former with the borrowed money and the latter with the State revenue. Due to financial stress the Government of India proposed to leave to private enterprise all such lines as were profitable to attract it and to confine themselves to the construction of those railways which because of their unprofitable character private agencies were unwilling to undertake. The corner stone of the new policy was the exclusion of the action of the State *in toto* from the field of productive enterprise, and its confinement merely to those railways which from their unprofitable character could not be undertaken by private agencies. It should be noted that private agency, in addition to State, was enlisted in order to provide for India with speed the railways she required. The two together were expected to meet the demand adequately and in time.

The wisdom of a policy whereby the State undertook to shoulder the burden of all unremunerative lines, leaving at the same time all commercial undertakings for private enterprise, is questionable. When the State undertakes the construction of lines necessarily unremunerative it is all the more essential that it should at the same time construct paying lines as well so that the loss in the one should be covered up by the gain in the other thereby avoiding the necessity of resorting to fresh taxation. The retention of remunerative lines in the hands of the State was of the greatest

importance. The characteristic belief of the time that private investors would employ their profits more productively than the State was not entirely well-founded.* No doubt the State is apt to incur heavy expenditure on military lines, but its spending propensities are limited by the interests of the tax payers; it is a fairly strong incentive to economy. Above all, the best palliative would have been to separate the railway finance and administration from State finance, and vest its control in a separate Board with adequate powers to work it as a distinct undertaking, thereby ensuring its financial success. Sir T. C. Hope, the member in charge of Public Works, stated that the profits of Indian railways should not, for a few years, be swallowed up in the general expenditure of the Empire, but should be devoted in one form or another to that of railway construction which the country so urgently needs for its protection against famine, the development of its external commerce and the enrichment of its people. What Sir Hope expected to be a temporary remedy could as well be a permanent cure. Major Conway Gordon advocated the separation of railway finance from the general finance of the Government of India and suggested that railway accounts should be kept on commercial principles.† There is considerable truth in the statement "let railways breed railways." This would have checked the extravagance of railway construction and operation.

State programme of railway extension

The Government of India, accordingly, submitted a comprehensive programme of railway extension arranging the whole scheme in two schedules, 'A' and 'B,' former containing a list of railways indispensable for protective or other urgent purposes to be undertaken by the State or other agency on its behalf, and the latter contained a list of commercial railways to be left to private enterprises. Thus, schedule 'A' contained 30 lines covering 3,896 miles, indispensable for protective and other purposes and schedule 'B' contained 34 'productive' lines, covering 3,482 miles, to be left entirely to private enterprise. The estimated

* Lord Cromer held that if profits were left to fructify in pockets of the people, they would be more advantageously employed than if they were paid to the State, with a great chance of their being swallowed up in unproductive expenditure.

Financial Statement, 1881.

† Evidence before the Parliamentary Select Committee, 1884

outlay of the total scheme was about 28 million pounds to be incurred in about six years. This, indeed, was a very ambitious scheme.

Appointment of a Select Committee

The Secretary of State, however, did not sanction what he thought to be too ambitious a policy. He observed that the proposals of the Government of India "for sudden expansion of operations" were too extensive and would involve the State in expenditure far beyond what was contemplated even by the Famine Commission.* A Select Committee was appointed to investigate the question and to suggest as to how a more rapid extension of railways may be best accomplished. The terms of reference were: "To enquire into and report upon the necessity for a more rapid extension of railway communication in India and the means by which the object may be best accomplished, with special reference to the Report of the Famine Commissioners, and with due regard to the financial conditions of India." The cry of the day was a more speedy development of the railways. No wonder therefore if the Government of India pleaded that its new scheme involved no unjustifiable increase of expenditure, and that the proposals were neither sudden nor extensive.

The Recommendations of the Committee

The Committee, on conclusive evidence, recommended a more rapid extension of railways, principally for protection against famines, stimulus to internal and external trade, opening up of fertile tracks and coalfields, and for the numerous indirect benefits accruing both to the State and the people. A more rapid extension of railway communication was desirable for the proper economic development of the country as a whole. As regards the agency, the Committee recommended the employment of State and private enterprise side by side to promote economy and efficiency. It was believed that under the mixed system there would be healthy emulation. As regards the State construction, the Committee recommended that the rigid distinction between protective and productive lines could not be maintained, and hence the State was allowed to construct lines of both kinds with a proviso that the bulk of the lines should be self-supporting. The amount proposed to be spent upon the railways by the Government of

* Despatch No. 231 (Financial), to the Government of India, dated 16th August, 1883.

India was found to be moderate. The Committee, however, could not agree to the proposed capitalisation of a part of the Famine Grant for the construction of new railways, it being contrary to the basic principles of the inauguration of the grant. The Committee found that the present limit of borrowing 2·5 million pounds for public works could safely be enlarged, and that the full responsibility of deciding upon the amount to be borrowed every year should rest with the Secretary of State. They endorsed the view that the proposed extension of railways should involve no additional taxation. They suggested that it was advantageous to confine borrowing to India alone but the Secretary of State was empowered to borrow in England as well for the completion of the works in question. They said, "For political as well as for financial reasons it was desirable that loans should be raised in India. On the other hand, when the difference between the rates of interest in India and in England is so considerable as to afford full compensation for the comparative disadvantages of borrowing in England, the Secretary of State should not hesitate to borrow such moderate sums in this country (England) as will enable the Government of India to complete such public works as have been sanctioned."*

Military requirements dominate railroad finance

Meanwhile the menace of Russian invasion through Afghanistan began to attract increased attention of the Government of India and soon came to dominate the State policy. As the construction of strategic railways on the frontier was swallowing up the bulk of the borrowed money leaving very little for famine lines in the heart of the country, the Government of India worked out a programme of strategic railways, estimated to cost about five million pounds, to be constructed out of a separate terminable loan, because both the dangers, famine and frontier, had to be provided against. The Secretary of State, however, could not accept the distinction, and decried the proposal as being extravagant and impracticable. This attitude of the Secretary of State proved highly detrimental to the interest of the country. Everything was subordinated to military requirements. Here we get a further support for the thesis that the railway construction in India was undertaken primarily to meet military and

* Report of the Select Committee, paras. 31-33.

political requirements. Strategic railways were a first charge on the total capital expenditure.

The policy of drift and vacillation

As regards the agency, both State and private enterprise for the construction of railways were accepted, but in practice the agency was to be determined on the circumstances of each case. This gave room for great complications. *The policy followed was one of drift and seemingly capricious vacillation between one agency and another.* Chesney has criticised the railway policy as follows :—"To sell a railway one day and buy another the next, to build a railway and then to leave it to a Company, and, at the same time, to take over another line on lease, these inconsequential proceedings are sufficient indication of the total want of systematic policy and good judgment which has characterised the railway administration of the Indian Government."*

The defects in the railway policy were due in no small measure to two makers of the policy. Subsequent contracts entered into by the Government of India show the anomalous terms of each contract. In 1882 a contract was entered into with the Southern Maratha Railway. According to the terms of the contract the Government was the owner of the property and the Company as the agent of the Government received in its turn a guarantee of four per cent. for the first seven years and three-and-half per cent. thereafter, plus one-fourth of the net earnings of property without deducting the interest charges on the capital share of the Government. The last clause was too onerous to the Government and left no incentive to the Company to keep down capital expenditure. Subsequently, the Indian Midland in 1885 and the Bengal Nagpur in 1887 were undertaken on similar terms, with this difference that they were given a guarantee of 4 per cent. plus one-fourth of the net profits, after deducting the capital charges. In these contracts the rate of guarantee was raised by ½ per cent. The only justification for these three lines is that they were mere agents of the Government; the ownership of the property vested in the Government. They did not take the risk of promotion. In 1892, the Assam Bengal Railway Company was formed on similar terms, except that the surplus profits were to be divided between the Secretary of State and the Company in proportion

* Chesney: "Indian Polity," p. 311.

to the capital provided by each, instead of in proportion of three-to-one. Thus, the terms of the guarantee given to the companies formed since 1880 have been much more favourable to the Government than those in the case of companies formed before 1869.

Extension pushed at extravagant costs

In pursuance of the recommendations of the Committee the policy of making a three years programme in advance was introduced. The Secretary of State had laid down the rules to guide the policy of the Government of India in the following words :—"In view of the requirements that you have now brought to notice I sanction, for the present, the extension of the maximum limit of borrowing to 350 lakhs in any one year, which seems to me the extreme limit to which it is prudent to pledge our resources for such purposes ; and accordingly this amount should be held to cover all the expenditure of the Public Works Department from borrowed money, whether for ordinary railways and irrigation, open lines, arrears of previous grants, protective works, frontier communications, or any other purposes, while the lapses in previous years should only be subsequently made good from the balances, if that is practicable, without unduly reducing them ; and no resort must be had to borrowing unless the amount cannot be provided from revenue."* But in practice even the higher limit of the expenditure was found insufficient. These principles were therefore followed more in breach, in view of the pressing need to provide for a rapid extension of lines. From 1885-86 to 1891-92 the average amount charged against borrowing was Rs. 363 lakhs.

Further, in view of the prevalent political conditions, the Government of India soon felt the necessity of a more rapid extension of frontier railways, irrespective of the additional burden. Strategic lines were needed at any cost. Accordingly, a three years programme, involving Rs. 14 crores, was sanctioned. It is to be noted that the Secretary of State sanctioned this ambitious scheme because the works under construction, especially those for the protection of the country against famine or war, had to be completed without undue delay.

Political troubles in Burma coupled with the difficulties created by falling exchange made the Secretary of State realise

* Quoted by C. N. Vakil : "Financial Developments in Modern India," p. 216.

the risks of the extravagant costs at which Public Works programme was being executed, and in his Despatch of April 1888 he laid down that great caution should be required in adding to the liabilities which were pressing on the Government on that account. This caution, dictated by financial stringency, was soon forgotten, due to prosperous financial years of 1889 and 1890, which realised large surpluses. In 1897 a more ambitious programme of railway construction was sanctioned, involving an expenditure of Rs. 29.6 crores, spread over three years, 1896-1898. A further programme for three years, involving an expenditure of Rs. 20.3 crores was sanctioned in 1899. Branch lines involving rupee or sterling guarantee were included within the programme.

Strong hopes of attracting unaided private enterprise, as set forth in Lord Cromer's Financial Statement of 1881-82, were poorly realised. Of the four lines* started, first went into bankruptcy, the second and third were saved from annihilation with a guarantee, and the fourth was granted a reduction in the Government's share of surplus profits together with the lease of Tirhut State Railway. Some sort of guarantee was found to be the *sine qua non* of the development of railways in the country.

Revised terms for Indian capital

In 1893 and subsequent years an important departure was effected in the railway policy. The Government of India, disinclined to increase the sterling liabilities of the Secretary of State, which were thought to be responsible for the depreciation of the rupee, proposed to invite capital on rupee basis for the construction of feeder or branch lines and substituted a subsidy in the shape of a rebate for the onerous guarantee. Land was to be given free and the main line was to provide the rolling stock and work the line at special rates with a rebate from the main line earnings on the traffic interchanged between the two lines so as to ensure the proprietors of the branch lines a dividend of 4 per cent. on the approved capital expenditure. The State reserved the powers of supervision, control of rates and fares and the ultimate right of purchase.

But these terms were not found to be sufficiently attractive and had to be revised in 1896 when an absolute guarantee of 3 per

* Nilgiri, The Delhi-Ambala-Kalka, the Bengal Central, and the Bengal and North Western Railways.

cent. plus a rebate to the full extent of the main lines net earnings, so as to make a total of 3½ per cent. on capital outlay, was offered. These terms had to be modified from time to time, as we shall see presently. Since the offer of better branch lines terms capital gave greater response and accelerated the development of railways in India.

Railways at the dawn of the twentieth century

The opening of the twentieth century marked a very important change in the evolution of railway finance in India. It synchronised with the dawn of an era of financial prosperity for the Indian railways. Exchange fluctuations, which had increased the uncertainty to Indian trade and commerce, having come to an end, trade, both internal and external, received a considerable stimulus. This led to an increased demand for transport facilities. Transport is the cornerstone of the edifice of modern civilisation. In fact, the modern industrial development of India can be traced to the early railroad facilities offered, linking up the distant and scattered parts into one close-knit unit. The relation with foreign markets became closer and more intimate with the increase in the efficiency of transport agencies and gave an added impetus to production. In short, trade had appreciably increased. Traffic having increased with the development of trade and commerce, railway plant was better utilised thereby minimising the waste (in unused capacity), and increased the net receipts of the railways. Indian railway finance till the close of the nineteenth century was in a very deplorable state; accounts showed a marked deficit from year to year which used to provoke considerable criticism. Since the beginning of this century, however, railway receipts brought a net gain to the State instead of the usual loss. Thus, the sting was taken out of the criticism levelled against railway administration. Further, the State finances showed a marked improvement in the early years of this century and the budgets showed a series of surpluses. All these factors made the public realise that investment in railway enterprise was not a drain of the national resources, but a sound commercial proposition. This, obviously, resulted in an increased flow of capital in railway construction; instead of the usual scarcity, the available capital became so plentiful that the spending propensities of the Government were saturated to the full. The sanctioned amounts were so large that the Government could not spend them all.

Another remarkable feature of the railway finance of the time was the *enormous increase in the traffic to be handled by the railways*. This forced upon the railway authorities the need of increasing the efficiency of the railway plant so as to be able to handle the traffic properly. The Government of India decided to spend the sanctioned capital in improving the facilities over the lines already constructed rather than on the construction of new ones. Thus, of the allocated sums of Rs. 6.5 crores and Rs. 9.23 crores in 1900-01 and 1901-02 respectively, only one crore was provided for new construction. The Secretary of State laid down that in future railway programmes the Government of India should provide first of all for the needs of open lines, the amount required by them being the first charge on the sum allotted for railway purposes. Expenditure on lines under construction by companies would have next claim. New projects and lines begun by the State would stand last in order of their claims.

Robertson's Investigation and Report

Mr. Robertson, a special officer appointed to study the Indian railway problem, supporting the above arrangement, observed that the arrangement made in 1900 by which adequate equipment of old lines was given the first claim on the programme, railways under construction coming next, and new projects last of all, would work well if only the finances were adequate for the purpose. But the finances fell short of the total requirement. The scarcity of capital led to the exclusion of the capital expenditure on old company-managed lines from the "programme" and the companies were empowered to raise money for such purposes independently. For State lines he recommended the creation of a *Railway Fund* to be applied for the improvement of old lines and the construction of new ones. To start with, the fund was to be created with about Rs. 15 crores and was to be augmented by crediting annual surplus profits of all railways in India. This fund was to be kept apart from the general finances of the Government. The creation of the fund meant in practice the separation of railway finance from the general budget.

Mr. Robertson studied the economic conditions of India and came to the conclusion that in view of the vast area of the country and innumerable undeveloped resources more rapid extension of railways was a necessity. It is the duty of the Government

of India to make an adequate provision of railway communication in every part of India in order to bring about an even economic development of the country. He was of opinion that the progress of railway development in India had been slow and that the country was starved of its transport requirements. To this glaring defect in the railway policy he attributed the delay in the economic reconstruction of India. Thus, Mr. Robertson gave his decision in favour of a more rapid progress in railway construction, and did not think it desirable to fix definite limit as to the number of miles to be constructed annually because the only natural and most practical limit, according to him, was the capacity of the money market to supply the necessary funds. He held that the railway authorities ought to strain every nerve to provide railway facilities adequate enough for the requirements of trade and industries.

Mr. Robertson also gave his finding on the financial aspect of the much debated and controversial question of the agency of railway construction in India. There are two possible alternatives, either direct construction by the State itself, or through the agency of guaranteed companies. The financial liability in both the alternatives continues to operate undiminished. Financial responsibility is in no way less when the Government guarantees a safe return to the companies than when it undertakes to pay interest charges on the money raised by it. In fact, indirect borrowing is even more expensive than the direct one. It seems paradoxical that Mr. Robertson, in spite of the obvious expensiveness of the agency of guaranteed companies, recommended the extension of this agency. This was, perhaps, due to the then existing anomalies of railway finance in India. Railway budget was subject to the exigencies of State finance. The proper remedy, however, lay in treating the capital expenditure on railway extension on commercial principles. Railroads are essentially commercial undertakings and should be run largely on commercial principles. This led Mr. Robertson to extend the agency of guaranteed companies. So also he held that companies could raise money with greater convenience and certainty. This statement of his opinion was doubted by a shrewd critic. But the supporters of the system claimed that the vagaries of money market could be warded off. This belief was entertained by large number

of people. In fact, the use of agency of guaranteed companies was the accepted principle of the day. This was not, however, a sound principle as shown in the preceding analysis of our experience of railway extension in India.

The Secretary of State did not agree with the proposal of creating a Railway Fund which was the corner-stone of Mr. Robertson's proposals. It was, however, provisionally agreed to grant a three years supply to the proposed Railway Board. An annual expenditure of nearly 12 crores was then sanctioned. Mr. Robertson had recommended the appointment of a Railway Board composed of businessmen with full authority to manage railways on commercial principles. The Board was to consist of a chairman and two members, and its functions were to be deliberative and administrative. This new Railway Board prepared a programme for 1906-7 to 1908-9, with annual expenditure of about 15 crores. The increase in expenditure was needed because of the insufficiency of the rolling stock.

Mackay Committee

Till 1907 the condition of railway finance was far from satisfactory. On the recommendations of Mr. Robertson Railway Board was constituted, but the Railway Fund was not created. Further the railways till then could not meet the rapidly increasing requirements of the trade and industries. Railway plant and equipment were far short of the needs of the day. Several deputations were sent to the Secretary of State complaining about the inadequacy of railway facilities in India. Under these circumstances a Committee presided over by Sir J. Mackay was appointed in 1907 to reconsider the question of Indian railway finance. The Committee after full investigation found that the grievances of the Indian mercantile community about the inadequacy of Indian railway equipment were well founded and hence they held that it was incumbent upon the Government authorities to increase the allotments. For this purpose it was found advisable not to place any definite limit as to the amount that might with profit be expended on railway equipment. The effective limit was to be determined by the money available in India as well as England. The limit of available capital was then placed at 14 million pounds, of which it was expected that pounds nine million could profitably be raised in London, and the remaining

five million pounds in India. Of £14 millions, £12½ millions or Rs. 18.75 crores were set apart for railway construction and equipment, the remaining £1½ millions were to be spent on irrigation works.*

The Branch Line Policy

The branch line policy declared in 1896 was continued. In 1903, Mr. Robertson recommended that it would "be more convenient, when the main lines are worked by the companies, to finance all branches to, or extensions of, their own lines,"† or in the alternative to form one subsidiary branch line company with each recognised main line. The Mackay Committee, supporting Mr. Robertson, held that as far as possible the trunk lines should own as well as construct and work their branches.‡ But the construction and working of the branch lines fell far short of the expectations, which led the Railway Board in 1910 to issue new terms, more liberal in several respects.§ These terms were again revised in 1913, whereby the rebate was to be calculated on the approved paid-up share capital of the company to the end of the financial year, instead of on capital expenditure. The terms were further modified in 1914 and the branch line companies were permitted to raise capital partly under guarantee and partly under rebate terms. This question was further examined by the Acworth Committee.

Inadequate Railway Facilities

The inadequacy of the Indian railway system to meet the transport requirements of the country is the complaint of long standing, as has been noted in the preceding discussion. This has been primarily due to the failure of the Government to provide the railways with adequate funds for capital expenditure on development and extensions, and even for the essential operations of renewals and repairs. The Mackay Committee had laid stress on the desirability of Government adopting a steady annual rate of expenditure which could reasonably be maintained even in times of difficulty and they had recommended a modest standard

* For recommendations refer the Mackay Committee Report, pp. 11-12.

† Robertson's Report, p. 52.

‡ Mackay Committee Report, para. 28.

§ Refer Dr. Sanyal: "Indian Railways," pp. 232-33.

of Rs. 18·75 crores. But the recommendations of the Committee were disregarded as the following figures indicate :—

Year.	Capital programme Rs. crores.	Year.	Capital programme Rs. crores.	Year.	Capital programme Rs. crores.
1908-09 ..	15·0	1913-14 ..	18·0	1918-19 ..	6·3
1909-10 ..	15·0	1914-15 ..	18·0	1919-20 ..	26·55
1910-11 ..	16·3	1915-16 ..	12·0	1920-21 ..	21·98
1911-12 ..	14·25	1916-17 ..	4·5	1921-22 ..	17·82*
1912-13 ..	13·5	1917-18 ..	5·4		

It will be seen from the foregoing figures that the programme revenue lacks uniformity and has not been able to attain the standard of expenditure recommended by the Mackay Committee. The irregularity was further accentuated by the outbreak of the Great War. The expenditure sank as low as 4.5 crores in 1916-17. This was due to complete stoppage of communication with England and other continental countries and the consequent inability to replace the rolling stock. Besides, the movement of heavy military traffic had paralysed the entire railway system. Complaints of the inability of the railways to cope with the commercial traffic showered from every section of the community and especially from the business houses.† Traders and manufacturers complained of the lack of adequate wagon supply in addition to high freight rates. This deficiency of the most important transport system of India did considerable damage to Indian trade and industries.

The inconveniences were the inevitable results of a paralysed system which had not been adapted and developed to meet the requirements of what is essentially a commercial enterprise of the first magnitude. The development of Indian railways was, in fact, starved. The root cause of the defect was financial. Railway receipts varied from time to time in accordance with harvest results and trade fluctuations. The guillotine of "lapse" and the consequent uncertainty made the railway development hazardous.

* Includes a sum of Rs. 2·82 crores to cover loss by exchange.

† Refer to the annual Reports of the Chambers of Commerce.

This system, in spite of its most obvious and glaring defects, had held unabated sway from a long time and was endorsed by the Mackay Committee as well. The fortunes of Indian railways being linked up with the general finance of the country, the grants were frequently insufficient* and uncertain.† Railway undertakings were held up for lack of the relatively small capital investment in new machinery required year by year to make the whole of the plant efficient and economically productive. We regret to note that in railway working even the commercial principles were sacrificed. While repair and renewals were postponed during the war, no depreciation fund was created, which would have considerably eased the situation in the post-war period.‡ It is impossible to estimate the loss suffered by the country from the utter failure even to keep abreast of the day-to-day requirements of the traffic actually in sight and clamouring to be carried. The Government should not have hesitated to borrow for a concern commercially sound and essential for the development of the country. "Had the Government thought fit to borrow even at a rate considerably higher than the rate of net return that the railway could earn on it, we believe its action would have been abundantly justified."§ But, unfortunately, the Government of India overlooked the commercial nature of the railways. Indian railways had become profitable since the beginnings of the present century and therefore could raise enough money as a solvent concern if only the Government had realised the differentiation between its functions as guardian of the State finances and its functions as a commercial *entrepreneur*. Mr. Robertson, commenting on the then policy of financing railways, had observed that "the great railway undertakings in India are reduced more or less to the same level as other departments of Government and are not administered as large commercial concerns on the lines on which such undertakings can only be really successfully worked." The Government of India, however, failed to appreciate this valuable suggestion and the same mistaken policy was continued. In 1920, the Acworth Committee was appointed

* It was complained that the allotments were made on the personalty of the Agent rather than on the need of the line.

† Funds were increased or reduced during the year from time to time.

‡ "At a very moderate estimate £12 million should have been available in a depreciation fund at the close of 1921, all accumulated during the preceding five years."

Quoted by Dr. Mehta: "Indian Railways," p. 55.

§ Report of the Acworth Committee, p. 63.

to consider and advise on the methods of management of railways owned by the State, the organisation of the Railway Board and the Government control over the railway administration, the arrangements for the financing of Indian railways, the system of Government control over rates and fares and the machinery for deciding disputes between railways and traders.* The appointment of this Committee under the chairmanship of W. M. Acworth is an important landmark in the history of Indian railways. We shall discuss the recommendation of the Committee in the next chapter.

* Supra, p. 4.

CHAPTER III.

POST-WAR DEVELOPMENTS IN RAILROAD FINANCE

Acworth Committee

It has been shown in the preceding chapter that the condition of railway finance was very unsatisfactory at the end of the War, and a pressing need for a proper scheme of rehabilitation was felt by all the parties concerned. Besides, the defects in the pre-war working of Indian railways, as shown in the Second Chapter, had created various misgivings in the minds both of the responsible authorities as well as the Indian people about the very system of management of railways. Therefore, the Secretary of State announced the appointment of the Acworth Committee on the 1st November 1920, "(1) to consider, as regards railways owned by the State, the relative advantages, financial and administrative, in the special circumstances of India, of the following methods of arrangement: (*a*) direct State management; (*b*) management through a Company domiciled in England and with a Board sitting in London; (*c*) management through a Company domiciled in India and with a Board sitting in India; (*d*) management through a combination of (*b*) and (*c*); and advise as to the policy to be adopted as and when the existing contracts with the several companies can be determined.

"(2) To examine the functions, status, and constitution of the Railway Board, and the system of control exercised by the Government of India over the Railway Administration and to recommend such modifications, if any, as are necessary for the adequate disposal of the railway business of the Government.

"(3) To consider arrangements for the financing of railways in India, and in particular the feasibility of the greater utilisation of private enterprise of capital in the construction of new lines."

As regards the system of management of Indian Railways, the Committee was unfortunately divided in its recommendations. The majority recommended that the undertakings of the guaranteed Companies, as and when the contracts fall in, be entrusted

to the direct management of the State, and that when the contract with the East Indian Railway terminates in 1924, the Oudh and Rohilkhund State Railway be absorbed into that undertaking. The minority recommended that the system of both State and Company management should be continued, and that the Government should not be committed to a policy of State management only for all railways. They accordingly proposed a scheme for creating Indian domiciled Companies to manage the E. I. Railway and, possibly, the G. I. P. Railway. The cases of other lines were to be considered on their merits when the contracts became terminable.

The separation of Railway Finance from the general finance of the Government of India was also recommended by the Committee. "We recommend that the Finance Department should cease to control the internal finance of the railways; that the railways should have a separate budget of their own, be responsible for earning and expending their own income, and for providing such net revenue as is required to meet the interest on the debt incurred or to be incurred by the Government for railway purposes; and that the railway budget should be presented to the Legislative Assembly, not by the Finance Member of the Council, but by the Member-in-Charge of Railways." Further, the Committee recommended that, subject to independent audit by the Government of India, the Railway Department should employ its own accounting staff, and be responsible for its own accounts.

The Committee also recommended important changes in the constitution and functions of the Railway Board and the machinery for the management of Indian railways. "We propose great changes in the constitution, status, and functions of the Railway Board. We recommend that at the head of the Railway Department, there shall be a Member of Council in constant touch with railway affairs; and we suggest that with this object there shall be created a new Department of Communications responsible for railways, ports and inland navigation, road transport (as far as the Central Government deals with this subject) and posts and telegraphs. We think that the member in charge of Communications must be an experienced administrator and be able to represent his Department both in the Legislature and with the public. We do not think he need be expected to be a technical

expert." The Committee further recommended that the title of Railway Board should be replaced by the title of Railway Commission.

The Committee made a number of other important recommendations. That a Rates Tribunal consisting of an experienced lawyer as Chairman and two members to represent Railway and Commercial interests be established; the gauge question should be further investigated in periods of easy money; branch lines should be worked as far as possible by the main lines to whom they are tributaries; the Indian public should be given an adequate voice in the management of the railways through the Central and Local Advisory Committees which should be established.

A number of these recommendations were adopted by the Government of India, and their implications had far-reaching effects on the administration of railways, as we shall show by a detailed analysis at a later stage. For the present, it is sufficient to note in brief, the action taken by the Government of India on the Report, in order to appreciate the importance of the measures. As regards the recommendations on the methods of management, nationalisation and State management have been accepted for all practical purposes. The separation of railway finance from the general finance of the Government of India has also been effected. Railway Rates Advisory Committee has been established. The Department of Communications was established in 1937. The Central and Local Advisory Committees were also established.

No wonder, the Report of the Acworth Committee gave a rude shock to the time-worn beliefs and practices of Indian railway authorities. The recommendations of the Committee, based on elaborate and careful investigation, revolutionised the entire railway machinery. In fact it would not be far from truth to say that it inaugurated a new era in the railway administration of our country. The entire organisation witnessed revolutionary changes and the policy pursued since then has become relatively more responsible to the public opinion. The acceptance of the policy of nationalisation, the re-organisation of the controlling authorities, the separation of railway finance from the general finances, the new store purchase policy, the re-modelling of the workshops, the separation of accounts, the publicity campaign and the Indianisation of the administration, have materially transformed our post-war railway

policy. The interest in railway matters has increased appreciably and promises to increase further.

Immediately after the receipt of the Report of the Acworth Committee, the Government of India appointed THE RAILWAY FINANCE COMMITTEE, composed of the members of the Legislative Assembly. The Committee was impressed by the need of the rehabilitation and improvement of the railroad system and recommended a programme of capital expenditure on a five years' scheme of 150 crores, to form the basis of the next five years' railway capital finance. They also recommended the formation of a depreciation fund for railways.

The various railway administrations had prepared their programmes for the work of rehabilitation and improvements were at once undertaken. The programmes of new works were, however, hastily put together and in many cases they had to be subsequently revised *in toto*.

Retrenchment Committee

The unbalanced state of central finances led to the appointment of the Retrenchment Committee, presided over by Lord Inchcape, to examine the whole question of railway finance. The Committee recommended an immediate drastic cut in the grant for working expenses, restrictions of renewals to practical necessities, and the adoption of the principle of so working the railways as to produce a fixed profit of at least 5½ per cent. on the capital at charge. The immediate appointment of a financial adviser on the Railway Board was urged, to ensure that financial considerations were given their due weight before expenditure was incurred. The necessity of a proper provision for maintenance and repairs and the abolition of the then programme revenue expenditure was also emphasised. Thus it was realised that along with the Reserve Fund, Depreciation Fund should also be created.

Separation of Railway Finance from General Finance

The defects of the system under which railways depended on the exigencies of the general financial conditions of the country have long been noticed. The remedy advocated was to make the development of railroads dependent on their earning power rather than on the "unappreciative liberality of the Finance

Department."* The Acworth Committee was impressed by the most obvious defects of the then existing financial arrangements; the uncertainty of allotments and the fear of lapse; the lack of commercial accounting; the failure to provide for proper renewals and repairs, and the absence of reserve. The Committee made out an unassailable case for the separation of the railway from the general finance and gave a decent burial to old malpractices. Government officials were found to be ill-qualified for tackling the highly technical and complicated problems of railway finance.†

The prevailing system was forcibly commented upon by the Committee, and they remarked, "We do not think that the Indian railways can be modernised, improved and enlarged so as to give to India the services of which it is in crying need at the moment, nor that the railways can yield to the Indian public the financial return which they are entitled to expect from so valuable a property, until the whole financial methods are radically reformed. And the essence of this reform is contained in two things: (1) the complete separation of the Railway Budget from the General Budget of the country, and its reconstruction in a form which frees a great commercial business from the treatments of a system which assumes that the concern goes out of business on each 31st of March and recommences *de novo* on the 1st of April; and (2) the emancipation of the railway management from the control of the Finance Department."‡

The Committee, however, did not suggest to make the railway organisation completely independent of the control of the Legislature; its financial transactions were to be subject to the same control as those of any other department of the Government. But, what the proposals of the Committee implied was that whereas hitherto the arrangements for the financing of all departments has been considered together, the railways, in respect of both capital and revenue expenditure, should in future remain apart; that there should be a definite programme of capital expenditure, and in consequence a definite programme of borrowing for railway purposes; and finally, that the net profits earned should stand outside the general revenue of the country and ordinarily be devoted to the provision of additional railway facilities or to the reduction of rates and fares.

* Dr. N. B. Mehta: "Indian Railways," p. 56.

† Acworth Committee Report, para. 58.

Subject to the general control,* the Committee recommended that the railways should have a complete freedom in making their own internal arrangements.

Absolute separation, in the sense that railways were not only to be left to manage their business independently but were also to be allowed to have complete monopoly of the profits they earned, was not thought desirable, and this, for more than one reason. Railway revenue has been a very valuable asset to the national exchequer and could not be easily surrendered. Besides, tax-payers have stake in the railways. The tax-payers had suffered enormous loss on account of railways in the past, when they were a losing concern, and now that they had become paying, it is but legitimate that the tax-payers should expect a share of their profits. As to the form of this share, it may be argued that the tax-payers, instead of taking a direct contribution from the railways, would have been better off, if they had taken their share in form of cheaper and more efficient transport facilities, which railways would have been able to afford if they had no contribution to pay. It should not, however, be overlooked that the deficit caused in the budget by accepting this alternative would have to be met by increased taxation. This was found to be risky and undesirable. Besides, it was asked, where is the certainty that the immunity from contribution to the general budget would necessarily be followed by reduced rates and fares, and the past railway history does not warrant such trust. Extravagance and inefficiency have been the *sine qua non* of railway development in India. The immunity from contribution, it was felt, would not have merely dislocated the general finance but removed the only oasis of thrift in the desert of thriftlessness and extravagance, characteristic of Indian railway management. It is not suggested here that the reductions in the rates and fares are undesirable; far from it. Cheap and efficient transport facilities are a boon to the community. In fact, it is an obligation on the national transportation system to provide cheap and efficient services. There is no room for the belief that the railways benefit certain sectional interests only and not the general public. A national railway policy providing efficient and economic transport facilities confers innumerable benefits upon the whole community. It is argued that

* "The Government owns the railways; the Indian Government must control them. But that is no reason why the control should take the form which is found suitable in respect of other Departments of the State." Acworth Committee Report, para. 74.

efficient and economic transport facilities can be provided in spite of the railway contribution, which is a minimum dividend just necessary to attract the flow of capital to railway enterprise. Even where the railroads are State property, as they are in India, the obligation to the tax-payers, who are the *de facto* shareholders, operates with equal force. Thus, the claim for railway contribution, as such, is legitimate. This, however, should not be taken to be a plea justifying the present railway practice. *The contribution can rightfully be claimed by the railroad stock holders, private or public, only if the undertaking provides efficient services and is worked with maximum efficiency and economy.* This is true of all commercial undertakings; more so when an undertaking is a public beneficiary. The railway contribution, which was expected to improve the efficiency of Indian railways, has failed in its objective and led to higher freight charges as we shall show presently.

In September, 1924, the Indian Legislature finally passed the resolution embodying the scheme for the separation of the railway finance from the general finance of the country. The resolution said: "This Assembly recommends to the Governor General in Council that in order to relieve the general budget from the violent fluctuations caused by the incorporation therein of the railway estimates, and to enable railways to carry out a continuous railway policy based on the necessity of making a definite return to general revenue on the money expended by the State on railways,

(1) The railway finances shall be separated from the general finances of the country and the general revenues shall receive *a definite annual contribution* from the railways which shall be the first charge on the net receipts of the railways.

(2) The contribution shall be *based on the capital at charge and working results of commercial lines*, and shall be a sum equal to *one per cent. on the capital at charge* of commercial lines (excluding capital contributed by companies and Indian States) at the end of the penultimate financial year *plus one-fifth of any surplus profits* remaining after payment of this fixed return, *subject to the condition that, if in any year railway revenues are insufficient to provide the percentage of one per cent. on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division, until such deficiency has been made good. The interest on the capital at charge of, and the loss in working strategic lines shall be borne by general revenues* and shall consequently be

deducted from the contribution so collected, in order to arrive at the net amount payable from railway to general revenues each year.

(3) Any *surplus* remaining after this payment to general revenues shall *be transferred to a railway reserve ;* provided that if the amount available for transfer to the railway reserve exceeds in any year three crores of rupees, only two-thirds of the excess over three crores shall be transferred to the railway reserve and the remaining one-third shall accrue to general revenues.

(4) The railway reserve shall be used to secure the payment of the annual contribution to general revenues ; to provide, if necessary, for arrears of depreciation and for writing down and writing off capital ; and *to strengthen the financial position of railways in order that the services rendered to the public may be improved and rates may be reduced.*

(5) The railway administration shall be entitled, subject to such conditions as may be prescribed by the Government of India, to borrow temporarily from the capital, or from the reserve, for the purpose of meeting expenditure for which there is no provision or insufficient provision in the revenue budget, subject to the obligation to make repayment of such borrowings out of the revenue budgets of the subsequent years.

(6) *A Standing Finance Committee for Railways* shall be constituted, consisting of one nominated official member of the Legislative Assembly from their body. The Members of the Standing Finance Committee for Railways shall be ex-officio members of the Central Advisory Council, which shall consist, in addition, of not more than one further nominated official member, six non-official members selected from a panel of eight elected by the Council of State from their body and six non-official members selected from a panel of eight elected by the Legislative Assembly from their body. The Railway Department shall place the estimate of railway expenditure before the Standing Finance Committee for Railways, on some date prior to the date for the discussion of the demand for grants for railways and shall, as far as possible, instead of the expenditure programme revenue, show the expenditure under a depreciation fund created as per the new rules for charge to capital and revenue.

(7) The railway budget shall be presented to the Legislative Assembly if possible in advance of the general budget and separate days shall be allotted for its discussion, and the Member in charge of

Railways shall then make a general statement on railway accounts and working. The expenditure proposed in the railway budget, including expenditure from the depreciation fund and the railway reserve, shall be placed before the Legislative Assembly in the form of demands for grants. The form the budget shall take after separation, the details it shall give and the number of demands for grant into which the total vote shall be divided, shall be considered by the Railway Board in consultation with the proposed Standing Finance Committee for Railways, with a view to the introduction of improvements in time for the next budget, if possible.

(8) These arrangements shall be subject to periodic revision but shall be provisionally tried for at least three years.

(9) In view of the fact that the Assembly adheres to the resolution passed in February, 1923, in favour of State management of Indian railways, these arrangements shall hold good only so long as the East Indian Railway and the Great Indian Peninsular Railway and existing State-managed railways remain under State management. But if in spite of the Assembly's resolution referred to, Government should enter into any negotiations for the transfer of any of the above railways to company management, such negotiations shall not be concluded until facilities have been given for a discussion of the whole matter in the Assembly. If any contract for the transfer of any of the above railways to company management is concluded against the advice of the Assembly, the Assembly shall be at liberty to terminate the arrangements in this resolution.

Apart from the above convention this Assembly further recommends : " (*i*) that *the railway services should be rapidly Indianised, and* further that *Indians should be appointed as Members of the Railway Board as early as possible* and (*ii*) that the purchases of stores for the State railways should be undertaken through the organisation of the *Stores Purchase Department* of the Government of India."

The separation of railway budget from the general budget was the most important change of the post-war period and heralded a new era in the financial administration of Indian railways. The change was expected to revolutionise and rejuvenate the financial structure of Indian railroads. But the value of this salutary change was impaired by the rigid provision for contribution to the general

finance, irrespective of the efficiency of the railroad working. It seems the Indian Legislature, which hitherto used to utilise railway receipts for the relief of general tax-payers, was extremely reluctant to give up that claim and therefore made a definite provision in the separation convention for the contribution. Without making adequate provision for securing efficient working of railways, it is very undesirable that the State should make transport services, vehicle for rigid taxation. The cost of railroad service, it must be borne in mind, depends upon the volume of traffic, and the volume of traffic depends upon the rate charged. Thus, to a certain extent, cost of transport is a function of rates, not the rates of the cost. Hence the need for quoting lower rates and maintaining the railroad system at the maximum pitch of efficiency to attract traffic. The economic development of a country depends primarily upon the provision of efficient and economic transport facilities. Efficient transportation system improves materially the taxable capacity of the people. It is a short-sighted policy to expect the railways to make contributions to general budget even when inefficient working or trade depression does not permit such contribution. The needs of efficiency of service and economy of operation are most important. Railway contribution ought to have been made conditional on efficiency of service and economy of operation. To secure efficiency and economy, the Legislative Assembly ought to have established an independent and impartial Rates Tribunal, to watch the working of Indian railways and their rates policy. Effective control and supervision are essential, because railway services are indispensable and the industry is a monopoly of organisation.

Dickinson Report

The Government of India felt the need of improving the financial system and hence invited Sir Arthur Lowes Dickinson in September, 1926, to examine and report on the system of accountancy and the way in which it could be improved. He was assisted by two experts, one from England and another from America. The precise terms of reference of the Committee were : (1) To examine and report fully on the system of accountancy and audit in respect of all classes of both Capital and Revenue receipts and expenditure in force on the State-worked railways and to make recommendations for revised and improved methods. (2) To examine and report particularly on the system in force

on State-worked railways in the following matters and to make recommendations thereon: (*a*) The system of accountancy in the workshops and the preparation of cost accounts. (*b*) The system of accounting for the expenditure and outturn of railway collieries. (*c*) The system of stores accounts. (3) To consider and report on the feasibility of the preparation of a proper annual balance sheet and profit and loss accounts for individual railways for separate organisations such as collieries, and for the whole of the receipts and expenditure of the Government of India relating to railways. (4) To consider and report on the experimental system in force on the E. I. Railway of the separation of accounts from audit and to make recommendations thereon.

The Dickinson Committee submitted its Report on the 10th August, 1927, with the following important recommendations: (1) That the accounts of Railway Board at present kept by the Accountant General, Railways, be handed over to the Chief Accountant appointed by and responsible to the Railway Board. (2) That the railway accounts be kept on the basis of work done and services rendered by the railways and of work done for the railways, both expressed in money values and entered in the books as at the time when the services were performed and the work done whether paid for at that time or not. (3) That separate abstracts be prepared to include all expenses connected with stores and separate abstracts of the Electric Department. (4) That the "Suspense Account" be treated as working capital and included in the capital expenditure instead of in the income. (5) That the Controller of Currency should act as banker and keep separate accounts for each railway system, crediting to this account all the receipts and charging it all the payments. (6) That the present plan of providing for depreciation be continued except that: (*i*) additional cost of replacing any unit be a charge to revenue and not to capital; (*ii*) that the life of any unit be not estimated to exceed 50 years and in case of electrical units 25 years; (*iii*) that capital expenditure to the extent to which they do not increase operating revenues or decrease operating expenses, be written off to surplus income under the term "betterment." (7) That the Railway Clearing House at Lahore be converted into a Central Station Accounting Office and moved to Delhi; that in addition to dealing with the foreign traffic between the four State railways, it should also

handle the local traffic of those railways, commencing first with that of the N. W. Railway; that branch offices be established at Howrah, Wadi Bunder and Karachi for the traffic audit at those stations; these branches to be under the control of the Central Station Accounting Office at Delhi; and that the methods of audit worked out by Mr. W. H. Scott be gradually extended to comprise the whole system of State railways. (8) That the purchase of stores be entirely separated from their custody and be entrusted to a supply officer who would purchase on requisition from the Controller of Stores or other authorised officer. (9) That the railway collieries be removed from the control of the separate railways and concentrated under the control of a Director of Collieries responsible to the Railway Board and that a new system of cost, stores, workshop and general accounts be introduced. (10) That all coal shipped to State railways be charged at cost, including depreciation, sinking fund and administration expenses, and in addition a sum calculated to yield approximately 6 p.c. interest per annum on the capital at charge, to the collieries. (11) That all goods carried by the railway for its own use be charged for transportation at 60 p.c. of the full rates.

Raven Committee

In 1926 the Government of India appointed a Committee, with Sir Vincent Raven as the Chairman, to enquire into matters connected with the Mechanical Departments of State railways. The Committee disapproved of the general practice of keeping a fairly considerable stock of stores in running sheds and other places which had been charged off. The Committee recommended that all materials required by the workshops, should be stored in workshops under the supervision of Stores Department and not under Mechanical Department. That the spare parts of rolling stock be manufactured by the railways in their own workshops, because that would be cheaper and more expeditious. The Committee further held that the main workshop at Moghalpura, Lahore, on the N. W. Ry., was well laid out and well equipped, but the supervision and inspection were inadequate. The Committee recommended that Karachi and Rawalpindi Carriage and Wagon Shops should be closed down and a well-equipped wagon repair shop be laid out at Sukkur.

From the preceding review it will be seen that the Government of India very carefully considered the Report of the Acworth Committee, and supplemented the investigations of the Committee, by appointing other Committees to study the problems raised which required additional data and more careful thought. The Government of India was obviously anxious to improve the working of Indian railways. The separation of railway budget from the general budget was a very important measure expected to improve the efficiency of the railway system, by providing it with a more secure financial basis. Apart from the separation of the railway budget from the general budget, the Convention stipulated a number of other important changes in the financial structure of our railroad system which we shall review in brief for a proper understanding of the working of Indian railways.

The Railway Reserve Fund

The Resolution provided for the inauguration of a Railway Reserve Fund to be used to secure the payment of annual contribution to general revenues ; to provide, if necessary, for arrears of depreciation and for writing down and writing off capital ; and to strengthen the financial position of the railways, in order that the services rendered to the public may be improved and rates may be reduced. Railway administration was also permitted to borrow temporarily, subject to the Government regulation. This provision has considerably added to the strength of Indian railways and helped them in times of adversity, as the following statement will bear out :—

RAILWAY RESERVE FUND.

Year.	(In Lakhs of Rs.)		
	Contribution from Railway to General Revenues.	Surplus Revenue transferred to Railway Revenue Fund.	Net gain.
1924-25	678	638	1316
1925-26	549	379	928
1926-27	601	148	750
1927-28	628	457	1085
1928-29	523	258	781
1929-30	612	—208	404
Total ..	35,91	16,72	52,64

Thus, the years of prosperity which followed the separation of Railway Budget from the general budget, enabled the Railway Board to build up a reserve of Rs. 18,80 Lakhs by the end of 1928-29. This fund was used in the subsequent years to finance the deficits. In 1929-30 Rs. 2,08 lakhs were withdrawn from the Reserve Fund.

Railway Depreciation Fund

A scientific Depreciation Fund was also provided by the same Resolution of 1924. Till then it was held inconsistent with the ordinary scheme of Government finance to set aside for the future money not actually required for the current year's expense. The practice of 'lapse' was the bane of the Indian railway finance. Unlike the ordinary commercial concern, which provides for the depreciation of its property by setting aside annually a certain portion of the profits, to be credited to a depreciation fund for being charged as the renewals are made, the Government made no provision for depreciation, and sanctioned grants as the need for replacement and renewal arose, from the general finance of the State. A proper depreciation fund would have meant an equitable distribution of the burden over a number of years according to the life of the plant. The stability in the provision for renewals has assumed increased importance in the post-war period, because the Great War taxed railway assets heavily and the renewals and replacements were totally starved. To meet the railway situation, it was necessary that the deterioration in both rolling stock and track should be the first charge in any scheme for the rehabilitation and improvement of the railways. This could be easily achieved by properly calculating the rates of depreciation which should be allowed for the various classes of railway plant and material, in order that the recurrence of the depreciation which had taken place might be avoided and the depreciation for renewals and repairs provided for automatically.

In the Depreciation Fund, the standard of original cost is the basis of the allocation of expenditure. The depreciation fund will be credited annually, with an amount equal to the total expenditure to the end of the previous financial year, on all units of each class of assets, divided by the number of years assumed as the normal life of that class of assets, and the credit multiplied from year to year in each case until the period assumed for the normal life of each unit has expired. At the end of the assumed normal

life of each unit, the depreciation fund will thus have received credit for the original cost of each asset. When any such unit has to be renewed, the original cost of the article replaced will then be available in the depreciation fund. Thus, it is clear that the depreciation fund is constituted only for the purpose of providing for the cost of renewals of complete units of wasting assets.

When, however, an article is replaced at a cost higher than the original cost of such an article, the original cost is charged to revenue (depreciation) and the excess over the original cost to capital. The "standard of original cost" principle of allocation, coupled with the fundamental conditions that capital will be relieved of (*a*) the original cost of all property abandoned or destroyed and not replaced, and (*b*) the difference between the original cost of a property and the cost of its replacement, whenever the latter happens to be lower than the former, will operate to bring the amount of charge to capital into consonance with the actual cost incurred on existing structures and equipment. These conditions will guard against the dangers of over-capitalisation. The progress of the fund is as follows :—

STRUCTURE OF DEPRECIATION FUND.

Year.	Allocations.	Withdrawals	Net Accretion.
	(Lakhs of Rupees)		
1924-25	10,35	7,29	3,06
1925-26	10,67	7,98	2,69
1926-27	10,89	8,05	2,84
1927-28	11,38	10,96	43
1928-29	12,00	9,60	2,40
1929-30	12,59	11,76	83

The Branch Line Terms

The Acworth Committee severely criticised the then existing branch line terms. Branch line companies were aptly characterised as "a fifth wheel to the coach." They were costly, did not make for harmony and retarded the development of railways in India. They were, in short, an unnecessary and expensive half-way house.

It was rightly advocated that if they were to serve the purpose as originally intended to serve, the terms needed radical revision on more liberal lines. The Government of India, in consultation with the Central Advisory Council, instead of revising the old terms, embarked upon a new policy in 1925, whereby the new projects classed as remunerative were to be under the direct State construction, and those projects classed as unremunerative but required by the Local Governments for administrative or other reasons would receive consideration, provided the local Government concerned undertook to guarantee them against loss from provincial revenues. This was calculated to afford a suitable method of reconciling central and local interests and of providing for local bodies and Local Governments a method of securing the construction of railways which may be required for purely local reasons, and which, while not likely to prove remunerative on purely railway earnings, are likely to provide such indirect benefit to Local Governments and local bodies as will more than repay the amounts paid under the guarantee. This policy was meant to accelerate the pace of railway development in India. We cannot deny the wisdom of "a bold policy of railway development," because India in respect of her railroad mileage, looking to the extent of her territory and population, compares most unfavourably with other important industrial countries.

Railway Management

The question of management was also examined by the Acworth Committee. On this question the decision of the Committee was divided, but they unanimously came to the conclusion that the advantages of English management are now outweighed by the great disadvantages of absentee control, and the difficulty of keeping in close touch with the modern social and industrial conditions of India and recommended that the English domiciled guaranteed companies should cease to exist at the termination of their present contracts. As to the alternative form of management, the decision of the Committee was divided. The majority report accepted the proposition that on the whole, company management was better than State management, but they rightly pointed out that the existing English companies had long ceased to be companies in the true sense of the word. They lacked the healthy emulation of private enterprise. The

Commissioners came to the conclusion that "the guaranteed companies do not possess the essential attributes which belong to ordinary companies. To claim that, because ordinary companies possess the advantages of energy, enterprise, and so forth, therefore companies of the nature we have described may be expected to possess these advantages, is to be misled by a mere name." They, therefore, recommended that in India, the State should manage directly the railways which it already owns. This recommendation was in accord with the Indian public opinion which has been clamouring for the nationalisation of railways.

In February, 1923, the Legislative Assembly passed a Resolution in favour of State management of Indian railways, and since then railway lines have been brought under direct State control as the contracts with the companies terminated. In 1924 the East Indian Railway was brought under direct State management, and the G. I. P. Railway in 1925. In March, 1926, the Government purchased the Delhi-Ambala-Kalka Railway for a cash payment of about four crores of rupees and the working agency was transferred to the North Western Railway. On the termination of the contract with the Burma Railway Company in December, 1928, the management of the railway was taken over by the State. The purchase of the railway has cost the State three million sterling, being the share capital originally contributed by the Company. This is expected to bring an annual revenue of half a crore of rupees to the State. The Southern Punjab Railway, which was the property of the Southern Punjab Railway Company and was worked by the North Western Railway on behalf of the proprietors, was purchased in January, 1930, at a cost of approximately seven crores of rupees and now forms an integral part of the North Western Railway System. The aggregate length of the line was about 927 miles and was estimated to bring a net annual revenue of 47 lakhs of rupees to the Government. Thus, the policy of nationalisation was vigorously pushed ahead, but due to faulty working of the railway system the results did not come up to the expectations. In fact the State management, as it functions today, has proved to be more inefficient than the company management. The operating ratio of Burma Railway recorded a steady increase after the acquisition by the State ; whereas in 1927-28 the ratio was 58·7, in 1930-31 it increased

to 72·2. These financial results supported the case for a drastic change in the railway policy. Public control over the railway policy ought to have been increased.

In pursuance of the recommendations of the Acworth Committee,* the Resolution for the separation of Audit and Accounts on Railways was passed by the Assembly in 1925 and accepted by the Government of India. The Auditor General has been made responsible for audit alone, and the maintenance of accounts has been transferred to the Financial Commissioner of Railways. As an experimental measure, railway accounts and audit were separated on the East Indian Railway in September, 1925. As the measure worked successfully it was extended to the North Western and the Great Indian Peninsular Railways in 1928 and 1929 respectively. After the separation of account from audit the cost of audit was expected to decrease. In fact, separation of audit from accounts was asked for on the ground of economy. In practice, the separation resulted in higher expenditure. On the E. I. Ry. the cost of audit increased from Rs. 18 lakhs in 1924-25 to about Rs. 28 lakhs in 1930-31. Similarly, on the G. I. P. the cost increased from Rs. 14 lakhs to Rs. 19 lakhs, on the N. W. R. from Rs. 17 lakhs to Rs. 27 lakhs, and on the E. B. R. from Rs. 8 lakhs to Rs. 13 lakhs during the same period. The total cost rose from Rs. 1,14 lakhs in 1926-27 to Rs. 1,47 lakhs in 1930-31. Therefore, the Retrenchment Committee on Railways, 1931, advocated the amalgamation of audit and accounts. Thus, separation could not be defended on the plea of economy.

Railway Rates Advisory Committee

The Acworth Committee recommended the establishment of a Rates Tribunal to adjudicate upon the disputes between the railways and the public in the matter of rates and fares levied by the former. The Government, however, was not willing to go so far and hence a compromise was effected. In April 1926, a Rates

* According to the Acworth Committee: "'Economical' railway management cannot be insured without a proper system of railway accounting. Apart from a mere audit check of receipts and disbursements, a railway requires a large number of financial returns of various kinds, not in order to say whether the expenditure incurred has been duly authorised or receipts duly accounted for, but to say whether expenditure is being wisely incurred, whether retrenchment of habitual expenditure is possible under one head, whether new expenditure under another head is proving profitable or even whether a larger expenditure would be likely to be fruitful, and so on. These are not matters to be left to an outsider. A practical railway man, who knows what he is doing in the present and what changes he is meditating for the future, is alone competent to prescribe and to make use of return of this kind." Therefore they recommended that "the Railway Department should be responsible for its own accounts."

Advisory Committee was appointed consisting of a president, one member representative of commercial interests and one member representative of railway interests. The Committee has done some useful work as can be seen from the following figures :—

Year.	Cases referred to the Committee.	Cases reported.
1926-27	6	1
1927-28	9	4
1928-29	2	9
1929-30	8	7*

We propose to study the constitution and working of the Railway Rates Advisory Committee in detail in a subsequent chapter.

Clearing House

The question of a clearing house for Indian railways had been under consideration since long. It was proposed as early as 1880 and a definite scheme was prepared in 1896. Mr. Robertson, in 1903, advocated the establishment of a clearing house on the British model. Thus the need for such a reform was long felt. In 1925, the reform was introduced as an experimental measure on the North Western Railway and the useful results accruing therefrom led the Railway Board to establish an experimental Central Clearing Office on the North Western Railway in December, 1925. Being encouraged by its efficiency and economical working, a Clearing Account Office, with a Statutory Audit Office attached thereto, was opened in 1926, to take over work relating to the check and apportionment of traffic interchanged between state-managed railways. All the state-managed railways have entrusted to it their accounting and apportioning work for interchanged traffic. A clearing house on similar lines was also proposed for company-managed railways. This brief review will enable us to appraise the financial results of the working of our railway system.

* One case was compromised before it came for hearing.

Analysis of the Working of Indian Railways during 1919-30

It is essential to have a tabular summary of earnings and working expenses of the railways for the period under study :—

RAILWAY EARNINGS & EXPENDITURE.

Year.	(In crores of Rupees.)		
	Gross Earnings.	Working Expenses.	Percentage of Working Expenses to Gross Earnings.
1913-14	63·59	32·93	51·79
1919-20	89·15	50·66	56·81
1920-21	91·99	60·29	65·54
1921-22	92·89	70·80	76·22
1922-23	105·65	72·99	69·09
1923-24	107·80	68·45	63·5
1924-25	114·75	69·37	60·45
1925-26	113·39	71·09	62·69
1926-27	112·36	69·70	62·04
1927-28	118·26	72·60	61·39
1928-29	118·87	74·62	62·77
1929-30	116·08	75·49	65·02

The figures clearly bring out that while earnings have remained almost inelastic, working expenses have recorded a steady increase. There has been an increase in the earnings as well as expenditure, but the former has lagged far behind the latter. In the year 1919-20 working expenses recorded an increase of 8.86 crores of rupees, whereas the gross earnings increased only by Rs. 2.86 crores. This leads us to the conclusion that working expenses on Indian railways have only a very remote connection with the amount of traffic handled.* Traffic only partially explains the rise in the working expenses. In fact the goods traffic in the year 1919-20 actually declined by about 35 lakhs of tons. In 1920-21 the working expenses again rose by 9·63 crores, whereas gross earnings showed an increase of only 2.84 crores. In 1921-22 the working expenses rose by about 10 crores. Besides, the year 1921-22 proved a deficit year. The Administration Report

* For some years after the close of the Great War, the rise in working expenses was due to the active plan of rehabilitation of railway plant carried out to add to the efficiency of the system and service; but the wide divergence between the gross earnings and working expenses thereafter is at once ridiculous and serious.

lamented saying "Working expenses have risen to an unprecedented degree and the earning power of the lines has not responded." But the ray of hope in the midst of disappointment soon came in sight and the Report states, "there seems good reason to hope that a suitable degree of our present inflated working expenses will disappear gradually as the lines are brought back to the normal condition." This was the first year since 1900 when railways recorded a deficit. In the meantime Indian Retrenchment Committee recommended that the working expenses should be limited to Rs. 64 crores. But that figure was not reached. The operating ratio failed to record an appreciable reduction, largely because the railways did not face the problem seriously. The unwillingness on the part of railway authorities to resort to proper measures of economy has been the most unsatisfactory feature of the working of Indian railways.

If we take the year 1913-14 as the base we find that the increase in the gross earnings and working expenses works out as follows *:—

Year.	Percentage of increase of Gross Earnings.	Percentage increase of Working Expenses.
1921-22	54·37	131·07
1922-23	75·58	138·21
1923-24	79·15	123·40
1924-25	90·70	126·40
1925-26	88·44	132·01
1926-27	86·73	127·48
1927-28	96·54	136·91
1928-29	97·55	143·53
1929-30	92·92	146·69

Thus, while the increase in the earnings was only moderate, the working expenses recorded a spectacular increase; the difference between the two was considerable. This shows the inefficiency of railway working. The last year 1929-30 shows a further increase in the working expenses, though the earnings have fallen short of the preceding year. In view of the world-wide depression in prices during the last few years the cleavage between the working expenses and the earnings had become more serious. This necessitated an immediate exercise of drastic economy and retrenchment in the

* Compiled from the Railway Board Reports, Vol. II, 1921-22 to 1929-30.

right direction. Caution and bold retrenchment should have been the keynote of the railway policy.

Higher operating ratio raised railway rates

This soaring operating ratio is a great handicap to the industrial development of the country. Efficient transport facilities are the life blood of modern commerce and industries. High operating ratio of Indian railways and consequent higher rates and fares have reacted upon our trade and industries, as has been shown in detailed studies of the effect of railway rates on individual industries. A high standard of expenditure may be overlooked during prosperous years and in countries industrially well advanced and enjoying higher standard of life. But in times of industrial depression, when business profits dwindle and the demand for transport shrinks, the claims for lower rates become stronger. In modern times overproduction precedes industrial depression ; demand falls short of the supply. In other words, when the demand for transport service falls, the need for retrenchment in railway equipment and expenses, so as to effect an equilibrium between the demand and supply of transport service, becomes essential. The inflated expenditure of Indian railways and the marked drop in traffic and therefore in earnings, led to the appointment of a Sub-Committee to effect retrenchment on railways. We shall analyse the recommendations of the Committee in detail at a later stage. For the present it is sufficient to note that the Government of India had rightly realised the need for retrenchment and economy, particularly in the working of railways. Indian railways, as shown in the preceding section, had not paid adequate attention to measures of economy. The appointment of the Committee was welcome. But it needs be noted that the measures of economy to be useful must not impair efficiency of the railroad system and the services rendered by it.

WORKING OF INDIAN RAILWAYS DURING 1930-40

Railway Retrenchment Sub-Committee of 1931

With the setting in of the trade depression, the self-complacency of the Indian railway administration received a rude shock. The year 1929-30 had shown the signs of a severe depression ahead ; earnings had fallen while the working expenses rose. In the succeeding year, the situation grew more serious. Gross receipts declined

from Rs. 1,03 crores in 1929-30 to Rs. 95 crores in 1930-31, while the working expenses were reduced by about Rs. 75 lakhs only. "This reduction is, however, deceptive, as it is due to a credit to working expenses of about 1¾ crores by book adjustment with the Depreciation Fund of erroneous transactions in past years (against a smaller adjustment of 40 lakhs in the previous year), and but for these adjustments, ordinary working expenses (exclusive of depreciation) would have been about the same as in the past year."* The trend of working expense in face of declining receipts brought to striking relief the characteristic lack of vigour, foresight and judgment on the part of those at the helm of railway management in this country. During 1931-32, the receipts further declined by about Rs. 8½ crores to Rs. 87 crores. The working expenses also, fortunately, recorded a substantial fall of about Rs. 7 crores from Rs. 56 crores in 1930-31 to Rs. 49 crores in 1931-32. The railways were faced with the serious problem of heavy deficits during 1930-31. There was a deficit of Rs. 5,19 lakhs which rose to Rs. 9,20 lakhs in 1931-32. Under these conditions, the Government of India, on the suggestion of the Legislature, appointed a Retrenchment Committee to suggest all-round retrenchment in expenditure. This Retrenchment Committee formed a Sub-Committee to suggest economics to be effected in railways.

The Retrenchment Sub-Committee, however, limited the scope of its enquiry to expenditure connected with the office of the Railway Board, and excluded the expenditure on working lines, which was more important. In view of the increasing deficits, it was essential to explore all possible avenues of economy in expenditure, consistent with the efficiency of the railroad system. The Committee made a number of important suggestions for the reduction of expenditure. The Committee recommended (1) that the number of members of Railway Board should be reduced from three to two ; (2) that the number of Directors should be reduced from five to three ; (3) that the number of Deputy Directors should be reduced from five to four ; (4) that the posts of Deputy Secretary and Assistant Director of Finance should be abolished ; (5) that the posts of Chief Controller, Deputy Chief Controller, Assistant Chief Controller in the Central Standards Office should be abolished and replaced by the posts of Deputy Director for the Railway Board ;

* Report of the Railway Board, 1930-31, Vol. I, p. 11.

(6) that the posts of Controller of Railway Accounts, Deputy Controller of Railway Accounts, Assistant Controller of Railway Accounts and Assistant Account Officer should be abolished and replaced by a post of Deputy Director of Accounts in the Board's Office; (7) that the total cost of establishment in all these offices taken together should not exceed five lakhs; and (8) that the total of other charges should be limited to Rs. 5½ lakhs. These recommendations were expected to effect a saving of about Rs. 5 lakhs.

The Committee examined the working of the separation of accounts from audit, and came to the conclusion that separation had increased the posts without any substantial improvement in efficiency. Further, they recommended that the Railway Rates Advisory Committee be abolished, and an *ad hoc* Committee be appointed when necessary to investigate any complaints that the public may make; that the Central Publicity Bureau be abolished and replaced by a small establishment of two officers and a small staff under the Railway Board, and the staff in London office be reduced to one officer and three clerks; that the expenditure on publicity on railways should be reduced by five lakhs; that the staff of the Dehra Dun Staff College be reduced; that there should be a gradual cut in the salaries of the staff from 3½ p.c. to 20 p.c., and the office of the Director of Railway Audit be abolished.

Pope Committee

It has already been shown that the Railway Retrenchment Committee had excluded the expenditure on working lines from the scope of its enquiry, and therefore recommended that a Committee be immediately appointed to investigate this problem. The Government of India invited Mr. Pope in 1932 to investigate the working of Indian railways and suggest measures for retrenchment and economy. The Committee after detailed investigation recommended that (1) job analysis on certain well defined principles should be undertaken on Indian railways; (2) that the locomotive power should be intensively utilised; (3) that research and experiments must be undertaken and the Railway Board should arrange the distribution of technical information on an organised basis; (4) that the advantages to be gained from alterations to engines and rolling stock in connection with standardisation

and improvements in designs were great, but all administrations should be reminded of the necessity of satisfying themselves in regard to the stock position before the alterations are fixed, so that as little serviceable material as possible be scrapped; (5) that increase in Carriage and Wagon hot boxes is causing serious operating and commercial inconvenience, which should be checked by a co-ordinated effort through the Railway Conference Association; (6) that man power will have to be reduced with the introduction of new and improved methods, for surplus staff means extravagance; and (7) that the railway plant and equipment should be maintained in an efficient and up-to-date condition, keeping in mind the principle of spending money to save money. The Committee also emphasised the importance of amalgamation and need for constant organised research to investigate all possible avenues of economy and improvement in the efficiency of railroad services.

Financial Working

From the investigations of the experts and their recommendations, summarised in the preceding section, it will be seen that there was good scope for economy in expenditure and improvement in the efficiency of railroad equipment. It is, therefore, necessary to analyse the financial working of the railways in order to be able to understand the efficiency of the system and scope for economy.

THE WORKING OF STATE-OWNED RAILWAYS.

Year.	(In lakhs of Rupees.)			
	Net Revenues.	Interest charges.	Surplus or Deficit.	Contribution.
1929-30	34,50	30,46	+ 4,04	6,12
1930-31	27,53	32,72	— 5,19	5,74
1931-32	23,87	33,07	— 9,20	*Nil.*
1932-33	22,68	32,91	—10,23	*Nil.*
1933-34	24,62	32,58	— 7,96	*Nil.*
1934-35	26,74	31,80	— 5,06	*Nil.*
1935-36	27,39	31,39	— 4,00	*Nil.*
1936-37	32,02	30,81	+ 1,21	*Nil.*
1937-38	32,02	29,26	+ 2,76	2,76
1938-39	30,67	29,30	+ 1,37	1,37
1939-40* .. .. .. (Rev. Est.)	32,53	28,92	+ 3,61	3,61
1940-41* .. .. .. (Bud. Est.)	37,11	28,82	+ 8,29	5,31

* Excluding Burma Railways.

The foregoing table portrays an instructive picture of railway working. We have already shown in the preceding section that with the setting in of trade depression the traffic receipts in 1929-30 had declined, whereas the working expenses rose. With the increase in the intensity of depression the financial situation became worse. The net revenue recorded a steady decline from Rs. 34,50 lakhs in 1929-30 to Rs. 22,68 lakhs in 1932-33. The surplus had disappeared and the deficit rose to Rs. 10,23 lakhs in 1932-33. The interest charges had also increased. This was largely due to the serious setback in India's export and import trade. In 1930-31 the value of export trade recorded a decline of about Rs. 91 crores. There was a sharp setback in the export of raw jute from Rs. 27 crores in 1929-30 to Rs. 13 crores in 1930-31. Exports of jute manufactures also declined from Rs. 52 crores to Rs. 32 crores. Similarly, the exports of other articles declined. The imports of foreign merchandise also received a setback of about Rs. 76 crores. During 1931-32 there was a further setback. Exports declined by about Rs. 65 crores and imports by Rs. 39 crores as compared with 1930-31. In 1932-33, exports recorded a further decline of Rs. 25 crores as compared with 1931-32. The imports, however, showed an improvement of Rs. 7 crores. Goods earnings declined from Rs. 65 crores in 1929-30 to Rs. 54 crores in 1932-33. Passenger earnings also declined from Rs. 36 crores to Rs. 29 crores.

The decline in earnings forced the railways to economise their expenses. Upto 31st July, 1931, the railways had carried out certain measures of economy which resulted in the saving of about Rs. 480 lakhs.* To this must be added the savings of about Rs. 3 crores effected as a result of the acceptance of some of the recommendations of the Railway Retrenchment Committee. The Railway Board accepted only part of the Committee's proposals; others were rejected. The total savings amounted to about Rs. 8 crores. These savings were undoubtedly valuable, but the railways, it seems, were not prepared to accept any radical change in their methods of working and management.

* The savings were as follows:—

	Rs. in lakhs.
General Administration	34.70
Repairs and Maintenance	240.92
Operation, excluding fuel	118.50
Fuel	85.22
Total	479.30

More important adjustments were essential to maintain the solvency of the railroad system. The relation of working expenses to earnings will be seen from the following statement :—

Year.	Capital at charge.	Gross earnings.	Working Expenses.	Net Earnings.
	(In	Lakhs of	Rupees.)	
1929-30	7,35,00	97,83	53,02	32,82
1930-31	7,48,00	90,82	53,75	26,02
1931-32	7,54,00	82,89	46,98	22,93
1932-33	7,54,00	81,10	45,85	21,86
1933-34	7,52,00	83,06	46,13	23,69
1934-35	7,52,00	86,48	47,13	25,70
1935-36	7,54,00	87,04	47,52	26,51
1936-37	7,54,00	91,79	47,79	30,84
1937-38	7,54,00	95,01	49,59	32,02
1938-39	7,55,00	94,48	50,76	30,67

The statement clearly shows that there was substantial reduction in working expenses during 1931-32. In the following year there was only a slight reduction. But since 1933-34, the expenses have steadily risen, partly due to increase in traffic. Analysing the working expenses, we find that wages bill is by far the largest single item of railway expenditure. There had been a disproportionate increase in wages bill. The measures of economy fortunately checked this trend, and the cost of staff, which had steadily risen from Rs. 14 crores in 1913-14 to Rs. 39 crores in 1929-30, fell to Rs. 34 crores in 1934-35. The working expenses of the railways are broadly divided into four classes : general administration, repairs and maintenance, operation, and fuel. The cost of general administration has not recorded any material change. There have been some changes, but not in proportion to the economic requirements. During 1930-31 and 1931-32, the cost of general administration rose on almost all railways. In 1932-33, there was a substantial fall ; but since then, the expenses have again risen steadily on all railway systems. But

maintenance and repair tell an entirely different story. There have been substantial reductions under this head. To the extent to which these reductions have been due to postponement of expenditure, they do not represent permanent economy. On the contrary, the postponement of repair work if deferred for long, will impair not merely the efficiency of the different railway systems, but also the security of the entire railroad transport. Operation cost, exclusive of fuel, have been reduced on some railway systems, while on others they have risen. The economy in this direction has been at best a minor one. In respect of fuel cost, however, there has been substantial economy over most of the railways. Thus, the principal source of economy has been repairs and maintenance and fuel. "It is seen from the records of the last five years that the Indian railways have been on the whole, reluctant to pursue the real path of economy. Five years of deficit and at least five more in prospect would have been sufficient to scare any business undertaking to utilise all available means of economy."* In short, even the most severe depression and a series of heavy deficits failed to shake the Indian railway authorities completely of their conservatism. They have never seriously tried to improve in time their antiquated methods of railroad working. The traffic has had to bear the brunt of this inefficiency.

The Pope Committee had recommended, *inter alia*, job analysis† as an important measure of economy. Individual railway administrations appreciated the importance of the suggestion and introduced job analysis on their systems in order to find out scope for reducing superfluous labour force and improve the efficiency of services rendered. It entails prolonged research work and all avenues of economy are thoroughly explored. No wonder the railway administrations in most of the advanced countries have well equipped and permanent research departments attached to their systems, entrusted with the task of studying jobs in the different departments. It is unfortunate that the Indian railways did not realise the importance of job analysis earlier. We shall, therefore, briefly review the results of job analysis.

* *Vide*, "Capital," 26-11-1936, p. 822.

† "Job analysis" means the scientific study of a job in order to find out scope for economy and improvement in efficiency. In other words, it is a test to find out whether an individual item of work is efficiently and economically carried out or not.

Results of job analysis of the E. I. R. have been as follows :—

Year.	Cost.	Savings.
	Rs.	Rs.
1933-34	77,691	7,01,128
1934-35	92,884	18,14,544
1935-36	1,13,541	5,82,459
1936-37	93,009	5,60,700
1937-38	1,07,773	8,95,768
1938-39	1,10,553	5,79,583

It will be seen that there has been substantial saving as a result of the job analysis, apart from the improvement in efficiency of the work done. The cost of job analysis has steadily increased and the savings are tending to become rather inelastic. No doubt, the scope for savings must get restricted after the measures of economy have been enforced with vigour and efficiency for a fairly long period ; the law of diminishing returns must operate. But in the case of Indian railways that stage cannot be said to have been reached. In this case the diminishing returns are due rather to slackness in conducting job analysis and enforcing the results. A bold and vigorous drive in this direction is essential.

The G. I. P. Railway has also conducted job analysis. The results are tabulated below :—

Year.	Cost.	Savings.
	Rs.	Rs.
1933-34	56,680	4,15,000
1934-35	64,000	2,04,246
1935-36	53,574	2,04,859
1936-37	19,554	9,69,224
1937-38	1,07,673	8,95,768
1938-39	1,10,553	5,79,583

The results are encouraging. The railway authorities are increasing the cost of job analysis and the savings show prompt response. The results make it clear that there is good scope for research work in this direction and the costs incurred will be more than adequately rewarded. Compared with the E. I. R., we find that the G. I. P. Railway has paid relatively less attention to this problem. There is a need for a more courageous handling of the problem.

The results on the N. W. R. are more encouraging as will be seen from the following table :—

Year.	Cost.	Savings.
	Rs.	Rs.
1933-34	32,000	12,66,749
1934-35	46,006	12,37,376
1935-36	56,729	7,22,202
1936-37	40,056	33,35,092
1937-38	60,855	27,26,106
1938-39	65,760	25,03,826

With relatively much lower costs, the N. W. R. has effected substantial economies, higher than those secured by other railways. This is partly due to the fact that the scope for economy was much greater on the N. W. R. than on other railways, because of its relatively higher working expenses. But it cannot be denied that the N. W. R. has made commendable efforts in conducting job analysis, though there is still good scope for further economies.

The results of job analysis on the B. B. & C. I. Railway are as follows :—

Year.	Cost.	Savings.
	Rs.	Rs.
1933-34	58,789	3,52,862
1934-35	35,300	11,41,596
1935-36	3,643	2,25,682
1936-37	247	8,27,666
1937-38	4,516	3,06,189
1938-39	1,177	4,77,972

The cost of job analysis has been reduced to a nominal amount. Notwithstanding the reduction in cost, the savings have been very valuable. The railway authorities should spend more in organising this department, which would enable them to economise substantially in working expenses, as is evident from the success already achieved in this direction. All possible scope for economy, however slight it may be, should be fully explored and the railway system maintained at the highest pitch of efficiency.

Other railway administrations have also introduced job analysis and the economies secured have been invariably encouraging. This should have been a sufficient inducement for the railways to explore more carefully and systematically the avenues for economy. It comes as a surprise therefore to find the Indian railways handling this important problem in a hesitating and half-hearted manner. In other countries railway systems have revolutionised their operating methods in order to secure economy and efficiency. The British and American railways, not to speak of the Continental railway systems, have made remarkable changes in this direction. It seems that the Indian railways are reluctant to give up their wasteful practices, and refuse to profit from the experience of other countries. The Indian railways have taken this attitude, because the state regulation of their rates policy has not been sufficiently effective. Being a monopoly, particularly in this country, the railways can charge any rate they like ; they can charge all that the traffic can bear. Within the maxima and minima fixed by the Railway Board, the individual railway administrations can charge any rate they think proper, for the transport of a particular article. This gives them a very wide latitude, with the result that railway authorities charge high rates and earn high receipts with minimum traffic. There is no spur for economy or efficiency. A more effective regulation of railway rates policy is essential for efficiency and economy of railway working in India.

There was another cause which militated against the introduction of any drastic measures of economy. It is significant to note that the permission to draw from the Depreciation Fund for financing deficits, against the expressed recommendation of the Retrenchment Sub-Committee, removed the incentive for economy, which heavy deficit had otherwise created. The Committee condemned this unhealthy practice in unequivocal terms. They said : " The

Railway Board have suggested that they might for a time reduce payments to the Depreciation Fund, to be repaid when the times are more favourable. This can only be a temporary expedient justified, if at all, by the circumstances of a particular year. When, however, as we anticipate, we must reconcile ourselves to the fact that, as far as one can see, railways have definitely entered upon a period of lower level of receipts, this temporary expedient is quite unsuitable and we must, therefore, devise ways and means of bridging the gap between receipts and expenditure." The prognostications of the Committee have come true. Permitted to make good the deficits by borrowings from the Depreciation Fund, the Railway Board has naturally slackened in its efforts to harmonise expenditure with receipts.

The Public Accounts Committee in its report for the year 1935, commented strongly on the laxity shown in regulating the expenses and the consequent inability of the railways to earn profits. The Railway Board could show no more than administrative economies of a minor order as shown in the preceding pages. In these measures of economy, aptly remarked the Committee, there is "no assurance of a return to solvency in a measurable time, much less for any surplus for amortisation of debt or contribution to general revenues. We are most reluctant to accept the Railway Board's estimate of possible further economies, and we think the search for them must be relentlessly pursued."

Sir Otto Niemeyer also strongly criticised the working of Indian railways. He says, "The position of the railways is frankly disquieting. It is not enough to contemplate that in five years' time, the railways may merely cease to be in deficit. Such a result would also tend to prejudice or delay the relief which the Provinces are entitled to expect. I believe both the early establishment of effective co-ordination between the various modes of transport and the thorough-going overhaul of railway expenditure in itself, are vital elements in the whole provincial problem."*

In September, 1936, the Public Accounts Committee once again emphasised the need of overhauling the financial working of the railways. The Committee held that "even after allowing for a continuous, if moderate, trade improvement, for all probable debt conversions and for the effect of revised pay scales for

* Report, para. 31.

new entrants, we cannot see how at the end of three years from now, the railways can be less than seven or eight crores short of full commercial solvency. There would, however, still be substantial deficit if we regard it as legitimate to go on making no provision from revenue for writing down capital. This is an alarming prospect and in our view, things cannot be left where they now are. We would urge, therefore, that the Government of India should immediately obtain the services of an acknowledged expert in railway management, to conduct an examination of the whole field, and recommend steps which will secure definite (*i.e.*, other than mere hopes of increased revenue due to improving trade) improvements in railway finances to the extent of something like Rs. 3 crores a year immediately and ultimately of such magnitude as is required to maintain full solvency on a strict accounting basis. And to avoid misconception, we add that the terms of reference should exclude the possibility of securing this by a mere transfer of liabilities to general revenue."*

Wedgwood Committee

The Government of India accepted the suggestion of the Public Accounts Committee and announced on 20th October, 1936, the appointment of a Committee with Sir Ralph Wedgwood as Chairman, to examine the position of Indian State-owned railways and to suggest such measures as may, otherwise than at the expense of the general budget, (*i*) secure an improvement in net earnings, due regard being paid to the question of establishing such effective co-ordination between road and rail transport as will safeguard public investment in railways while providing adequate services by both means of transport; and (*ii*) at a reasonably early date place railway finances on a sound and remunerative basis.

The Committee found that "in many cases the impetus given by the original Pope Enquiry is flagging." The railway administrations were not sufficiently enthusiastic about exploring further economies. Therefore the Committee recommended "that each of the principal administrations should maintain the special economy research organisation set up under the auspices of the Pope Enquiry. In case of some of the smaller administrations this may be thought to involve excessive expense; if so, they should be called upon to set up a special organisation of a less expensive kind, but still

* Para. 9.

directed to examining the possibility of affecting further economies. It would also be desirable to have a central economy research committee, consisting of representatives from each one of the principal administrations, whose duty it would be to speed up the progress made by the various individual organisations on certain approved lines of general enquiry." They were convinced that "there is a large field of work open for further enquiries" and suggested certain items for detailed investigation.*

The Committee examined in detail the working expenses of different departments of Indian railways and economies effected therein. The expenditure on maintenance works was found to have been reduced by about 20 p.c. This was secured by reducing gang strengths; re-classification of lines so as to permit of lower standard of maintenance on less busy sections; removal of unnecessary sidings and crossings; reclaim of old material and its re-use; discontinuance of patrolling where it was possible without detriment to safety; and experiments with trolley system of maintenance and use of welding for repair purposes.† These different measures of economy show that railway administrations were not keeping a careful watch over the different items of their expenditure, which was largely responsible for the higher ratio. Further, the savings could be considerably increased by a bolder policy of scaling down costs. Strength of permanent way staff could be materially reduced. Maintenance staff could also be reduced. The Committee recommended that "a detailed examination of each section of line should be made on the basis of units of work done. If this is systematically carried out we believe that certain sections at least will be found to be over-staffed, as in fact was found to be the case in Great Britain."‡ The cost of permanent way maintenance could be reduced and its efficiency improved by the employment of large gangs with motor trolleys, as has been done in Great Britain and South Africa.§ Greater use of autogenous welding would secure substantial reduction in maintenance costs.

* Report, para. 68.

† Report, para. 25.

‡ Report, para. 28.

§ "Both in Great Britain and in South Africa, much has been done to reduce the cost of permanent way maintenance, by the employment of large gangs with motor trolleys, to cover lengths equal to four or five times the normal length previously supervised by one gang. This system not only saves labour, but makes it possible to put a more skilled man in charge of the gang, and in Great Britain at least, it has made for a better standard of maintenance. The saving is considerable and in the case of one British railway, has amounted to the equivalent of more than 10 lakhs of rupees per annum." Report, para. 29.

As regards the rolling stock, the Committee found that the percentage of locomotives and of carriages under or awaiting repairs, was excessive. The percentage of wagons under or awaiting repair also needed investigation. Locomotives, carriages and wagons should be more effectively utilised. The stock of locomotives, carriages and wagons was found to be excessive and partly uneconomical. The time taken for the heavy repair of carriages and wagons could be substantially cut down. Supervision in workshops was defective. This defect can be removed by providing better facilities for training Indian apprentices, instead of relying on the European supervisory staff, * which is usually very costly. More adequate training facilities would enable us within a relatively short time to dispense with costly European supervisors, without impairing efficiency, and reduce substantially the cost of supervision. If the Indian railways have still to depend upon a large number of European supervisors for running their workshops, it is largely due to the indifference they have shown in the past, in training Indian apprentices. Better efficiency and economy could be secured in the traffic department by accelerating the speed of trains, both passengers and goods. Thus, the investigations of Wedgwood Committee revealed that the campaign for economy was not properly conducted, and that there was considerable scope for further economies. After the publication of the Wedgwood Report, individual railway administrations have increased their efforts for securing economy in working expenses, but the speed is very slow. The problem of transport cost is very important and requires prompt and adequate attention. This attitude of sluggishness and indifference adopted by the railway authorities is due to lack of adequate control over their rates policy. Allowed to raise their rates upto the maxima fixed by the Railway Board, Indian railways have no incentive for economy. They can cover their higher working expenses by raising the rates charged.

Grouping and Amalgamation of Indian Railways

Another valuable source of economy, in working expenditure, is amalgamation of different railway administrations into economic units. British experience in this direction is very encouraging. Under Part I of the Railways Act, 1921, about 120 different railway companies were amalgamated into four big groups. The

* The Committee attached too much importance to European Supervisory Staff. *Vide*, para. 50.

grouping and amalgamation of British railways have been very successful and there are some who believe that the next logical step would be the formation of one large group for the whole country. Economies have been secured by reduction of unnecessary train mileage, centralisation of repair workshops, elimination of duplicate facilities for traffic, more effective use of rolling stock, savings in advertisement costs, and above all regulation of uneconomic competition. The public has profited immensely from this amalgamation. It should, however, be remembered that these economies can be realised only gradually and as a result of thorough reorganisation and realignment of interests.

The problem of grouping and amalgamation of Indian railways was studied by several expert Committees, and they held that the amalgamation of railroad administrations would result in substantial economies and added efficiency of the systems. The Acworth Committee recommended the absorption of branch lines by the main lines. They argued that: "The branch line company is usually a fifth wheel to the coach. It implies in some cases a separate construction staff; it always implies a separate board of directors, and separate accounts. In cases where the branch line is worked by the main line, if its directors feel that the management is unsatisfactory, they not only can make representations to the main line administration, but in the last resort can appeal to the Railway Board. And this does not make for harmony. Further, it is evident that capital raised by small private undertaking, even with a Government guarantee, will cost more than money raised directly by the State. As against this a certain weight must in fairness be attached to the claim that the branch line company obtained from local sources money that would never be subscribed to a Government loan." Thus the system was uneconomic, inefficient and cumbrous. The working of branch lines by independent companies was found to be undesirable. The Committee therefore recommended "that branch lines shall, as far as possible, be constructed and worked by main lines to which they are tributary; and that only if the State is unable or unwilling to provide the funds itself, shall the formation of branch line companies be encouraged." The Government of India, however, entirely ignored the recommendation of the Committee.

The Pope Committee took up the question of amalgamation and held that it is the most desirable measure for the Indian railways to adopt on the grounds of efficiency and economy. "The economies obtainable through amalgamation of railways into a number of groups are so evident, that the Committee cannot conclude their report on the possible improvements in efficiency and economies in the operation of railways in India without reference to the question. In Bombay, for example, the economies derivable from amalgamation of workshop resources, accounting staff, etc., between the G. I. P. and B. B. & C. I. Railways are obvious. Somewhat similar circumstances exist in the Calcutta area with respect to the E. I. and E. B. Railways."

In their second Report the Pope Committee recommended "that even if the Railway Board are not in a position to make a definite move at present with respect to major amalgamations, it might be possible to effect certain minor amalgamations and combine resources on railways on a limited scale with beneficial results, which would be a preliminary to, and eventually form part of, any amalgamation." The Government of India has not hitherto thought it desirable to take any steps in this direction. Thus a major source of economy is being neglected.

The Wedgwood Committee made a distinction between the immediate and ultimate grouping of Indian railways. As regards the first issue, the Committee held that "no amalgamation of railways is desirable at the present time." The "ultimate grouping,"* as suggested by the Committee, consists of eight distinct groups. The E. I.†, N. W., G. I. P., B. B. & C. I., B. N. and B. & N. W. Railways should continue as separate administrations as at present. The remaining four railway systems should be grouped into two : the E. B. and A. B. Railways to be combined into one group and the other group to consist of S. I. and M. & S. M. Railways.

The attitude adopted by the Wedgwood Committee was rather conservative. The "ultimate grouping" of Indian railways into eight groups cannot be accepted as sound in face of the experience of other advanced countries. Many foreign railway

* *Vide*, Report, para. 197.

† "The East Indian Railway organisation is already, in our opinion, fully large enough for the conditions of economic management." Wedgwood Committee Report, para. 201.

systems operate considerably larger mileage as will be seen from the following table :—

Foreign Railway systems.	Mileage.
Pennsylvania	23,699
New York Central	11,269
Canadian National	21,927
Canadian Pacific	16,986
Southern Pacific	14,485
South African	13,563
German State Railways	32,220
Italian State Railways	10,568
Japanese State Railways	9,440
New South Wales	6,163

As compared with the foreign railways, the mileage operated by the Indian Railway systems is as follows :—

INDIAN RAILWAYS, CLASS I (1938-39).

Name of the system.	Route Mileage.	Owned.	Worked.	Termination of contract.
A. B.	1,306	State	Company.	31-12-1941.
*B. & N. W.	2,117	,, & Co.	,,	31-12-1942.
B. N.	3,392	,,	,,	31-12-1950.
B. B. & C. I. ..	3,509	,,	,,	31-12-1941.
E. B.	2,009	,,	State	*Nil*
E. I.	4,391	,,	,,	*Nil*
G. I. P.	3,695	,,	,,	*Nil*
M. & S. M.	2,967	,,	Company	31-12-1945
N. W.	6,931	,,	State	*Nil*
*R. & K.	570	,, & Co.	Company	31-12-1942.
S. I.	2,532	,,	,,	31-12-1945.

From the foregoing tables, it will be seen that the total mileage operated by the individual railway administrations in India, is much less as compared with that operated by the foreign railway systems. The whole railway net of India can be easily grouped into four groups with headquarters at Delhi, Calcutta, Bombay and Madras. Ultimately all these may be amalgamated into one group. Even in Britain the total route mileage of 20,000 miles is operated by four groups, and the feeling is growing for the formation of one large group for the whole country. The State ownership of railroad system in India, is an important factor which

*(A portion of this railway is owned by the Company.)

would facilitate amalgamation. This is a major source of economy, which has been neglected by the Government of India.

Depreciation Fund

The trade depression dislocated the financial structure of Indian Railways. The receipts recorded a steep decline with the setting in of the depression, but the working expenses remained fairly high, and financial deficits mounted up. Instead of pushing the campaign for retrenchment and economy more relentlessly, the Government of India and the Railway Board tried to cover the deficits by raiding the Depreciation Fund. Between 1931-32 and 1935-36, the borrowing from the Depreciation Fund amounted to Rs. 31,49 lakhs, which the Railway Member has not been able to restore as yet. This was a very unsound practice. "The financial position of the railways," remarked the Wedgwood Committee, "is thoroughly unsound when the depreciation fund has to be raided to pay interest charges."*

In 1934 the basis of appropriation to the Depreciation Fund was slightly modified. The rules according to which annual appreciation to the Depreciation Fund was calculated, were found to be complicated, and hence the Government of India decided to change the method and fixed the contribution as $\frac{1}{60}$ of the capital at charge. The change, however, did not materially affect the quantum of the annual contribution as will be seen from the following statement :—

DEPRECIATION FUND† (crores of rupees).

Year.	Capital at charge.	Appreciation.	Percentage	Appropriation proposed.
1924-25	629	10·35	1·65	10·48
1925-26	643	10·67	1·66	10·72
1926-27	663	10·89	1·64	11·05
1927-28	690	11·38	1·65	11·50
1928-29	722	12·00	1·66	12·04
1929-30	747	12·59	1·69	12·45
1930-31	778	13·07	1·68	12·97
1931-32	791	13·46	1·70	13·19
1932-33	798	13·77	1·73	13·30
1933-34	797	13·56	1·70	13·28

Vide, para. 210.

† *Vide*, Proceedings of the Standing Finance Committee for Railways, Vol. XII, No. 1.

For the decade as a whole, the difference between the new and old methods of calculation of appropriation, amounts to less than two-thirds of one per cent. On the average, the annual difference is about Rs. 7½ lakhs. The new method, though simple, is most unscientific and arbitrary.*

Mr. (now Sir) P. R. Rau, Financial Commissioner of Railways, analysed the problem of depreciation in detail in his review of the appropriation of Accounts for 1934-35. He raised three important issues: (1) the problem of revising the present rules of allocation between capital and revenues; (2) the adequacy of the present depreciation charges; and (3) the provision for amortisation of railway capital. As regards the rules of allocation, Mr. Rau thinks that the present practice is unsound and recommends reversion to the rules in force before 1924. Then the allocation to depreciation was made on the replacement basis, under which the full cost of replacing an asset by the like asset was charged to revenue and the cost of additions or improvements alone was charged to capital. The Depreciation Rules of 1924 adopted cost basis and differentiated between the original cost of the asset and its cost at the time of replacement. This has led to over-capitalisation of about 30 crores in twelve years.† Mr. Rau argued that sound and prudent financial principles demand the alteration in rules, so as to avoid the debit to capital of any charge when there is no improvement. This was the practice followed by the State railways in India before 1924, and is being followed by company-managed railways even to-day. The British railways follow the same practice. The practice of charging capital only in case of improvements in earning capacity was also supported by Sir Arthur Dickinson.‡ "As soon as railway revenues improved sufficiently," said Mr. Rau, "this reform deserves the first consideration." The Wedgwood Committee also held the alternative method to be more prudent. This proposal

* "We are not much impressed by the advantage of calculating depreciation on a flat percentage equal to 1/60th, or 1⅔ per cent. of the total capital at charge. This method is less laborious, no doubt, than taking the life of each description of asset separately, but we doubt whether the labour saved compensates for the loss of accuracy, which may become considerable, whilst the apparently unscientific character of the flat percentage may definitely weaken the authority of the fund." Wedgwood Committee, para. 207.

† "The system in operation on the State-managed railways has resulted during the last twelve years, in charging to capital various items, amounting in total to Rs. 20 crores, which under the alternative system would have been charged to depreciation or to revenue." *Vide*, Wedgwood Committee, para. 209.

‡ "That the cost of excess capacity enabling increased revenue to be earned should be charged to capital account."

was therefore accepted and the change introduced in 1937.* The present position of the Depreciation Fund is as follows :—

DEPRECIATION FUND.

Year.	(In Lakhs of Rupees.)		
	Allocations.	Withdrawals.	Net Accretions.
1924-25	10,35	7,29	3,06
1925-26	10,67	7,98	2,69
1926-27	10,89	8,05	2,84
1927-28	11,38	10,95	43
1928-29	12,00	9,60	2,40
1929-30	12,59	11,76	83
1930-31	13,07	11,39	1,68
1931-32	13,46	8,26	5,20
1932-33	13,77	6,35	7,42
1933-34	13,56	8,08	5,48
1934-35	13,72	8,66	5,06
1935-36	13,25	9,16	4,09
1936-37	13,17	7,88	5,29
1937-38	12,59	8,00	4,59
1938-39	12,56	7,52	5,04
1939-40	12,60	6,27	6,33
Total ..	199,63	137,20	62,43

On the second issue, regarding the adequacy of the present appropriation to the Depreciation Fund, Mr. Rau rightly pleaded

* Explaining the change, the Member for Communication said : "the change consists mainly in providing that Capital should generally be charged only with that part of the cost of an asset renewed, which represents a definite improvement, that all renewals and replacements should be charged to the Depreciation Fund (including renewals of non-wasting assets which has hitherto been treated as part of working expenses) and that all sums received from the disposal of assets replaced should be credited to the Depreciation Fund. It is expected that, in a normal year, the ultimate result of these changes as compared with the previous rules, should be a reduction of capital expenditure by 1½ crores per annum, an increase in the Depreciation Fund expenditure of about 1½ crores per annum and a reduction in the net revenue of about ½ crore." *Vide*, Railway Budget Speech for 1937-38, para. 2.

for the maintenance of the *status quo*. The annual appropriation to the Depreciation Fund was rightly found to be "very much on the low side for an old and growing concern." The Wedgwood Committee held that the appropriations were not excessive. They said: "The nominal balance of the fund has grown year by year. It has been suggested to us in various quarters, that there is evidence that the contributions made have been unduly high. We think this contention is mistaken."* It is essential to note at this stage, that the Depreciation Fund was started in 1924 and before that date, a part of the life of the assets covered had already expired. In view of this fact, the annual appropriation to the Depreciation Fund, as determined by the canons of sound finance, ought to have been higher than the normal one. The actual appropriation was therefore relatively inadequate. The Wedgwood Committee says,* "The depreciation fund, set up at a period when the life of the assets to be covered had already in part expired, is necessarily an immature fund, and it is an inevitable characteristic of such a fund, that the contribution for many years must exceed the outgoings, if the fund is ultimately to establish itself as reasonably sound. This circumstance, therefore, affords no presumption that the contributions are unduly generous."

As regards the provision for amortisation of railway capital, Mr. Rau said "that railways cannot be considered as making a profit unless, after meeting working expenses, including full provision for renewals or depreciation, and all interest charges, they have a surplus more than sufficient to enable them to set aside about Rs. 5 crores, either as a contribution to general revenues, or a minimum provision for amortisation of capital." This amounts to $\frac{2}{3}$ p.c. of the total capital, which if accumulated at 3 p.c. interest, would enable the total capital to be repaid within 58 years. The provision for amortisation of railway capital is essential, and ought to have been made at an earlier date. A very large sum from the capital account needs to be written off, if the Indian railway system is to be placed on a sound financial basis, and provide efficient and economic transport service to the people. The Public Accounts Committee and the Railway Standing Finance Committee therefore approved of this proposal. The Wedgwood Committee said that this was "a wise and prudent course." They added: "Specific assets

* *Vide*, para. 208.

should be written off when they have fallen out of use as, for example, branch lines which are closed because they have become unremunerative. There are other elements in the capital account, such as Rs. 20 crores already referred to as having been charged to capital, instead of to depreciation or revenue, which equally ought to be written off. Apart from such particular instances it is a wise course, when the funds are available, to make a general provision for writing down capital, particularly in the case of a state-owned system of railways, which, as in India, represents a very large proportion of the total public debt."*

Reserve Fund

The Convention of 1924, separating the Railway Budget from the General Budget, had provided that any surplus remaining after discharging its obligations to general revenues, shall be transferred to a railway reserve : provided that if the amount available for transfer to railway reserve exceeds in any year three crores of rupees, only two-thirds of the excess over three crores shall be transferred to the railway reserve and the remaining one-third shall accrue to general revenues. It has been shown in the preceding section, that by 1928-29 the fund had grown to Rs. 18,80 lakhs. With the setting in of the trade depression, the railways were faced with deficits, which were financed by withdrawals from the Reserve Fund. In 1929-30 we have shown that Rs. 2,08 lakhs were withdrawn from the fund to make good the deficiencies in the contribution to the general revenues. In the following year Rs. 10,93 lakhs were similarly withdrawn. In 1931-32 about Rs. 4,95 lakhs were again withdrawn. Thus in three years about Rs. 17,96 lakhs were withdrawn, leaving the balance of about Rs. 84 lakhs. The need for an adequate reserve fund cannot be overstated. An adequate reserve fund is essential for a sound business concern, and much more so for a railroad enterprise with heavy fixed investments. This reserve fund, built up from surplus revenue during the days of prosperity, should be used for unforeseen contingencies and for meeting interest charges, but in no case for the payment of contributions to the general revenues. Certain maximum limit may be fixed for this reserve fund. Any surplus during good years beyond this maximum limit should be used for reducing the rates and fares, instead of swelling the receipts of the general budget. The

* *Vide*, para. 211.

Wedgwood Committee recommends that "all revenue balances, after provision for depreciation, should be appropriated to the general reserve fund until that fund has reached a total of not less than Rs. 50 crores. This fund would be available to meet deficiencies in interest payments in bad years."* Taxation of transport services is very undesirable. Nor is it desirable to expect contribution from the railways to the general finance at the cost of either the reserve or the depreciation fund. At best, the general budget may get some direct relief from the railway budget during the years of abnormal prosperity. During the normal years, the railways would help the general budget by providing efficient transport facilities to the people and increasing thereby their taxable capacity. What is needed is an efficient and sound railway system, providing efficient and economic transport facilities to the national trade and industries, on which the material prosperity and well-being of the people depend.

Contribution to General Revenues

Under the Convention of 1924, the amount of railway contribution to general revenues was fixed at one per cent. of the capital at charge plus one-fifth of surplus profits. The loss of strategic lines was to be deducted from the contribution. Further, it was provided that if in any year railway revenues are insufficient to provide the contribution, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division, until such deficiency has been made good. It will be seen that the Convention imposed onerous conditions on the Indian railways which were bound to impair the financial solvency and efficiency of the railroad system during bad years. The contribution of one per cent. and one-fifth share in the surplus profit may not strain the financial structure of the railway during good years, except that it may delay the building up of a good reserve fund and postpone relief to the users of railway services in form of lower rates. But during bad days it was bound to put heavy strain on the railway finance. Above all, the mortgaging of future surplus profits of expected good years for making up the arrears in contribution of bad financial years was a height of ignorance of sound principles of finance.

* *Vide*, para. 210.

The present position of railway contribution to general finance is as follows :—

CONTRIBUTION TO GENERAL FINANCE.

(In Thousands of Rupees).

Year.	1 p.c of capital at charge.	One-fifth of surplus pro.	Loss on strategic lines.	Net Contribution Due.	Amount paid.	Arrears.
1925-26 ..	5,40 43	1,78,90	1,20,90	5,09,52	5,49,00	..
1926-27 ..	5,80,75	94,85	1,58,79	6,00,86	6,01,00	..
1927-28 ..	6,00,36	56,61	1,46,27	5,48,94	6,28,00	..
1928-29 ..	6,30,00	1,18,26	1,63,42	5,23,19	5,23,00	..
1929-30 ..	6,6,2,32	51,34	1,68,72	6,11,85	6,12,00	..
1930-31 ..	6,93,73	..	1,72,00	5,73,67	5,74,00	..
1931-32 ..	7,23,54	..	1,87,51	5,36,02	*Nil.*	5,36,02
1932-33 ..	7,35,94	..	2,13,35	5,22,58	*Nil.*	5,22,58
1933-34 ..	7,23,54	..	2,01,94	5,21,87	*Nil.*	5,21,87
1934-35 ..	7,22,45	..	2,07,79	5,14,65	*Nil.*	5,14,65
1935-36 ..	7,20,70	..	2,00,10	5,20,58	*Nil.*	5,20,58
1936-37 ..	7,21,56	..	2,30,63	4,90,93	*Nil.*	4,90,93
1937-38 ..	7,16,63	..	2,47,71	4,68,32	2,76,00	1,92,32
1938-39 ..	6,83,00	..	2,40,23	2,22,77	1,37,00	2,85,77
1939-40 ..	6,85,33	..	2,35,05	4,50,28	3,61,00	89,28

Thus the arrears of contribution amount to about Rs. 37 crores, even after dangerous raids into the depreciation fund. We have already stated that the claim in respect of contribution, particularly when the railways are faced with deficits, is unwarranted, and if realised, it will either seriously endanger the solvency of the railway administration, or impose a heavy burden upon the users of railroad services. The shareholders of a railway enterprise, when it is owned and managed by a joint stock company, can claim dividends only during years of prosperity. Even during the days of prosperity, a railway company is permitted to earn only such profits as are determined by an independent and competent authority, to be reasonable and consistent with efficient management of the enterprise. From these profits, the companies usually build up equalisation or reserve funds, to help them to tide over the financial difficulties during bad days. Thus an independent, impartial and competent authority keeps a vigilant watch over the working of railway companies, in order to secure an efficient and economic transport service to the public and solvency of the railroad system. The need of such an independent and impartial institution, to supervise the working of railroad enterprise, becomes much greater when the system is owned and

managed by the State. In this case there is a double danger of misuse of power and perpetuation of inefficiency. The railroad, being a natural monopoly of organisation possessed of power of eminent domain, can impose heavy charges upon the users of services, unless effectively regulated. This has been so in almost all countries where State regulation was ineffective. Hence, in countries like the United States and the United Kingdom, the State regulation has been gradually strengthened. But, where the State itself owns the railway system, the machinery for regulation, if not properly organised, is apt to become more ineffective. There is a need, therefore, for an independent, impartial and competent authority to keep watch over the working of the railway system in a country like India, which should permit reasonable profits to be earned by the railways consistent with their efficient working. This is not all. When the railway system is owned by the State it should be so worked as to promote the public interest much better than a private corporation can afford to do. The claim for the arrears of contribution is untenable. The Wedgwood Committee rightly remarked, that the railways should not be regarded as a possible source, from which contributions to the general revenue might be derived.* The surplus, after building up an adequate reserve or equalisation fund, should be used for reducing rates and fares, instead of as a relief to the general taxpayers, and railway service should not be regarded as a source of revenue.

The Clean-Slate Theory

From the foregoing discussion, it will be evident that there is no rational basis for the continuance of contribution to general finance. The first charge on the revenues of a railway system ought to be an adequate provision for depreciation fund from the profits. If there is any surplus it should be used for reducing the rates and fares. It was suggested in 1937 that the railway revenue should be declared not liable to repay to the Depreciation Fund, the balance outstanding on 1st April, 1937, of the loan taken from the Fund to meet railway deficits ; nor to pay to the general revenue any contribution due, but not paid, under the Separation Convention from 1931-32 to 1936-37 inclusive. The liability in respect of loans from the Depreciation Fund and the Suspended

* *Vide*, Report, para. 213.

Contributions, amounted to about Rs. 31 crores each by the end of 1936-37. This total liability of Rs. 62 crores and the obligation for future normal annual contributions, the railways were not expected to completely discharge for a decade. The Railway Member, therefore, suggested that "the wisest plan in the circumstances appears to be to write off all these liabilities and to start the next year on the basis of a clean slate so far as these liabilities are concerned."*

The suggestion for writing off the liability in respect of arrears of contribution is most sensible and sound. We suggest that contributions should be discontinued entirely. But the liability in respect of depreciation stands on a radically different basis. Depreciation represents a financial provision for the maintenance of capital investment intact, by providing for the wear and tear and replacement of the property. The inception of depreciation fund in 1924 was rather premature and inadequate, since part of the life of the assets had already expired before the fund was instituted and no provision was made for the accrued depreciation. This accrued depreciation was estimated by the Depreciation Fund and the Inchcape Committee at Rs. 20 crores and Rs. 18½ crores respectively. The procedure adopted was also gravely defective. Sir A, Dickinson said that the estimated lives were in some cases excessive; obsolescence was not taken into account; no provision was made for betterments; and led to over capitalisation. It is therefore dangerous to write off the loans from the depreciation fund, which is already inadequate. In short, in the interest of financial stability and efficiency of the railways, the contribution should be discontinued and the surplus available be utilised for improving the efficiency of service and reduction of rates and fares.

To sum up, it is essential that the working of Indian railways should be effectively regulated to secure efficient services and minimum costs. The regulation should be exercised through an independent, impartial and competent tribunal, thoroughly national in its outlook, which would permit reasonable return on capital, consistent with efficient working of the railroad system. The Indian railways being state-owned, the return on capital invested should be just sufficient to keep the capital equipment

* *Vide*, Budget Speech, 1937-38, para. 9.

intact, by an adequate provision for depreciation, and allow interest on the capital borrowed. Any surplus, after meeting these requirements, should be used for building up a strong reserve fund to help the railway system during the depression. The maximum limit of the reserve fund should be definite and fixed. This fund would help to preserve stability in the rate structure. With a strong reserve fund, the railways would not feel the need of resorting to undesirable practice of raising the rates during the depression. If there is a surplus, it should be used for reducing rates and fares. The railroad obligation to pay contribution to general revenues, is at best a short-sighted expedient to help the general tax-payer, and detrimental to the larger economic interests of the community. Economic interests of the country can be better promoted by an efficient railroad system, possessed of financial autonomy, charging lowest possible rates and fares to the public for its services.

CHAPTER IV

GROWTH OF RAILWAY RATES POLICY IN INDIA

RAILWAY rates policy in India can be traced back to the days of the East India Company, when the railways for the first time came to be projected in this country. It was believed that the construction of railways in India was hedged round with insuperable difficulties. *It was thought that railways in India might possibly get a fair share of goods traffic, but next to nothing in the shape of passengers.* The climate of the country was believed to be a serious obstacle. There was also common fear of the disastrous effects of the periodical rains, of violent winds, and a vertical sun. The damage that would be caused by insects and by vermins to the banks and the timber sleepers was emphasised, as well as the adverse effects of tropical vegetation. A more reasonable, and to some extent valid, objection was raised in the difficulty which would be experienced in finding competent engineers and workmen for constructing and working railroads in India.* Private capitalists were reluctant to embark on the risky venture of railway construction in India without a guarantee from the State. We have dwelt on the negotiations between the Government of India and the English capitalists in the preceding chapter which prolonged the birth-pangs of Indian railways. The State undertook to guarantee a certain percentage of interest, in addition to several other concessions, and in return retained the control of rates and fares in its hands.† The liability on the State, which made it responsible for the lines, was, indeed, great, and hence special provision was made in the contracts entered into with the companies for State supervision and control. As a result of this co-partnership, or dual control, the Government was to approve the rates and fares chargeable, and could require a reduction of these when the net receipts exceeded ten per cent. But the clauses were so ambiguously

* Bell, H. : "Railway Policy in India," p. 3.

† For details of the terms, see Chapter II.

worded that the control could not be exercised effectively.* Additional reasons for the control of rates and fares charged by the railroads emerge from a consideration of the nature of the industry and the service performed.† The railway industry is a natural monopoly rendering an invaluable and essential public service.

In the early stages of the development of Indian railways, *charges were fixed on an experimental basis*, due to the imperfect knowledge of the conditions of the country and the nature and the tastes of the people. The determination of suitable rates, says Mr. Bell, was necessarily at the outset, and indeed for some years, a source of perplexity to both the officials of the Government and of the Companies, neither of which were in a position to do more than theories on the subjects; consequently the rates first adopted were admittedly tentative.‡ As the railways were constructed primarily for political and commercial reasons, outlined in the preceding chapter, grave doubts were entertained about the success of passenger traffic. Goods traffic was to be the mainstay of their income or earnings. The Home authorities had actually instructed that remuneration for railroads in India 'must for the present, be drawn chiefly from the conveyance of merchandise, and not from passengers.'§ The English industry, having passed through the ordeal of Industrial Revolution, was out in quest of raw materials for gigantic industrial establishments and markets for the finished products. Fortunately for them, India was found to meet at once both the requirements. It is no wonder then to find the importance of passenger traffic under-estimated. Of the raw materials exported to England, after the interior of the country was linked up with the ports, cotton was by far the most important. "During the ten years ending in 1858, eighteen per cent of the total quantity of cotton imported in the U. K. was from India. Bombay alone supplying 135 million pounds out of the total of 146 millions exported from India.¶"

* In 1859 the Madras Railway Company disputed the power of the Government of India to alter the rates, having once sanctioned them, without the sanction of the Board of Directors. The Secretary of State for India in his despatch No. 119, dated 20th November, 1859, laid down the following general rule :—

"With regard to the power of the Government to alter the rates, in the absence of any request to that effect from the Railway Company, I apprehend that under the contract, it is intended that once rates and fares have been definitely settled and approved by the Government, the proposal for any alteration should be initiated by the Railway Company."

† For detailed discussion of the nature of railway industry, see Chapter I.

‡ See Bell : "Railway Policy in India," p. 187.

§ Referred by Bell : "Railway Policy in India," p. 187.

¶ Ghose, S. C. : "A Monograph on Indian Railway Rates," p. 2.

Rates fixed at a higher level

Between 1853 and 1859 three railways—G. I. P.; E. I. R.; M. R.—were opened for traffic, having simple classification. The G. I. P. and the E. I. Railways divided their goods traffic into five classes, whereas the Madras Railway divided only into three. Salt, timber, pig-iron, etc., were placed in the lowest class, and gold, silver, jewellery, etc., in the highest. Coal was quoted a special rate of 7 pies per ton mile by the E. I. Railway.

The Rates and fares were :—

		Passenger per mile.			Goods per ton mile in pies.					
		1st Class.	2nd Class.	3rd Class.	I	II	III	IV	V	Special for Coal.
E. I. R.	.. 1854	24	9	3	9	13.5	18	27	54	7
G. I. P.	1859	18	9	3	9	13.5	18	27	54	..
	1853	24	10	3	10	14	18	20	30	..
	1856	18	12	3	10	14	18	20	30	..
	1859	18	6	3	10	14	18	20	30	..
Madras	1856	18	9	4	6.75	13.5	20.25	..	..	..
	1859	18	6	2	8	10	12	..	..	..

High Rates restricted the growth of traffic

As can be seen from the above statement, *the rates and fares* charged on Indian railways, looking to the economic condition of the country and its people, *were decidedly excessive and defeated the purpose for which railways were originally constructed.* The main object of the Government in introducing railways was claimed to be to provide better and cheaper transit for the people. But the policy pursued was one of charging rates which traffic could not bear and continued to go to the indigenous transport agencies. The Government, however, interfered with the rates policy of the companies in the interests of the public and substantial changes were made between 1856 and 1859, as can be seen from the above statement. The change was especially marked in the fares of the higher classes. This obviously did not ease the situation. The result was that *till 1859 railways worked at a loss* which was borne by the Government.* The Indian tax-payer was put to a double loss. These anomalies in rate making in India were due primarily

* From 1849-50 to 1858-59, the Government paid £1,528,045 as guaranteed interest to the companies whose net profits during the same period amounted to £325,405.

See, Dr. N. B. Mehta : "Indian Railways," p. 86.

to the guarantee system. Being assured of their dividends, the railway companies cared little to foster traffic.

Thus, the railroad transport in India was a luxury. *The railway authorities looked to immediate high profits, and* based their rates on the analogy of England. This, in fact, was a false analogy, because in India the demand for this new mode of transport had to be created. "India was like a field which required much ploughing before the harvest could be gathered," as Col. Pearse aptly put it. It was contended that the rates should be sufficiently low to attract the traffic to the railways. Mr. Juland Danvers observed that the two great objects of the railways in India should be to develop the traffic and to reduce the working expenses. The railroad industry being subject to the law of increasing returns, a capable and shrewd traffic manager seeks to carry load sufficient to enable him to secure the fullest utilisation of his plant and produces thereby greater aggregate profits.* This elementary principle of railway economics was overlooked. In fact, *whenever rates and fares were reduced on the Indian railways, traffic was found to increase more than proportionately.* The Madras Government, by way of an experiment, fixed the rates on a lower basis and came to the conclusion that the low fares, judiciously fixed, were drawing traffic from the old and primitive transport agencies to the railroads. The G. I. P. Railway also reduced rates in 1861, especially in the Deccan, with the result that a substantial part of the traffic carried by country carts on roads running along the railway was attracted to railways. This made the Government realise the efficacy of lower rates and *it was then decided that the railways should be made available, to the utmost possible extent, for the mass of the people, consistent with their profitable and economical working.* Henceforward a distinct difference in the attitude of the Government and that of the railway companies was discernible. Though the ultimate object of both the parties was identical, the paths pursued were divergent. Both the parties were interested in the financial success of the railways; but, whereas the Government wanted to achieve this object by extending the railway facilities to the greatest number and small profits per unit, the companies strove for high profits per unit by carrying a small volume of high class

* For details on this point refer to Chapter I above.

traffic at high rates. This mistaken policy of the companies needed a corrective.

The State Regulation of Rates

In 1861-62 it was decided that the Government, in order to safeguard the public interests, should fix a maximum scale of rates, within which the railway authorities would have discretion to levy such rates in practice as might be suited to each case.* It was noticed, in 1864, that in some cases receipts had increased although traffic had diminished. This stirred both the Government Director of Railway Companies in England,† and the Government of India. The Government of India sponsored the policy of protecting the interests of the trader and the travelling public. It was not the high profits per unit, but small profits upon larger number of units, that should have been aimed at by the railway companies, furthering thereby their own interests as well as those of the community.

Maxima fixed by the State

In 1865 the principle of fixing maximum rates was adopted and was first introduced on the Bombay lines in the same year. Other Provincial Governments also followed the same policy, but made no attempts to establish uniform maxima. The experience of Bombay lines was valuable and moulded the railway policy of the country as a whole. By the following year the demand for conveyance of goods had risen so high that the resources of some of the railways proved inadequate to meet it fully. This necessitated an increase in the equipment and carrying capacity of the railroads. But the railways, instead of augmenting their resources and capacity to meet the increasing demand, thought of restricting the flow of traffic by enhancing the rates and fares. Their aim ought to have been to provide an adequate supply of the rolling stock and then to levy such rates as would secure its fullest utilisation. But the G. I. P. and the E. I. Railways raised their rates in 1865-66 and the Government accepted them as exceptional.

* The Government, instead of fixing the actual rates and fares to be charged, should approve of a scale of maximum rates, leaving it to the companies' officers, in communication with the Consulting Engineer of the Government, to impose such rates and fares from time to time as might be found conducive to the interests of the undertaking. Report of the Government Director of Railways, 1861-62.

† It is possible that the rates might have been fixed a little too high, and that more traffic might have been taken at a less profit per passenger and per ton of goods and yet so as to produce greater aggregate profit.

Report of the Government Director of Railways, 1863-64.

This mistaken attitude of the railway companies, however, raised a new issue and it was feared that the rates policy, as pursued by the railways, would not merely be detrimental to the interests of the public, but it would restrict the growth of railway business. The policy pursued by the railway companies was far from healthy. The Government of India, recognising the necessity of controlling this unhealthy policy, addressed a despatch* to the Secretary of State. But, they were informed that the companies should be left free, within the maxima to be fixed by the Government, to make such alterations in their scale of rate as they might at any time think desirable. Thereafter the Government of India immediately issued a Circular† defining the policy to be pursued. The Central Government retained the power to guide the general policy and beyond this, desired to leave the subject of maximum rates and fares entirely to the Local Governments concerned. They further stated that the powers of the Central Government under the contracts were limited to the approval of increases of fares after they had been once fixed, and to the fixing of fares on the first opening of a railway. The Government of India, however, retained the power to control the fares for the lowest class passengers, the rates for food grains, and for the carriage of coal. Thus, for the first time, the Government of India succeeded in laying down a definite policy for the regulation of rates and fares charged by the companies, though the regulation was not very effective.

The attitude of the Secretary of State

The Secretary of State approved of the Government of India's decision to exercise control and guide the general policy of the railways. On the question of railway rates, he held that it was as much the interest of the companies as of the Government to so regulate the charges as to carry the maximum of passengers with the maximum of profits. In other words, he considered the interests of the Government and the railway companies identical, and directed to give ample discretionary scope to the companies, because some of the rates mentioned in the circular left no such discretion. The power of fixing the charges for the lowest class of passengers, food grains and coal rested with the Government of India.

* Despatch No. 26 of 8th February, 1867.

† Circular No. 10, Railway, of 16th October, 1867.

In his second despatch, the Secretary of State dissented with the Government of India and the decision he gave was "that maximum rates should be fixed by the local governments, that actual rates within such maxima should be regulated by the railway companies, and that the maximum rates fixed by the local governments, should leave a reasonable margin for exercise of discretion by a company, in varying working rates as circumstances in their opinion required."* Accordingly, a fresh Resolution† was issued by the Government of India, giving practical effect to the instructions of the Home Government.

Passenger Fares on the Madras Railway revised

In 1869, the Secretary of State, ignoring the opinion of the Government of India and the Provincial Government, asked to revise the scale of passenger fares on the Madras Railway, so as to provide greater scope to the companies to vary their charges. Accordingly, the maxima on the Madras Railway was raised as follows :—

	1st Class.	2nd Class.	3rd Class.
Original	18	5	3
New	20	6	4

This indiscreet policy of the Madras Railway, coupled with the high cost of construction and maintenance, had placed, during their operation of 25 years, a burden of nearly six million pounds sterling on the Indian tax-payer.‡ Lord Mayo argued that it was a "blind policy" to neglect the interests of the masses. It was not by raising, but by lowering, the cost of transport that we must hope to develop the enormous revenue which we are now merely touching from this source. This revival of high fares was detrimental to the well-being and prosperity of the country.§ Subsequent events justified the wisdom of the policy advocated by the Government of India. Major Conway Gordon explained the enormous losses that this short-sighted policy of the Secretary of State entailed. It impeded the progress of railway development in India.¶ Mr. Randel, an able Consulting Engineer of

* Despatch No. 48, dated 25th June, 1868, from the Secretary of State, quoted by H. Bell; "Railway Policy in India," p. 209.

† Resolution No. 1174-80, Railway, of 6th October, 1868.

‡ Evidence before the Select Committee, paras. 442-49.

§ Letter No. 118, Railway, of 20th November, 1869.

¶ See Evidence of Major Conway Gordon before the Parliamentary Select Committee of 1884, paras. 442-49.

the E. I. Railway, after a thorough investigation, found that the expenditure had increased out of all proportion to the traffic requirements.*

Increase in Oudh Rohilkhand Railway Fares

The Secretary of State also raised the lowest class rates of the Oudh Rohilkhand Railway from 2 pies to 2½ pies. The prevalent tendency amongst the railway companies in India was to secure the best dividends from a small traffic at high rates. Minimum of traffic with maximum of profit was the guiding principle of the railway rate policy. There was little incentive for the railway companies to effect economy in construction or operation, or to lower rates with a view to develop traffic. Mr. Randel recommended the adoption of mixed trains, a lowering of third class passenger fares, and the indefinite postponement of some works as a remedy to check the fall in the traffic receipts and the tendency towards extravagant expenditure. In short, *rates and fares on Indian railways were pitched too high. The despatches, referred to above, exchanged between the Government of India and the Home Government, show that whereas the former, in its solicitude for the people of the country, wanted to so regulate the rates and fares as to provide maximun service compatible with reasonable profits to the companies, the latter ruled for the beneficent patronage of the guaranteed railway companies.* This attitude needed proper and prompt corrective.

The Growth of Railroad Traffic

In spite of the short-sighted and reactionary policy pursued by the railway authorities, both passenger and goods traffic increased. Passenger journeys increased from 5.3 lakhs in 1854 to 160 lakhs in 1869.† Thus the prompt response of traffic, notwithstanding the defective rates policy, exposed the fallacy of the assumptions of the sponsors of the Indian railways as regards the passenger traffic. The assumptions proved unwarranted in the very initial stages of the inception of railroads, as the poor Indian proved to be an inveterate traveller, and the receipts for the first three years from the passenger traffic largely exceeded the receipts from the goods traffic. *The conservatism of the Indian people, who were both willing and able to travel, was therefore found to have been exaggerated.*

* Refer Huddleston, G.: "History of East Indian Railway," p. 58.

† Refer to Dr. Sanyal: "Indian Railways," Table on p. 47.

Between 1848 and 1853 the exports of raw cotton doubled. The exports as a whole increased considerably as can be seen from the following statement :—

EXPORTS FROM INDIA TO ALL COUNTRIES.*

(In thousand £)

Year.	Raw Cotton.	Grains.	Jute.
1849	1,775	859	68
1851	3,474	752	197
1853	3,629	889	113
1855	2,429	1,743	229
1858	4,302	3,790	303

Total imports and exports of British India trebled during 1851-52 and 1868-69. So also there had been a very remarkable change in the nature of imports and exports. The exports of finished products of high artistic excellence had been replaced by those of bulky raw materials, such as cotton, foodgrains, oilseeds, etc., as portrayed in the foregoing statement. This gave impetus to specialisation in agriculture, and stimulated the import of cheap and standardised foreign manufactured articles. It should, however, be noted that this change in the nature of Indian trade affected the cottage industries adversely. We can have a rough idea of the nature and magnitude of the imports from the following table :

IMPORTS INTO INDIA FROM ALL COUNTRIES.*

(In thousand £).

Year.	Cotton goods.	Woollen goods.	Machinery.
1849	2,222	112	18
1851	2,642	219	21
1853	3,667	142	26
1855	5,403	171	126
1858	4,783	262	465

* Compiled from Mr. R. C. Dutta's "India under the Victorian Age," p. 161.

Effects of the Railways on the Economic Development of the Country

Railways revolutionised the entire social life of India. The village crafts being unable to stand the competition of cheap standardised imported articles, the artizans were driven out of their employment and fell back on agriculture as the only source of livelihood. Distress was aggravated by the impact of sudden economic transformation, for which the people of India were not sufficiently prepared. The illiterate and unorganised masses of India could little apprehend the causes of the loss of their employments. There was a complete neutralisation of the country. Thus, the railways temporarily reduced the purchasing power of the Indian people, thereby increasing the susceptibility to famine and draught. The economic difficulties of the people were further aggravated by the increasing exports of food grains to foreign countries.

There was a brighter side of the railways too. Before the introduction of railways into India, it was impossible to distribute the surplus production over the areas of scarcity, so that it frequently happened that the prices of grain in localities where crops had been abundant were very low, while in an adjoining territory the prices were prohibitive. Railways, by connecting different places with efficient and economic transport facilities, brought about an equalisation of prices, thereby benefitting the people, both producers and consumers. In the pre-railroad era, variations in Indian prices were as high as two hundred per cent.* It was not an uncommon phenomenon then, to see people in one part of the country in mirth and plenty, whereas those in the other part pining in utter penury and want. "The most striking characteristic of the prices from 1804 to 1861 is their sudden and violent fluctuations."† The Railways eliminated this uncertainty and smoothened the fluctuation in prices. Increase in foreign trade and the consequent rise in prices affected both the production and consumption of the people. In this widening of the markets and the levelling of prices, with the concomitant changes in production and consumption, we trace the genesis of the industrial revolution, or evolution, we are passing through.

* For details of figures refer to Cotton's "Public Works in India," p. 93. Dr. Weld quotes the table on p. 87 of his book, "India's Demand for Transportation."

† Sir T. Morison: "The Industrial Organisation of an Indian Province," p. 296.

The Railway Rates during 1869—1882

We now enter upon the second phase of the development of the Indian railways, when the old guarantee system was given up and the State undertook to construct railways on its own initiative. This was, indeed, a new epoch in the history of railways, as we have seen in the preceding chapter. The Government of India vigorously started the construction of feeder lines on the metre gauge, linking up the internal centres with the main trunk lines which had been planned out and constructed under the guarantee system. With this came a great change in our rural economy. The exports and imports received considerable stimulus with the opening of the Suez Canal in 1869, and the linking up of the G. I. P. and the E. I. Railways at Jubbulpore in 1870. *The rolling stock of the railway companies, however, could not keep pace with the development in the internal and external trade of the country, so that the traders had to experience a great deal of inconvenience and shortage of facilities on the railways.** *Pilferage and petty losses due to the negligence of the railway employees were rampant. In addition, tariffs were unnecessarily complicated and confusing. The Government of India made no attempts to secure uniformity either in the scale of rates or in the classification.*

Higher Level of Rates : Need for Reduction

The advantages of low charges and better transport facilities were ignored by the railway authorities, deeply enmeshed in the toils of the cost of conveyance heresy. This was a fallacious reasoning, inapplicable to the conditions of the country. The lowest class rates and fares were the only source of profit in a poor country like India. Besides, in India, goods traffic consisted mainly of raw materials which could bear only a limited transport cost. When an article, having greater weight or bulk in proportion to its value, has to be transported, the cost of transportation is apt to form an important part of the cost of the commodity, and much more so when the distance to be traversed is great. India's output, consisting chiefly of raw materials and food grains, has much weight and bulk in proportion to its value. The cost of transport, therefore, plays a very important part in determining

* Inexcusable delays in supplying wagons, insufficiency of goods-shed accommodation, frequent gratuity expected by the railway staff, difficulty experienced by the traders in obtaining compensation for petty losses and redress of reasonable complaints restricted the growth of Indian trade.

See, Dr. N. B. Mehta : "Indian Railways," p. 96.

the price of such commodities, and renders the need for effective transport facilities even more urgent. But the Indian railways were little influenced by the nature of the traffic to be dealt with and the need to develop the same. *The antipathy towards lower charges, with which railway authorities were instilled, was detrimental to the interests of the railways and the public alike.* Even the Government of India found that the existing lowest class rates and fares were not sufficiently attractive to draw traffic; but their control was meagre and ineffective. They realised that "the lowering of rates and fares will naturally produce a small loss at first, but an impetus is given to traffic, which, before very long, probably converts the loss into gain;"* but they could not remedy the situation. Under these circumstances, one is forcibly driven to the conclusion, that *the unconditional guarantee of a high rate of interest had stifled in the railway companies all initiative to make experiments in drawing and developing traffic. It prevented the elimination of the inefficient from the field and fostered ill-managed railways by creating an artificial atmosphere of safety.* The result was an undue delay in the adjustment of railway charges to suit the economic requirements of the country.

The Part Played by the State

In 1869 the Government of India had initiated the State construction of railways with the avowed object of reducing the rates and fares. They had tried to prevail upon the railway companies to reduce their rates and fares so as to attract more traffic, but the persuasions went unheeded. However, the Government was convinced of the utility of lower rates and tried the experiment on its own initiative. In fact in 1868, when famine had broken out in Bengal, the Government had asked the E. I. Railway to reduce its rates on food grains to 1/8 pie per maund per mile, undertaking to recoup the Company of the loss that it might incur thereby, and found that the measure had most encouraging results. A very large tonnage of grain was carried to Bengal, which, but for the lower rates, would not have moved, and helped to alleviate the sufferings of the famine-stricken people. Apart from this, the measure proved a very lucrative venture to the railway company itself and it made a lot of profit, because the rate fixed was above the marginal cost of transport; it

* Juland Danver's Administration Report, 1872-73.

covered the prime cost of transport and left a substantial share to the carrier.* Again, when another famine occurred in Bengal in 1873-74, the Government asked the E. I. Railway to charge reduced rates on grain conveyed to famine-stricken areas and promised to make up the difference. This wise move on the part of the Government, like the preceding one, had most commendable results and prevented a dire calamity from attaining the proportions of a fearful catastrophe.† It was also a financial success and unexpected profits were made, in spite of the reduced charges. Both these measures exposed the fallacy of charging high rates. High charges restrict traffic and increase the cost per unit. *It was realised that with greater tonnage and with full car-loads much waste in unused capacity could be eliminated and rates lowered.* At the same time these experiments demonstrated the truth of the statement that "railways have not conferred upon the country the full benefits, nor yielded the profits which they might have done."‡ The evil of charging higher rates was, thus, perceived. Col. Sidgwick, the Manager of one of the State lines, commenting on the railway policy of the time, said that the railways did not lower their passenger fares sufficiently to enable an ordinary coolie to travel more cheaply by rail than he could travel on foot, though that could undoubtedly be done. It was no wonder, therefore, if the railways failed to attract the masses altogether, and had to content themselves only with the well-to-do classes. "To attract the masses," he said, "railways will have to lower their fares until a journey can be done as cheaply on the railway as on foot. To do this the fare must not exceed $1\frac{1}{2}$ annas for twenty miles, or say, one pie per mile, and perhaps in the poorer districts it may have to be reduced to three-fourths of a pie."§ In view of the preceding discussion it is hardly necessary to add that the rates and fares prevailing on the Indian railways were excessive and that whenever lower charges were tried by the railways, either on their own initiative or on that of the State, the results were invariably satisfactory, both from the operating and the profit-earning points of view.¶

* For a detailed discussion of the theoretical aspect of the problem, refer to the Chapter on the "Theory of Railway Rates and Fares" in "Railway Rates in Relation to Trade and Industry in India."

† Huddleston: "History of East Indian Railway," p. 67.

‡ Report of the Administration of Railways in India, 1875-76.

§ See Horace Bell: "Railway Policy in India," p. 200.

¶ For further details refer to the Administration Report for Railways, 1876-77.

During this period, the efforts made by the State in regulating the rates and fares achieved admirable success. In the absence of competition, ignorant and inarticulate public, and the security of guarantee, the railway companies did not make any attempts either to improve efficiency or to reduce costs. The Government of India, with boldness and foresight, forced the companies to adopt a more liberal policy and charge lower rates and fares. It will be recalled that in the year 1871-72 there was a deficit of about Rs. 158 lakhs in the guaranteed interest of the Indian railways, chargeable to the revenues of India, which created a great deal of uneasiness in official quarters, and serious efforts were made to find a proper solution for the unfortunate state of things. The authorities came to the conclusion that "a railway best serves its own interests as well as those of the Government by accommodating itself to the wants of the people."* The Government Director of Railways also came to the conclusion that the railway rates and fares were not sufficiently attractive to draw enough traffic, and he frankly expressed his views in the Report that he submitted later. "In a country like India," he remarked, "especially where the population is large and poor, it would be unwise to impose such rates for the conveyance of passengers as would remove the power of travelling from the great majority of the people. The true policy would seem to be to fix a rate which, while leaving a margin of profit upon the cost of conveyance, would benefit the largest number to travel.....The same remarks will apply to charges for goods, and often with greater force...."†

Reductions in Railway Rates

The question of reduction of railway rates was fully discussed and lump sum station-to-station rates, irrespective of distance, were quoted on the State lines. The rates and fares quoted were as follows‡:—

Per Passenger—		Goods per Maund—	
First Class	..8 annas.	Special Class	..2 annas.
Second ,,	..4 ,,	First ,,	..4 ,,
Third ,,	..2 ,,	Second ,,	..6 ,,
Fourth ,,	..1 ,,	Third ,,	..8 ,,

* Despatch of the Government of India referred to by S. C. Ghose's "Monograph on Railway Rates," p. 19.

† See the Report, 1871-72.

‡ S. C. Ghose: "Monograph on Railway Rates," p. 20.

The foregoing rates worked out approximately at 2.5 per maund per mile. But these rates were later withdrawn and mileage rates were quoted. Henceforth several reductions in rates were effected. In 1876-77 the rates were reduced by about 12 per cent.* The low rates proved beneficial to the carriers as well as to the railways. Both the traffic and receipts increased as a result of the reduction in rates. In 1878-79 the lowest class passenger fares were still lowered.† The Oudh and Rohilkhand Railway charged a rate of 2 pies per passenger per mile for third class; Madras and South Indian Railways also quoted a rate of 2 pies per mile; the E. I. Railway charged 3 pies per mile; and the G. I. P. Railway charged 2½ pies per mile. On the Punjab Northern State line, the lowest rate of 1.8 pie per mile was charged. *The traffic results showed that the lines which quoted lower rates earned higher aggregate profits.* Thus, traffic gave prompt response to the lowering of rates and fares.

The Rates Policy led to one-sided economic development

The Government of India in their efforts to improve the unsatisfactory railway situation, were mainly prompted with a desire to develop the resources of the country, so as to increase the exports,‡ which consisted largely of raw materials and food

* Supra. p. 21.

† See the Administration Report, 1878-79.

* The exports from India increased considerably as can be seen from the following figures:—

EXPORTS FROM INDIA TO ALL COUNTRIES.
(In million £)

Year.	Cotton, raw.	Grains.	Seeds.	Year.	Cotton, raw.	Grains.	Seeds.
1859	4.1	2.8	2.0	1871	19.5	4.5	3.5
1862	10.2	4.0	1.2	1874	13.2	6.5	2.4
1865	37.6	5.9	1.9	1877	11.7	10.0	5.3
1868	20.1	3.9	2.2				

India's total export trade rose from 30 million pounds in 1859 to 65 million pounds in 1877. Variations in cotton exports are due to the temporary stimulus of the American War. See R. C. Dutta: "India under the Victorian Age," pp. 346-52.

‡ The import trade of India also received appreciable stimulus with the extension of railway transport facilities.

IMPORTS INTO INDIA FROM ALL COUNTRIES.
(In million £)

Year.	Cotton Goods.	Silk Goods.	Woollen Goods.
1859	8.1	.15	.29
1864	10.4	.46	.61
1869	16.1	.49	.76
1874	15.1	.61	.67
1877	16.0	.58	.81

The import of cotton goods into India which was arrested during the Mutiny, at a figure under five million sterling, went up by a bound to eight millions in 1859 and rose to double that figure in ten years. Same is true of other imports. People gained by obtaining cheaper clothing but suffered in other directions.

stuffs, and facilitate the import* of finished products. Detailed plans were very carefully worked out to stimulate the production and export of those commodities which England demanded, and could be cheaply produced in India. Whatever the aim, it cannot be denied that with the lowering of rates, traffic increased proportionately.

But in fairness it must be said that *the railway facilities were not provided with an eye to promote a broad-based* economic development of the country. No doubt the railways stimulated the cultivation of commercial crops, but by quoting unduly favourable rates to and from the ports, they gave an unfair advantage to foreign industries against the indigenous ones, and thus helped to bring about one-sided development of the country. In short, the railways helped the ruralisation of the country. The cardinal principle of railway policy in India has been to provide British industries with raw materials and market for their finished products. This is evident from the congestion of Indian industries in port towns. The lack of national policy in railway transport, as in almost all commercial activities, has been the despair of Indian industries. However, in despair we should not lay the entire blame on the Government of India. The defect partly lay in the very nature of the railway development, initiated by foreign capital and enterprise, and partly because the policy was too frequently dictated by the Secretary of State who had mainly British interests in view and cared but little about the needs and aspirations of the Indian people. The Government of India is to be blamed more for omission than for commission.

It is not intended to convey that the rates policy was entirely antagonistic to the interests of the country. What we intend to convey is that the policy pursued ought to have been more on national lines. Frequent interference of the Secretary of State was undesirable. The Government of India should have been permitted the necessary latitude in formulating the railway policy.

Railway Companies asked to make further reductions in rates

The Government of India issued a resolution to the companies advocating a reduction of rates and fares, which were restricting the growth of traffic, and recommended the adoption of a maximum for the lowest class of $2\frac{1}{2}$ pies. The E. I. Railway

* See R. C. Dutta: "India under the Victorian Age," pp. 344-45.

opposed the proposal as they charged 3 pies per mile, and contended that since traffic was steadily increasing and there was a shortage of railway equipment, the lowering of rates would have most undesirable effects. The Agent of the E. I. Railway contended that the prevailing fares did not exclude a single *bona fide* traveller, whether on business or on pleasure, and that the fares if reduced would be unremunerative. We have already seen that the lowest rates on most of the Indian railways were about 2 pies per mile, whereas the E. I. Railway charged 3 pies per mile, 50 per cent. higher. The Government of India, having better plenary powers over the E. I. Railway since its purchase in 1879, assumed a firm attitude and enforced the lower rate which fully justified the Government anticipation.* Wherever the fares were lowered they invariably met with success, as the following figures show †:—

Year.	Number of Passengers.	Receipts in Rs.
1880	7,300,364	58,92,171
1881	7,577,793	89,37,139
1882	9,052,576	99,38,101

The reductions were, thus, justified. In this connection it has to be noted that, unlike other countries where private enterprise took the risks of railway construction and the reduction in rates, in India the initiative in lowering rates was taken by the State. *The policy of State construction and management of the railways proved an unqualified success. Interests of both the shippers and the carriers were protected. The metre gauge construction was admirably adapted to the needs of the day and helped to popularise the railway transport services (in India), which had hitherto been a privilege of the rich and well-to-do classes only.* The beneficial results of this far-sighted policy materialised only after 1881, when the Rajputana-Malwa Railway was opened for traffic and heralded a new era in rates policy.

* "The reduction was evidently a very sore point, but the results proved from the outset that it was fully justified."
Railway Chronicles, quoted by Huddleston: "History of East Indian Railway," p. 116.

† Compiled from Dr. N. B. Mehta's "Indian Railways," p. 100.

Till the end of 1880, railway companies were free from competition ; each line had a definite territory of ample dimensions, and, within the maxima fixed by the local authorities, it had ample discretionary power to manipulate the rates to suit its own aims. In spite of the opening of the Suez Canal, and the consequent shipments of Indian produce to European markets, from the important ports served by independent lines, the rates were maintained at their high pitch. Each railway served its own territory and had a practical monopoly in its sphere.

Though the Government of India had avoided the construction of competitive lines, the opening of the Rajputana-Malwa Railway in 1881 and the absence of adequate control over the private companies brought in the much needed inter-railway competition. We shall discuss the effects of this competition in a later section, but it has to be noted at this stage, that the lethargy in the railway management was put an end to. In fact, the very existence of ill-managed railways was threatened.

The Railway Rates Policy during 1882—1932

The Era of Competition :—With the opening of the Rajputana-Malwa Railway for traffic in 1881, having its junction at Ahmedabad, and the opening of Cawnpore-Achnera Railway, dawned a new era in the rates policy of the Indian railways. This period has been aptly characterised as one of competition and rate adjustment. With the opening of alternative railroad routes and transport facilities, set in the much needed competition, bringing about thereby the lowering of rates.

Reduction in rates on competitive traffic

The Rajputana-Malwa Railway brought Bombay nearer to the grain producing districts of Northern India.* This new position which Bombay had acquired, gave stimulus to competition between railways serving Bombay and Calcutta ports, and provided healthy emulation for efficiency and economy. Hitherto railway companies in India had tried to raise the level of rates so as to earn high profits with minimum of traffic. They refused to believe that by carrying larger traffic at lower rates, they would earn still higher profits and at the same time increase the welfare

* There were two alternative routes to Bombay from Delhi, one *via* Allahabad and Jubbulpore broad gauge 1234 miles, the other *via* Rajputana-Malwa metre gauge 889 miles, which brought Bombay nearer to Delhi by 345 miles. The distance between Calcutta and Delhi was 954 miles.

of the community. They charged rates which the traffic could not bear and hindered the economic development of the country. But now ensued the keen rivalry between the railway lines leading to the seaports, and the traffic managers were forced to examine their notions of the cost of railway transport, and revise them in the light of new circumstances. They were on the threshold of an era of competition and rate war, and began to realise that the cost of transport by rail was a figure variable with the volume of tonnage and the distance over which it was carried. This led them to study the traffic and its capacity to bear the transport charge, so that the volume of traffic, which once seemed to spell their ruin, proved their sole saviour.

Reduced Rates on wheat exports

The Rajputana-Malwa Railway forced down the rates on competing lines and stimulated the development of trade, both internal and external. Its effects on the export trade of grain, especially wheat, proved beneficial to the agriculturists. The prices of Indian wheat being determined by international competition, because Indian supply is only a fraction of the world supply, the Indian agriculturist was able to secure better prices with the reduction of the cost of transport. This stimulated the area under cultivation of wheat and the export trade of the country, thus adding to the economic welfare of the people. Cultivation of commercial crops increased ; cultivators substituted more valuable for the less valuable crops. *The country was, in short, passing from a simple to a more complex stage of economic development.*

Port Controversy : Bombay vs. Calcutta

In the Financial Statement for the year 1881-82, it was suggested that in the interests of the development of export trade in wheat, railway rates should receive careful consideration, inasmuch as they were higher in this country, as compared with the rates charged by the American railways.* Accordingly, the B. B. & C. I. and Rajputana-Malwa Railways reduced their rates for grain for Bombay from thirteen annas and six pies to eleven annas per maund, whereas the rate to Calcutta on the E. I. Railway was thirteen annas. The reduction in rates had adequate

* Due to severe and reckless competition amongst the American Railways, rates were appreciably lowered which added to the competitive capacity of American produce, agricultural and manufactured alike. Indian wheat was struck hard.

justification, because the mileage to Bombay was lower and the rate quoted was not unremunerative. This change in rates policy caused a diversion in the movement of traffic from the north in favour of Bombay, and against Calcutta.* Rivalry, thus started, proved rather strong for the Calcutta merchants who appealed to the Government, and the Government of India ruled that the rates to Bombay should not be lower than those to Calcutta, as the cost of working of the E. I. Railway was lower due to cheap fuel and easy gradients. The matter was, however, brought to the notice of the Secretary of State for India, who declared that to attempt to proportion rates on competing lines to the supposed aggregate of the cost of transport on each was impracticable. In his other despatch, he distinctly laid down that "the advantage due either to geographical position or other circumstances, should furnish no reason for imposing on either artificial restrictions in the shape of enhanced rates.†" He declared himself in favour of competition. He stated that the interests both of the railways and the traders would be better served by accepting the legitimate consequences of competition, and the interference of the Government would be justified only in cases where, either through ignorance, recklessness or idle rivalry, or owing to the differences based on the security of the Government guarantee, rates would be unreasonably lowered.‡ This was a very reasonable attitude and helped to improve the efficiency of railway services.

The Government of India Circular of 1883

The Government of India accepted the principles outlined by the Secretary of State and the reductions in rates and fares due to competition were welcome. *In 1883, the Government of India enunciated the general principles on which the rates and fares were to be fixed. The salient features of the circular were that the aim of the railways should be to attract the maximum amount of traffic the line could carry at reasonably low rates. The cost of carriage and the ability of the traffic to bear the transport charge, were to fix the lower and upper limits between which the rates might vary. But in the determination of the individual rates, it was necessary to consider all the circumstances of the traffic dealt with as*

* The Administration Report for 1881-82 shows that the displacement of traffic in favour of Bombay, especially in cotton, seeds and wheat, was considerable.

† Despatch No. 41, Railway, dated 19th March, 1882.

‡ Despatch No. 132, Railway, dated 19th October, 1882.

regards empty running, its intermittent nature and the effect of competition by other routes. Telescopic rates were recognised as legitimate in all cases where the traffic would be lost without such rates. The possibilities of both monopoly and competition were realised; in the former case the Government proposed to fix the maxima to protect the public interests, while in the latter it thought desirable to stop ignorant, reckless and idle rivalry by fixing minima rates. The policy, thus outlined, was expected to attract the greatest volume of traffic upon all lines taken together, consistent with a fair and reasonable profit, the maximum of accommodation to traders and the public, beneficial alike to producers and consumers, and help thereby the maximum development of the economic resources of the country.

Internal trade suffers

With the expansion of the export trade, the main trunk lines, serving different sea ports, quoted low competitive rates on export and import traffic. But, the attention of the traffic manager being centred entirely on the traffic to and from the ports, inter-provincial trade suffered. The interests of foreign trade dominated railway rates policy, with the result that the export of raw materials and import of manufactured products were sedulously fostered. This was the greatest defect of our railway rates policy.

Lack of adequate control over the rates policy

The difficulties of the situation were aggravated by the lack of adequate State control over the rates policy. Adequate transport facilities had to be provided for the varied industrial and commercial interests which were growing up with the rapid extension of railways. With the development of trade and transport, the lack of Government control over the railway policy was all the more keenly felt. Over the administration of State lines, the Government of India possessed sufficient control, but the guaranteed and assisted companies could not be effectively regulated, and the complications increased with the multiplication of lines.

In view of these difficulties a Select Committee of the Parliament was appointed in 1884, to investigate the situation and suggest proper remedies. The rates were found to be injudiciously high. Even the Director of the G. I. P. Railway, in his evidence before the Committee, admitted that the " object of the Company

was to secure the best dividends from a small traffic at high rates." From the evidence placed before it, the Committee realised the need for an effective control upon the railway rates policy, in the interest of both the community and the companies, and therefore recommended that the Government should have "a power of fixing, or from time to time varying, the maximum of fares and rates, subject to adequate provisions to secure the interests of the investor." But later on even this power was found to be ineffective because the maxima and minima were of little avail in regulating unduly high rates.

Complicated Railway Tariffs

As the railway companies, with their particularistic proclivities, multiplied, their tariffs became more complicated and unintelligible. Moreover, under the stress of competition, the companies from time to time were manipulating their rates and classifications which introduced often needless complications. Divergent classifications and complicated tariffs introduced a great deal of uncertainty in trade and industries. It was desirable to co-ordinate the through tariffs of different railways and establish a uniform classification.* A Tariff Conference was called in, in 1884, but it failed because the G. I. P. Railway did not accept its proceedings and recommendations. The Government proposal for establishing a Clearing House, in 1885, also failed.

Revision of Railway Classification

In 1887, Col. Conway Gordon, the then Director General of Railways, submitted an able and exhaustive note to the Government of India, in which were laid down certain principles for regulating rates and fares, based upon the practice in England and other countries. As for the classification, he recommended that a uniform general classification of through traffic be drawn up; that all consenting railways be asked to print in their goods tariffs all such articles in Roman of which the classification and the rates were the same as those in the general classification; that special or exceptional articles be printed in Capital letters; that these exceptions be taken up one after the other, and the

* Trade and industries have a great concern with the nature of the classification, which forms the basis of the rates policy. "The railway classification of goods is the foundation on which the edifice of railway rates is built; it is the framework to which the tariffs or schedules of the rates are attached." W. Acworth: "Elements of Railway Economics," p. 125.

matter pursued until in each case definite grounds were recorded for the exception being retained; that with regard to State lines exceptions be only allowed when strong reasons were alleged for their continuance; and that all lines newly opened be asked to accept the general classification with only such exceptions as would allow them to compete fairly with other lines.

State Circular of 1887 for regulating rates

Government had realised that India was passing beyond the first and the simple stage of railway development into a more complex one, as was evident from various railway disputes. Besides, the note of Conway-Gordon, referred to in the preceding paragraph, had impressed upon the Government the urgency of formulating a definite policy of guidance. Accordingly, the Government of India issued a Circular* containing the instructions. *The charges made to the public, may be divided into mileage rates and fares and terminals. For the former, both maxima and minima were fixed, and for the latter no maxima were fixed but the Government reserved to themselves the right of fixing a reasonable charge in case of a dispute. Within the prescribed maxima and minima, the companies were allowed full latitude to alter their rates. Various railway systems were enjoined to serve the country, as if they were under one management. Through traffic passing over more than one line was to get the same benefits as that chargeable over one line.* This last provision is very important, and hence we think it necessary to put it in the original wording. "The various railway systems should, as far as possible, serve the country as if they were under one management; and the dealer in country produce, should not be hampered in his operations by the necessity to base his calculations on as many different scales of rates as there may be railways between the starting point and the destination." In practice, this high aim of the Government was not realised and the provision remained a dead letter.

The aims of the Government of India, as can be discerned from the preceding Resolution, were indeed in the true interests of the country, if only they could be realised in practice. *The necessity of treating the entire railway system of the country as one, has been, and still is, the* despair of Indian trade and industries. Its importance cannot be over emphasised. Indian railways,

* Circular No. 1446, R. T., dated 12th December, 1887.

with their separatist tendencies in rate making, have levied a toll on long-distance traffic and thus obstructed the development of Indian trade and industries, more so because India is a sub-continent and her traffic covers usually long distance. This mistaken practice has survived in spite of the recommendations of different Commissions and Committees to abolish it, and strengthens the assertion that Indian railway policy is anti-national. The Industrial Commission in 1918 recommended that "railways should accept the principle which is followed in some other parts of the world, that a consignment travelling over more than one line should be charged a single sum based on the total distance, any special claims for extra costs incurred by a particular line in handling short length traffic being met by the grant of suitable allowance or of a suitably large share to the less favoured line when dividing the total payment between the railways concerned."* This recommendation has not been adopted by the Indian railways even to this day. The practicability of this measure has increased since the acceptance of the principle of nationalisation on the recommendation of the Acworth Committee. Now that more important lines are both owned and managed by the State, it should treat all these lines as one system in rating through traffic.

Maxima and Minima Rates laid down by the State

The maxima and minima of rates and fares were laid down by the Government of India in this historic resolution. But they could not be of much use, because the maxima and minima rates were the same except for the special class. The railway companies were left no discretion to alter or vary the rates. This absolute fetter on the discretion of the railway companies led to strong protests, with the result that the schedules were revised in 1891. Under the revised schedules, the railway companies were given wide latitude. Unfortunately, the railway companies did not make proper use of the latitude left to them and formulated a rates policy prejudicial to the interests of the country. Higher rates were levied which handicapped the growth of trade and industries, as was shown by Mr. Robertson.

It has already been stated that the State had not permitted construction of competitive lines which was responsible for the

* Report of the Industrial Commission, para. 173.

absence of competition on Indian railways till 1880. The Rajputana-Malwa Railway brought in the era of competition which lasted sufficiently long. During this period, substantial reductions were effected in rates, though largely for competitive traffic. Competition spurred the railways to efficiency and economy. The railway administration, for the first time, took the initiative in reducing rates and attracting traffic. Till 1880 the reductions in rates were initiated by the Government. But after 1881 things took a turn for the better. The era of competition proved beneficial to the railways and the general public alike, because the State control, however inadequate, prevented the lines from resorting to demoralising and destructive forms of competition.

It will be instructive at this stage to examine the nature of inter-railway competition, and the effect it had in improving the efficiency of our railroad system. We have already referred to reduction in rates to Bombay after the opening of the Rajputana-Malwa Railway.

Inter-railway Competition

The opening of the Indian Midland Railway from Agra to Jhansi, Jhansi to Itarsi, and Cawnpore to Jhansi in 1889 opened out an alternative route for traffic between Northern India and Bombay on broad gauge. It was anticipated that the opening of the Indian Midland Railway would afford relief to the Ajmer-Ahmedabad section of the Rajputana-Malwa Railway, but on the completion of the line, competition was at once started between the B. B. & C. I. and I. M. & G. I. P. Railways for the Bombay traffic and between the I. M. and E. I. R. for traffic to Calcutta. The reductions in rates resulting from the competition for port traffic were substantial. For instance, the rate for wheat from Cawnpore to Calcutta was reduced from Re. 0-9-9 per maund to Re. 0-7-8 per maund, in response to the reductions made by the I. M. and G. I. P. Railways in the rate from Cawnpore to Bombay from Re. 0-12-8 to Re. 0-10-9 per maund, because Calcutta wanted to maintain a difference of 3 annas per maund in order to counterbalance the difference between the ocean freights from Calcutta and Bombay to Europe.*

The opening of B. N. Railway from Nagpur to Asansol in 1891-92 placed the produce of the Central Provinces within the

* Ghose: "Monograph on Indian Railway Rates," p. 47.

reach of the Calcutta buyers. The B. N. Railway, having its connection with the E. I. Railway at Katni, opened up an alternative route for traffic between Katni and Calcutta, and also for traffic from the N. W. Provinces and Oudh to Central Provinces. The distance from Cawnpore to Nagpur on the B. N. route *via* Katni was shorter by 61 miles, than the alternative route *via* Jhansi and Itarsi on the I. M. and, G. I. P. Railways. The competition that ensued was not settled till 1898. The opening of B. N. Railway led to the development of timber and coal traffic. This line placed the rich forest tracts, abundant in sal timber, lying contiguous to the line, within easy access of markets. Timber traffic increased rapidly. The rate charged was 1/6th pie per maund per mile, and later on was reduced to 1/8th pie per maund per mile for distances beyond 400 miles. In order to develop traffic to Calcutta, B. N. Railway in co-operation with the E. I. Railway, for long distance traffic from stations near Nagpur, quoted a rate of 1/9 pie per maund per mile.* nearly the minimum permissible. These reductions in rates were followed by reduction on the G. I. P. Railway from Nagpur to Bombay.

The B. N. Railway, in order to encourage the introduction of Berar and Central Provinces cotton in Bengal, made a substantial reduction in the rate for cotton, from *via* Nagpur to *via* Asansol, and reduced the classification of cotton from second class to special class, for leads of 600 miles and more, so as to allow of a lower rate than 1/6th pie per maund per mile, which was the minimum rate for second class authorised by the Government. Thus the B. N. Railway could quote a rate of nearly 1/7th pie per maund per mile. The G. I. P. Railway, fearing the diversion of the export of cotton to Calcutta, also reduced the rates to Bombay from Nagpur and stations west of Nagpur and the Berar on this Nagpur branch.

In 1896-97 came up the Calcutta-Bombay rivalry in rates from Northern India. Competitive rates were quoted to Calcutta and Bombay for wheat and oilseeds from N. W. F. Provinces and the Punjab. The Bengal Chamber of Commerce claimed reduced rates, on the ground that the Calcutta port was not getting the advantage of lower operating costs of the E. I. Railway, and that it was not fair to have same mileage rates for Calcutta as for Bombay, because the railways leading to Bombay were more costly to work, on account of high gradients and the absence of

* Ghose: "Monograph on Indian Railway Rates," p. 58.

heavy local traffic, whereas the cheap cost of coal and other natural conditions on the E. I. R., and its feeders, gave these lines special advantages in the matter of their ability to grant cheaper rates than the G. I. P. Railway serving Bombay. The Bombay Chamber of Commerce, on the other hand, argued that the bulk of the traffic from the Northern India and the Punjab to Bombay was carried by the B. B. & C. I. Railway having the shortest route and free from the handicaps of the G. I. P. Railway. However, it can be safely said that the power of granting reduced rates was greater in the case of E. I. R. Whereas the average rate charged by the B. B. & C. I. R. was higher than 8 pies per ton mile, the E. I. R. rate was 4.87 pies only. In spite of this low average rate, the E. I. R., owing to its exceptionally low cost of operation and greater volume of traffic, was able to earn much larger aggregate revenue, even at a low profit per unit. This unhealthy competition would have laid a heavy toll upon both the parties and hence it was thought advisable to settle the dispute amicably.

The G. I. P. Railway was purchased by the State in 1900, but the working of this line as well as of the Indian Midland Railway was made over to the G. I. P. Railway. This amalgamation of the G. I. P. and the I. M. Railways and their acquisition by the State is important in the history of railway rates policy. Prior to 1898 the policy of the G. I. P. Railway was to charge high rates which retarded the development of traffic. This policy of high rates was vehemently criticised by the public, and in consequence, general reductions were made in 1898 in the rates of all classes of merchandise, except cotton and piecegoods. Lower rates were quoted on the goods carried in wagon loads as well as in small lots. These reduced rates were calculated to encourage an all-round development of traffic. Results justified these reductions, as will be seen from the following comparative figures :—

Year.*	Net Earning Thousand Rs.	Tons Thousand.	Rate per ton mile.	Average cost of carrying one ton per mile.	Average profit for carrying one ton per mile.
1896	15,405	1,856	9·21	4·05	3·92
1897	9,384	1,551	9·39	4·44	3·25
1898	1,41,102	2,056	8·05	3·57	3·48
1899	15,657	2,279	7·70	3·42	3·52
1900	16,567	2,322	7·50	3·28	3·54

* Compiled from Ghose: "Monograph on Indian Railway Rates," p. 104.

It can be seen that the reduction in rates was at once followed by an expansion in traffic and reduction in the average cost of haulage.

After the acquisition of the line by the State, the standard classification adopted on State Railways was introduced on the G. I. P. Railway in 1901, as well as the maxima and minima rates. But cotton and piecegoods were placed in a higher class than on other lines. Some of the points put forward in defence of the higher classification of cotton were :—

"(*a*) The rates have been in force for many years without demur from the trade.

"(*b*) The maximum rate is only applied at points where the traffic can bear it.

"(*c*) The reduced railway freights will not extend the area under cultivation.

"(*d*) The trade does not ask for any reductions and that the general consensus of opinion among those doing business in cotton is that reduced freights will not increase business.

"(*e*) The large capital on which interest has to be earned and the heavy working expenses on this railway owing to steep gradients, the ghauts, and the nature of the country traversed....."

The Tapti Valley Railway was opened for traffic in 1900, which provided an alternative route, though longer, for traffic in cotton from Khandesh to Bombay. The position of the G. I. P. Railway, having a shorter route, was stronger as compared with that of the new line. But high rates charged by the G. I. P. Railway on cotton traffic weakened its position. The classification of cotton on Tapti Valley Railway was second class, similar to that in force on the B. B. & C. I. Railway. This second class rate coupled with the special rate from Surat to Bombay tended to make the through rate by the new route cheaper than that by the G. I. P. route. However, agreement was soon reached between the parties, whereby the Tapti Valley Railway agreed to charge third class rate for cotton, which the G. I. P. Railway had been charging to preserve higher level of rates without any diversion of traffic to the alternative route.

In 1903, *the South Indian Railway* found that their long distance traffic in rice had not grown sufficiently and that it could

be further developed by low rates. Accordingly they reduced the rate for rice, when carried for distances beyond 350 miles, to the absolute minimum of one-tenth pie per maund per mile. The reduction in rates had desirable effect both on traffic and receipts, as can be seen from the following statement :—

Year.*	Tons. Thousands.	Rs. Thousands.	Year.*	Tons. Thousands.	Rs. Thousands.
1901	231	712	1904	219	758
1902	206	631	1905	262	920
1903	229	662	1906	264	975

It will be seen that for the first year (1904), although the total tonnage did not increase, and in fact was less than that of the previous year, yet the earnings were far better, indicating thereby that the long distance traffic was being stimulated. But soon traffic also began to grow and led to expansion of the area under cultivation. Thus the increase in the tonnage carried as compared with 1901 was 14 per cent. while the earnings improved by 37 per cent.

The E. I. Railway reduced its fares for third class passengers and proposed to charge $2\frac{1}{2}$ pies for distances up to 100 miles, and 2 pies to 300 miles, and $1\frac{1}{2}$ pies for all distances beyond 300 miles. It was feared that the reductions would mean immediate loss, but the traffic results soon dispelled the fear. The total number of passengers as well as earnings showed progressive increase.†

Reduction in Rates on Coal

The Government of India wanted to make liberal reductions in the rates for coal with a view to placing coal, at a cheaper price,

* Compiled from Ghose's "Monograph on Indian Railway Rates," p. 139.

† The increase in receipt was :—

Year.	Rupees. Thousands.	Year.	Rupees. Thousands.
1902	2,19,34	1905	2,39,28
1903	2,29,28	1906	2,51,01
1904	2,33,47		

within the reach of the industries of the various provinces in India, situated at great distance from the coal fields. But this could not be done unless the minimum rate for coal carried for long distances was reduced. Therefore, following reduced minimum rates were introduced from 1st September 1905 :—

	Per maund per mile.
For distances upto 300 miles	1/10 pie or 0.10
plus for any distances in excess of 300 miles and upto 500 miles inclusive ..	1/15 pie or 0.66
plus for any distances in excess of 500 miles	1/20 pie or 0.05

These rates, however, were minimum rates and were therefore permissive and not obligatory. But the railway authorities soon tried to reduce their rates for coal in order to reach the authorised minimum as soon as practicable.

The Government of India had also been considering the question of revising rates for military traffic. Vehicle rates were considered advisable. The railways were addressed in the matter, and it was pointed out to them that the primary object of the introduction of the vehicle rate was to obtain simplification. Accordingly in 1908 revised rates were introduced. They were slightly enhanced in 1911 as they had proved unremunerative to the railways.

The inter-railway competition, adverted to above, reveals the most striking characteristic of the Indian railway policy. It will be seen that the export and import traffic gained most from their competition, but nothing was done to stimulate the internal trade. No doubt, the internal trade also recorded marked progress with the extension of railway transport facilities, but that fades into insignificance in comparison with the growth in export and import traffic. Foreign trade was of primary concern to the railway authorities and the internal trade was relegated to a secondary place. This policy has left permanent impressions upon the industrial organisation of the country and to this day our industries feel the adverse effects of the same. To be brief, the railway rates policy stimulated the expansion of foreign trade at the cost of internal trade.

The necessity of lowering the level of freight

With the beginning of the twentieth century Indian railways ceased to be a burden on the tax-payers and became a paying concern. But the rates and fares were not sufficiently low. No doubt the traffic was growing but it was firmly believed that with a reduction in rates the growth would be further accelerated. Inter-railway competition had brought about some reductions but that could not adequately meet the growing needs of trade and industries. Increase in traffic, resulting from competitive rate reductions, ought to have been a sufficient stimulus to shrewd and capable traffic managers to reduce rates for non-competitive traffic as well, for that would have stimulated new traffic and decidedly furthered the interests of the railways. The impetus to trade and industries from lower railway rates cannot be over-emphasised.* Transport is the very life-blood of progress, and without the aid of efficient and economic transport facilities, industrial as well as the general development of a country must remain stunted. The importance of efficient transport facilities for India, where production has greater bulk and small value, in addition to great distances over which it has to be hauled, cannot be gainsaid. Transport costs figure prominently in the price of every commodity, and any reduction in the cost of transport with its reflex on prices is welcome by the poverty-stricken masses. It is more readily reflected in the increased consumption of articles which means added demand for transportation.

Robertson and Priestley's criticism of higher level of rates

At this time two railway experts, Mr. Robertson and Mr. Priestley, studied the railway situation in India, and were struck by the high level at which the rates and fares were fixed and the conspicuous lack of uniformity and simplicity in the tariffs of Indian railways. They emphasised the divergence between the railroad charges and the economic conditions of the people. After an extensive investigation, they came to the conclusion that the need for lower charges was all the more greater in a country like India, where masses are poor and the margin as well as the whole sum available for expenditure by the multitude is small. Mr. Robertson compared the railroad transport charges in India and in England, and found that the rates in India were too high

* Supra. Chapter I.

for the development of traffic.* Accordingly, he recommended that the rates for merchandise in India should be reduced by thirty to sixty per cent., for passengers by eighteen to forty per cent., and for coal from forty to sixty per cent. He further suggested the introduction of tapering and telescopic rates to help long distance traffic which is common in India.

Individualistic Railway Policy

Commenting on the individualistic policy of Indian railways and the necessity of through rates, Mr. Robertson remarked, "on through traffic, that is traffic going over more than one company's line, all fares and rates should be calculated on the through distance (this is really expected by the Railway Act, but in practice is rarely done), and the reduction should always be applied on the entire distance and not merely on the local distance of each railway. It is the practice that prevails in India of calculating rates on the distance to the junction only, which is to some extent responsible for a good many of high rates now obtaining, since the traffic only gets the benefit of sliding scales of rates on the local distance to the junction, instead of the whole distance over which the traffic is carried. But if the long distance traffic is to be developed in the manner that such traffic has been developed in America, the distance must be taken from the station of origin to the station of destination, and the charges calculated on this through distance at the reduced rates."†

In India there was an ample scope for the development of through traffic which the railway companies had not cared to foster. It was the duty of the Government as a predominant partner in the railway business and as the trustee of the public interests, to prevail upon the junior partners to adopt a more enlightened policy and co-operate in facilitating the movement of inter-railway traffic, so as to link up the different railways into one system. The Government was conscious of its duty and had made a provision in the Railway Act of 1890‡ for through rates, but to this day through rates in India are generally the sum of local rates of individual railways over which the consignment travels. Thus, rates policy as pursued on the Indian railways levies a heavy toll on long distance traffic.

* See Dr. Weld: "India's Demand for Transportation," p. 38.
† Report on the Administration and Working of Indian Railways, 1903.
‡ See Indian Railways Act, Sec. 42, Clause 4.

Besides, the general level of rates was also high. Mr. Priestley pointed out that "the American railways make their income by small profits per unit and large volume, while Indian railways make their income by large profits per unit and a smaller volume." This feature of the rates policy has restricted the utility of the "iron horse" in India.

Internecine Competition

Competition between railways *inter se*, and railways and waterways resulted in the reduction of rates, as previously referred to, and stimulated the development of traffic; but it was not an unmixed blessing. Unfair competition between the railways and waterways deprived the country of alternative and sometimes more efficient means of transport. The Tirumalavasal port was ruined due to an agreement between the South Indian Railway and the British India Steam Navigation Companies, whereby the latter Company ceased to call at the port. This agreement, though inconsistent with public interests, was sanctioned by the State, and the people were deprived of the beneficial results of fair competition. Besides, the State investigation had revealed that rail transport possessed no compensating advantages in the shape of reduced freight or quicker transit, in fact railway transport was often insecure and caused frequent delays in carriage, and the merchants at Shiyali had to pay two or three annas more per bag of rice to Colombo.* In short, the State should not have sanctioned this agreement which was detrimental to public interests.

"Block Rates"

'Block rates,' peculiar to India, are the other baneful products of railway competition. A block rate is a high rate, quoted with the object of retaining traffic on the line on which it originates, and preventing or blocking it from passing off, after only a short lead, on to a rival route.† These block rates have been used by the railways for blocking traffic passing over other railways, as well as against the waterways. The movement of traffic was therefore restricted and its artificial diversion fostered.

* Report of the Acworth Committee; Evidence, Vol. III, p. 91.

† The Acworth Committee Report, para. 152.

Alternative means of transport ruined

The alternative means of transport and healthy competition resulting therefrom, were sought to be eliminated and monopoly conditions created. The evidence placed before the Acworth Committee is replete with numerous instances of the disastrous policy of cut-throat competition, pursued by the railroad companies to drive out their competitors from the field. Broach* and Buckingham Canal cases bring to relief the unscrupulous practices resorted to by the railways, to which the Government was undoubtedly a party, for killing the alternative modes of conveyance. *Competition was crushed by the unfair manipulation of rates. The part played by the Government of India during this period can stand scant justification. It is the duty of the State to prevent unfair competition between the public carriers, and much more so when the State, as in India, owns one of the agencies of transport. The Government of India, being a predominant partner in the railway enterprise, instead of helping the destruction of waterways, should have followed the policy of judicious co-ordination of the different transport agencies, assigning to each its proper sphere where it can work most efficiently and economically. This would have fostered the growth of railways and waterways alike, each in its own sphere.*

The Era of Competition closed

The schedules of rates framed in 1891 continued till 1910, when important changes were introduced by withdrawing the special class and amalgamating it with the first class, with the result that the minima of the first class was replaced by the minima of the special class.† With the commencement of the Great War, general prices and wages began to rise and the railways in India found that whereas their operating expenses were rising, their earnings declined. The changes in the economic structure brought about by the Great War stressed the necessity of agreement and combination among the railways and closed the era of competition.

Railroad position during the Great War of 1914—18.

During the Great War, the supply of railway materials, for which India had to depend on foreign countries, was cut off.

* See the Acworth Committee Report, para. 153; Vol. III, paras. 4120, 5318, 5367, 5589, and 5590.

† Ghose, S. C.: "Monograph on Indian Railway Rates," p. 35.

Moreover, as India had to help England in the prosecution of the war, especially in the Eastern theatres, there came a heavy demand on the railways for transporting war materials and troops. This created a scarcity of railway facilities for non-military requirements. Railway resources were heavily taxed. The commencement of the war and the dislocation of the means of communication had already reduced India's foreign trade, but the scarcity of railway service, resulting from the insufficiency of the rolling stock and its marked diversion to military purposes, adversely affected the internal trade as well. Repairs and renewals were suspended.* The cumulative effect of all these factors was a serious deterioration in the efficiency and sufficiency of railway service.

Enhancement of Rates :—

In addition, a general enhancement of charges was effected in 1916. Passenger fares were increased with the view of restricting traffic. The restriction of passenger train service became imperative, in order to reduce the demands for materials required for the maintenance of locomotives and rolling stock, and to conserve the available locomotive power for the carriage of military and other essential traffic.† In fact, passenger traffic was positively discouraged. As for the increase in goods rates, apart from the requirements of military traffic which were pressing and encroaching upon those of commercial service, it was contemplated long before the war. The proposal for increasing the rates on goods traffic was considered for the first time during the Railway Conference Session at Simla in 1909. It was proposed then to enhance the rates to and from the ports for all commodities by 10 per cent. except for grains, for which the enhancements proposed were slight. The whole question was reconsidered by the railway representatives in 1916, and they decided that the increased rates should be put into force from 1st October of the same year.

* During the war, maintenance and renewal of the railway plant fell lamentably in arrears. The figures of programme revenue expenditure tell the true tale.

1913-14	6.1 per cent.	1916-17	3.3 per cent.
1914-15	5.7 „	1917-18	2.1 „
1915-16	4.6 „	1918-19	2.4 „

Before the war, normal expenditure was roughly 6% of gross earnings. Evidence of the Accountant General of Railways : Report of the Acworth Committee, Vol. III, para. 6512.

† The Administration Report of Indian Railways, 1916-17, Vol. I, p. 23.

The question of passenger traffic was again discussed in December 1916, and subsequently a large number of passenger trains were abolished. This measure failed to effect any material improvement in the situation. In view of the increasing military traffic further reduction in the passenger traffic was found necessary. Another meeting was therefore called at Delhi in March, 1917, which decided that on all principal broad gauge lines, the third class fare should be increased to the authorised maxima, and on others, where ordinary fare had been only two-thirds of the maximum, it should be increased by 25 per cent. It was also decided to increase the maxima of all classes as follows :—

(*i*) The maxima of first and second class fares from 18 and 9 to 24 and 12 pies per passenger per mile respectively.

(*ii*) The maximum of the intermediate class fare from 4½ to 6 pies per passenger per mile for mail and fast passenger trains only.

(*iii*) The maximum of the third class fares from 3 to 4 pies per passenger per mile for mail and fast trains only.

All concessions in fares which had hitherto been in force were withdrawn.*

Further, the Freight Tax Act of 1917 was passed, as a war measure, which came into force with effect from 1st April, 1917, and authorised the levy of a surcharge of one pie per maund on coal, coke and firewood and of two pies per maund on all other goods carried by rail or any inland vessel. The entire proceeds were to accrue to the Government and were estimated to bring in an additional revenue of about £500,000.

Post-War Transport Requirements

Working expenses of the railways had already risen considerably during the war,† due in no small measure to the upward trend of prices all over the world. It is essential to remember

* Administration Report of Indian Railways, 1916-17 ; Vol. I, p. 24.

† Working expenses rose from about 29 crores of rupees in 1911 to about 50 crores in 1919-20. The gradual rise was as follows :—

Year.	Working expenses.	Year.	Working expenses.	Year.	Working expenses.
1911	28.84	1914-15	32.75	1917-18	35.37
1912	30.16	1915-16	33.00	1918-19	41.8
1913-14 ..	32.93	1916-17	33.4	1919-20	50.66

that during the war replacements and renewals were almost suspended, otherwise the actual rise in the working expenses would have been still greater. Both efficiency and sufficiency of railroad services had suffered a serious setback. The need of rehabilitation became urgent immediately after the close of the war. The existing plant was far short of the traffic requirements and the service had considerably deteriorated. Further, the demand for railway transport services increased considerably after the signing of the peace treaty, and the resumption of communications with the European countries. India's foreign trade, which had received a setback during the war, revived. Besides, the vast schemes of rehabilitation launched in the belligerent countries increased the demand for raw materials from India, and stimulated her export trade. Prices also began to rise. Under these circumstances, it was but natural that the working expenses should rise. The working expenses rose from nearly 42 crores of rupees in 1918-19 to Rs. 51 crores in 1919-20. The upward trend of the expenses continued, and in 1920-21 they rose to 60.3 crores and in 1921-22 to 70.8 crores.* Profits, on the contrary, which had been rising during the war, dwindled gradually. In 1916-17 the net profits rose to 11.2 crores and in 1917-18 and 1918-19 to 14.9 and 15.9 crores respectively, but in 1919-20 they fell to 9.35 crores and still more in 1920-21.

Increase in Surcharge

From April 1921, the surcharge was substantially increased. For the then existing rates of one pie per maund on coal, coke and firewood, and two pies on all other goods, following rates were substituted :—(1) 6 pies per maund on coal, coke, firewood, food grains and fodder ; (2) two annas per maund on certain valuable commodities, such as piecegoods, pressed cotton, jute and ironware, timber and oils ; (3) one anna per maund on all other articles of general merchandise not falling within these two categories.† The surcharge was admittedly a temporary expedient.

The increase in the rate of surcharge, was opposed by the railway companies on the following grounds :—(*i*) the surcharge

* Report of the Railway Board, 1921-22, Part I, p. 17.

† See Budget Speech, 1921-22. The Hon. Member justified the measure. He said "I submit therefore that, quite apart from our present financial necessities, a moderate increase of rates, particularly on goods traffic, the rates for which are mostly on pre-war basis, could be amply justified on business grounds."

was no longer required as a war measure; (*ii*) that it was not treated as a part of gross earnings of the railway, to be shared by the company with the Government, like other earnings, and therefore involved a breach of contract on the part of the Government;* and (*iii*) if the necessity for raising rates was admitted, the principle underlying the surcharge was unsound and the incidence inequitable. The suggestion of the companies was that there should be a general increase of the maxima rates and fares, and that discretion should be allowed to them to adjust the rates within the maxima. But the Government justified its action as an emergency measure.

Surcharge replaced by higher maxima

The protests against the surcharge, however, multiplied, and the opposition grew stronger. The Acworth Committee also approved of the increase in rates and fares, in view of the world-wide rise in prices, but it advocated an increase in the efficiency as well as sufficiency of the railway service, as a condition precedent to any increase in rates and fares.† The Government of India, therefore, decided to replace the surcharge by higher maxima. This was intended to provide greater scope for the railways to readjust their charges to increasing costs, and the industries were expected to get more efficient service though at a slightly higher cost. The new schedule was as follows :—

INCREASE IN CLASS RATES.

(Rates in pies per maund per mile)

Before Revision.			After Revision.			
Class.	Maxima.	Minima.	Class.	Maxima.	Percentage of increase.	Minima.
First	.333	.100	First	.38	15% over old	
Second ..	.500		Second	.42	15% 1st.	
Third	.666		Third	.58	15% over old	
Fourth.. ..	.833	.166	Fourth	.62	25% 2nd.	
Fifth	1.0		Fifth	.77	15% over old	
Special ..	1.50		Sixth	.83	25% 3rd.	
			Seventh	.96	15% over old	
			Eighth	1.04	25% 4th.	
			Ninth	1.25	25% over old 5th.	
			Tenth	1.87	25% Special.	

* See Report of the Acworth Committee, para. 73.

† Report of the Acworth Committee, para. 72.

The new schedule, which came into force in April 1922, split up the classes into ten, in order to effect better grouping of articles in the classification. The increase in the maxima rates varied between 15 and 25 per cent. while the minima remained unaltered. One fails to understand as to why the Government did not review the minima rates simultaneously with the maxima.*

Unaltered minima have conferred increased discriminatory power on the railway officials. It has been a long standing complaint of the Indian industrialists that railways show undue preference to foreign trade, and neglect local trade and industries. Indian law of undue preference is too weak to help the mercantile community and remove the evils. The provision made in the Railway Act is vague and indefinite. Favour shown to export and import traffic as against the internal traffic has given rise to considerable discontent in the commercial circles. The evidence placed before the Acworth Committee is full of numerous instances. Complaining against the favourable rates to export and import traffic, the United Provinces Chamber of Commerce said, "the inequitable working of Indian railway rates has been the greatest grievance of the Indian industries against the railway policy. The rates are so framed as to favour the import of manufactured goods into the country, and the export of raw materials out of it."† It cannot be gainsaid that in view of the changed conditions of the country this policy needs a strong preventive. Without entering into a further discussion on this point, we think that the minima rates as at present prescribed are detrimental to the economic interests of the country.

Besides, in view of the working expenses which have risen appreciably since 1914, the maintenance of the old minima rates cannot be justified. Railway working expenses have shown a steady upward tendency, and therefore the old minima have in most cases gone below the costs incident to handling the particular traffic. The traffic manager has wide powers, and can use them to the detriment of the community, without being held responsible for the consequences of his act. This distrust of the powers of

* Criticising the policy, Mr. Shrinivasan says that if there is any present need for minima at all, it is illogical to continue the minima at the pre-war level, while maxima have been increased by 25 per cent. See, "Law and Theory of Railway Rates," p. 166.

† Report of the Acworth Committee, Vol. IV, p. 225.

the traffic officials has been fostered by the short-sighted and reactionary policy followed in the past.*

Recommendations of the Acworth Committee

The Acworth Committee realised the difficulties of the traders, and made several recommendations to alleviate them. Lack of the proper appreciation of the public requirements, has been the besetting sin of the Indian railway policy, which has been deplored by both official and non-official authorities. For the successful working of a railroad enterprise, it is essential that there should be close co-operation between the shipper and the carrier, and a proper appreciation of mutual difficulties. Sympathetic attitude and harmonious relations benefit both the parties. In order to achieve this, the Committee recommended the institution of Central and Local Railway Advisory Committees. This recommendation of the Committee was carried out, and has undoubtedly benefitted both the parties. But for the successful working of these Committees, it is necessary that the railway authorities should attach greater weight to the opinions expressed by the members, and the detailed reports of the proceedings should be made available to the public. Further, in view of the increasing complaints against the railway administrations, the Acworth Committee recommended the appointment of a Rates Tribunal. To bring the railway law abreast of times, an extensive revision of the Indian Railway Act of 1890 was also recommended. Revision of risk note forms, which were a constant source of dispute between the traders and the railways, was suggested. Almost all of these recommendations have been carried out, but grudgingly and in a half-hearted fashion. The measures of reform introduced, unmistakably show that the Government of India is still reluctant to take the Indian public opinion into confidence, in formulating the railway policy. It is due to this reluctance that the recommendations of the Acworth Committee have been adopted only in their letter and the spirit ignored. In certain cases even the letters of the recommendations have been brushed aside. For instance, the Acworth Committee was definitely against the contributions from railway revenues to the general budget. Similarly, the Committee recommended the establishment of a full-fledged and

* See the Evidence Vols. of the Acworth Committee Report, 1921. Also the East Indian Investigation Committee, 1871; and the East India Railway Committee, 1884.

independent Rates Tribunal for India, but the Government of India ignored the suggestion and established a tame body called the Rates Advisory Committee.

Another important feature of the railway rates policy to note, is that the Government of India have invariably charged higher rates and fares in order to tide over their financial difficulties, and have never tried to attract traffic by lower freights and improved services. In fact, this has been almost their traditional policy, as has been shown in the preceding section. Economy in the working expenses by a careful study of the traffic and its requirements, has never been seriously attempted. We shall take up the passenger traffic, and show how receipts could be increased and working expenses reduced, by a proper study of the traffic requirements.

Passenger Fares

In 1924, upper class fares were reduced whereas the third class fares remained untouched, and the Hon. Railway Member, Sir C. Innes, defended the action on the ground that the first and second traffic could not bear the rate. The statistics quoted were :—

Year.	First Class.		Second Class.	
	Number (Thousands).	Earnings (Lakhs).	Number (Thousands).	Earnings (Lakhs).
1921-22	1,163	138	6,549	228
1922-23	918	139	5,134	211
1923-24	817	129	4,538	195

It was argued that railways lost both in the volume of traffic and in receipts, and therefore the necessity for the reduction of rates was obvious. The action was quite justified. But, the necesssity for the reduction of third class fares was equally great. The claim of third class passengers was, however, disregarded and the Railway Member advanced the plea that there was a gradual increase, both in the traffic carried, and the receipts.* He seems

* The relevant statistics of third class passengers were :—

Year.	Number (Millions).	Earnings (Lakhs).
1921-22	491	2841
1922-23	503	3220
1923-24	513	3291

to have ignored the most elementary and yet the most important principle of railway economics, that 'charging what the traffic will bear' means charging what the traffic can reasonably bear. The limit of reasonable charge is not a point, but a margin between which the actual rate may be placed* The discriminatory power which the margin confers upon the traffic manager, should not be utilised to impose a tax upon the community, by expropriating all that the traffic can bear. Between the margin the traffic manager should so place the rates, as to bring about a maximum development of the traffic. The defence of the Railway Member, that third class passenger fares were reasonable because the traffic goes on, is not valid. In the case of necessaries of life, like transport service, a slightly higher rate would not curtail the demand and the burden would be passed on to the consumers. Here the burden was on the more necessitous members of the community.

On a critical examination of third class passenger fares, we find that the number of passengers in 1922-23, when the increased fares came in force, increased very slightly, though the receipts, because of the increase of 25 per cent., tell a little more hopeful tale. This slow rate of increase was maintained even in the next year 1923-24. The indifference of the railway authorities in encouraging third class traffic, was highly injurious to the community. Public interests were disregarded on the lame excuse of " taking risks " and " lack of sufficient coaching stock to carry the increased traffic."†

The slow increase of third class passengers traffic and its receipts in 1924-25, further strengthened the criticism of those who said that third class fares were not such as the traffic could reasonably bear, that they were a tax upon the community at large, and that the railways were no wiser in their action which depleted their earnings besides restricting traffic. The railway authorities, fortunately, realised the sagacity of their critics, though late, and the reductions in third class passenger fares were tried in 1926 with appreciable success. In 1927 the East Indian, the North Western and the South Indian Railways further reduced their fares.

* For fuller theoretical exposition of the point refer " Railway Rates in relation to Trade and Industries in India."

† Budget Speech, 1925-26, p. 12.

The industrial depression which followed thereafter and the steady upward trend of working expenses of the Indian railways, as referred to above, pressed heavily upon the finances of the railways and the Railway Reserve Fund was reduced to a negligible figure. Goods traffic was made the villain. This charge proved unfounded, because the increase in the working expenses was unprecedented, having almost negligible relation to the traffic. We shall, therefore, critically analyse the passenger traffic and earnings.

PASSENGER TRAFFIC AND EARNINGS IN LAKHS.

	1st Class.		2nd Class.		Int. Class.		3rd Class.	
	P. Nos.	E. Rs.	P. Nos.	E. Rs.	P. Nos.	E. Rs.	P. Nos.	E. Rs.
1913-14	8·1	69	23	89	120	103	3904	1838
1919-20 ..	11·1	129	64	218	102	170	4603	2769
1920-21	11·5	130	71	226	117	191	4903	2891
1921-22	11·2	138	64	229	93	145	5005	2875
1922-23	9·2	140	51	212	81	138	5029	3221
1923-24	13·7	131	107	203	120	141	5722	3333
1924-25	12·5	123	103	192	126	148	5818	3412
1925-26	11·7	120	105	189	140	160	6018	3476
1926-27	10·1	118	100	188	149	162	5784	3345
1927-28	9·11	114	100	196	174	169	5948	3439
1928-29	9·8	112	96	192	179	166	5917	3354
1929-30	8·4	104	91	184	179	159	6065	3411

As can be seen from the above statement, passenger traffic recorded a steady increase and with it the receipts. The decrease in the gross earnings of the railways cannot be explained by the passenger traffic. In 1929-30, the gross earnings of the State owned railways were Rs. 102.7 crores, showing a decrease to the tune of Rs. 1.63 crores over the earnings of 1928-29. When we look to passenger traffic we find that, far from showing any

decrease, it brought larger revenue than that of the preceding year. Total passenger traffic increased by about 150 lakhs. It is, therefore, obvious that this traffic should have been properly developed by providing efficient and adequate facilities. Passenger traffic, if properly developed, would have materially improved railway finance.

When we make a little more detailed study of the above table, we find that first class passenger traffic remained almost steady from 1919-20 to 1921-22, when a general increase in the fares was brought about. Thereafter, the traffic further decreased, as previously referred to, though the decrease was set off a little by the increase in season tickets. But the earnings went on steadily falling. The reduction in rates in 1924 did not ease the situation, and the earnings dwindled considerably till they fell to about a crore of rupees. Therefore the general trend of first class traffic is not promising. The trend of second class passenger traffic has been similar to that of the first class, though it is not so disappointing. In the second class passenger traffic, as in the first class, the point to be noted is that both the number of passengers and earnings have fallen steadily. It is clear, then, that traffic has not responded to the reductions in fares referred to above. To meet railway deficits, the fares charged to first and second class passengers should have been raised.

Looking to the third class passenger traffic, we find that there was a gradual increase in earnings as well as the number of passengers. No doubt there were some slight variations but they do not affect our conclusion. Taking the last year 1929-30, we find that both the number of passengers and earnings recorded a marked increase, the former from about 592 lakhs to 606 lakhs, and the latter from about Rs. 3,554 lakhs to Rs. 3,411 lakhs. In fact, the third class passenger traffic proved the saviour of all other classes. As the foregoing statement indicates, the earnings of all other classes decreased in 1929-30. Profiting from the experience, the railways should have—in their own self-interest—tried to foster this lucrative and reliable traffic. The historical growth of the third class passenger traffic, reviewed in preceding pages, clearly brings out the reliable character of this traffic, on which the railways can depend in times of need. It is the milch cow of Indian railway finance.

* The earnings of the passenger traffic in 1929-30 were 38.6 crores.

The Scope for Economy

We shall now review the figures of passenger mileage and train mileage, so as to definitely locate the scope for retrenchment. The figures of class I Railways are as follows :—

Year.	Passengers (lakhs).	Passenger miles (crores).	Train miles (lakhs).
1924-25	5690	1910	798
1925-26	5894	1951	842
1926-27	5950	1960	889
1927-28	6135	2091	938
1928-29	6082	2125	979
1929-30	6231	2219	1047

The increase in passengers was fairly stable, as also the passenger mileage. The increase in passenger mileage was about 16 per cent. from 1924-25, but the train mileage increased by about 31 per cent. There was, thus, a disproportionate increase in train mileage, unwarranted by the growth in the volume of traffic. It cannot be ignored, that the increase in train mileage means the provision of better accommodation facilities to the passengers, but the waste of train mileage run has to be carefully avoided. The waste of mileage has been increasing on Indian railways, due mainly to over-feeding of the high class passengers. The facilities provided to first and second class passengers are more than necessary. No wonder, then, if the passenger load came down from 239 in 1924-25 to 212 in 1929-30. The aim of every traffic manager is to secure high average load per train, which means reduced costs of handling per unit. It can hardly be gainsaid, that the waste of train mileage needs to be minimised, which will go a great way in reducing the working expenses.

The excess of the supply of the passenger railway service over the demand for it, necessitates a further analysis of its supply and demand. No doubt, we have anticipated a part of the present discussion and conclusions in our preceding review, yet it would not be without interest to go in a little more detail. The obvious division is into four classes, and we shall examine the demand and supply of railway transport service for each class separately. From the figures noted above, we have seen that on the demand side the numbers as well as earnings of third class passengers have

shown a steady increase, and as for the supply, the notorious fact of overcrowding of third class compartments need hardly be reiterated. The point is that one seeks in vain for any waste in this class. On the contrary, it is being complained since long that the travelling facilities for this class, most paying to the railways and yet ill-provided, should be increased. Turning our attention to Inter class, we find that here too the increase in number of passengers as well as the earnings therefrom, have shown a fair and steady upward trend. The Inter class compartments are fairly well occupied so that the waste may be said to be almost nil. It is desirable, moreover, that the facilities for travelling by Inter class should be increased so that the middle class people, who do not like to pay high second class fares and yet find it inconvenient to travel in the suffocating third class compartments, should be attracted to Inter class. The best utility of this class would be, that it would attract large number of passengers from the third class.

Knocking at the door of first and second class, we find that here is ample scope for economy in many directions. Falling receipts from these classes, notwithstanding the attractions offered in form of lower rates and better facilities, demonstrate the reduction in demand, more so in the first class. The number of first class passengers fell from 9 lakhs in 1928-29 to 8 lakhs in 1929-30, while those of second class fell from 96 lakhs to 91 lakhs. The earnings of first class fell from 112 lakhs in 1928-29 to 104 lakhs in 1929-30, and of second class from 192 lakhs in 1928-29 to 184 lakhs in 1929-30. On the supply side, we find that no reductions have been effected. It is generally found that whereas the third class compartments are crowded to suffocation, first class compartments run almost vacant and the second class not fully occupied. Thus the volume of traffic in the higher classes, as a whole and per train, does not seem to justify the coaching stock constructed for the exclusive use of these classes. Here the axe of retrenchment should be properly applied so as to reduce the excessive passenger train mileage.

Thus, in our study of the post-war (pre-depression) working of Indian railways, we find that the disparity between the working expenses and gross earnings is getting more pronounced; it is like the partnership of a slow steed and a fast pacer. The operating ratio,

therefore, recorded a marked upward trend, and more so on the State-managed lines, than on those managed by the companies.* The efficiency of the Company managed lines is greater than the lines managed by the State. This, however, does no discredit to the sound and healthy principle of State management of public utility undertakings ; it merely shows that the present system of State management of railways in India is defective, and strengthens the plea for its radical reorganisation. What the community needs is an efficient and economical transport service, promoting the best interests of its members, which can be best secured by State management, subject to effective regulation by an impartial, competent and independent body.

Rates Policy during 1930-40

Passenger Fares

With the setting in of the depression, railway receipts received a serious setback, due to decline in traffic, and the working expenses, instead of falling, tended to rise. This was due to the legacy of faulty railroad management. Under these circumstances, the railway authorities ought to have made serious efforts to explore all possibilities for major as well as minor economies, in order to reduce working expenses. At the same time, traffic requirements ought to have been critically studied and facilities improved, which would have enabled the railways to check a decline in receipts. This would have required some hard thinking on the part of railway authorities. Instead, the railways resorted to an easy course, to which they had been accustomed, of increasing their receipts by raising rates and fares, essentially a short-sighted

* Railways.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.
	State-managed Railways.				
E. B.	64.9	67.0	69.9	79.4	69.8
E. I.	58.8	60.1	62.6	63.7	61.2
G. I. P.	65.1	65.9	69.9	78.4	71.1
N. W.	66.8	70.5	73.9	73.1	65.1
Burma	..	..	62.7	72.2	66.9
	Company-managed Railways.				
A. B.	58.9	61.3	68.3	72.9	68.9
B. N.	67.9	69.1	72.5	83.6	77.2
B. & N. W.	44.6	39.1	38.7	49.1	43.9
B. B. & C. I.	62.9	62.6	64.3	68.2	62.1
M. & S. M.	55.1	52.9	54.0	61.7	56.3
S. I.	54.0	57.4	54.4	59.2	56.7
Burma	58.7	65.1	..	..	..

policy. Towards the end of 1930 rates and fares were raised on the principal railways, and the Railway Board argued that these adjustments, while resulting in "increased revenue," would not "affect the free movement of traffic."* During the economic depression any increase in rates and fares is apt to affect the movement of traffic adversely, and more so when the burden of charge is already very heavy. In the following year, the increase in rates and fares became more general. As regards fares, several railways raised fares for all classes and some confined the increase to third class traffic only. The rates for coal were enhanced on a number of more important railways by the imposition of a surcharge of 15 per cent. In addition rates were raised on several other commodities.† Apart from the adverse effects of the trade depression on railroad traffic, motor truck competition was making heavy inroads on railway receipts. In 1932, therefore, most railways introduced return journey tickets and reduced rates for parcel traffic to meet motor bus competition between several points. Extra services were also introduced to recover the traffic from motor buses.

An important experiment was made on the N. W. Railway to develop third class passenger traffic. Revised third class passenger fares were introduced with effect from 1st December, 1933. These revisions included a reduction in the previous basis of charge of half a pie per mile for distances up to 50 miles, and of a quarter pie per mile for distances from 51 to 300 miles, and an increase of half a pie per mile for distances over 300 miles. The general effect of the revised basis of charge was a reduction of fares up to distances of 460 miles, and an increase of fares for distances over that distance. In short, this was an experiment to recover traffic from motor buses, with their increased length of haul, particularly on the N. W. R., to the railway system. It meant an adjustment of the rate structure to meet the new situation, created by the advent of motor bus, which had come to stay. The railways had fortunately realised the vitality of the new form of transport, and were forced to revise their rate structure built on the monopoly basis. The Railway Member said: "Speaking for Indian Railways generally, I would like to combat any impression that they desire to maintain, at any cost and by any means, a

* *Vide*, Railway Board Report, 1930-31, Vol. I, p. 22.

† *Vide*, Railway Board Report, 1931-32, Vol. I, p. 19.

monopolistic position from which to exploit the public. True, they cannot be expected to welcome unequal competition with open arms, but they recognise its inevitability and appreciate the fact that they must meet it largely by better and more attractive service."* The reduction of fares for short distance journeys was a welcome change, but the raising of fares for long distance traffic was undesirable. We have already shown that the third class passenger fares needed reduction.

The fares on the G. I. P. Railway were revised with, effect from 1st April, 1934, as follows :—

Previous. Mail or Express.	Pies per mile.	Revised. Mail or Express.	Pies per mile.
1 to 50 miles ..	5	1 to 50 miles ..	5
+ 51 to 150 ,, ..	4½	+51 miles and over ..	3
+151 to 300 ,, ..	3		
+301 miles and over ..	2½		

Ordinary.	Pies per mile.	Ordinary.	Pies per mile.
1 to 50 miles ..	4	1 to 50 miles ..	4
+ 51 to 150 ,, ..	3½	+51 miles and over ..	3
+151 to 300 ,, ..	3		
+301 miles and over ..	2½		

The experiment made by the G. I. P. Railway in the alteration of fares, was followed up by other railway systems. The fares were changed on several railways. On the N. W. Railway the basis of third class fares were altered, from 1st July, 1936, as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
1 to 50 miles ..	3	1 to 300 miles ..	3
+ 51 to 300 ,, ..	2¾	+301 miles and over ..	2½
+301 miles and over ..	2½		

* *Vide*, Budget Speech for 1934-35, para. 10.

The E. I. Railway revised the fares for week-end return tickets, with effect from 1st July, 1935, as follows :—

Previous.	Single fare.	Revised.	Single fare.
1st, 2nd and Inter Class	1⅓	16 to 30 miles ..	1½
		+31 miles and over ..	1⅓
3rd Class—			
16 to 30 miles	1⅓	16 to 30 miles ..	1½
and 31 miles and over ..	1½	+31 miles and over ..	1⅓

The South Indian Railway raised the first and second class fares, with effect from 1st December, 1935, as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
First Class—			
1 to 150 miles ..	18	All distances	21
+151 miles and over ..	15		
Second Class—			
1 to 150 miles	12	All distances	12
+151 and over	9		

The basis of first class fares was further raised from 21 pies to 24 pies with effect from 1st July, 1938.

The G. I. P. Railway altered the basis of first, second and third class fares, with effect from 1st April, 1936, as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
First Class—			
1 to 50 miles ..	24	1 to 300 miles ..	24
+151 miles and over ..	18	+301 miles and over ..	18
Second Class—			
1 to 150 miles ..	12	1 to 300 miles ..	12
+151 miles and over ..	9	+301 miles and over ..	9
Third Class—Mail or Express in through booking			
1 to 50 miles ..	4	1 to 50 miles ..	5
+51 miles and over ..	3	+51 miles and over ..	3

The B. B. & C. I. Railway raised the bases of first and second class fares, with effect from 1st April, 1936, as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
First Class—			
1 to 150 miles ..	24	1 to 300 miles ..	24
+151 miles and over ..	18	+301 miles and over ..	18
Second Class—			
1 to 150 miles ..	12	1 to 300 miles ..	12
+151 miles and over ..	9	+301 miles and over ..	9

The A. B. Railway made an important experiment in passenger transport services. A single upper class was adopted, in place of first and second class accommodation previously provided, with effect from 1st December, 1936, and the bases of the new first class fares with those for the old first and second classes compare as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
First Class—			
1 to 300 miles ..	30	All distances ..	18
+301 miles and over ..	16		
Second Class—			
1 to 300 miles ..	15		
+301 miles and over ..	9		

Jodhpur Railway also enhanced the bases for first and second class fares, with effect from 1st June, 1936, as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
First Class—			
1 to 150 miles ..	24	1 to 300 miles ..	24
+151 miles and over ..	18	+301 miles and over ..	18
Second Class—			
1 to 150 miles ..	12	1 to 300 miles ..	12
+151 miles and over ..	9	+301 miles and over ..	9

On the E. B. Railway the bases for intermediate class fares were altered, with effect from 1st June, 1936, as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
1 to 150 miles ..	6	1 to 300 miles ..	5
+151 miles and over ..	4½	+301 miles and over ..	4½

The E. I. Railway raised the bases for third class fares, with effect from 1st June, 1936, as follows :—

Previous.	Pies per mile.	Revised.	Pies per mile.
1 to 50 miles ..	3½	1 to 50 miles ..	3½
+ 51 to 300 miles ..	2¾	+ 51 to 300 miles ..	3
+301 miles and over ..	1¾	+301 miles and over ..	2

Passenger fares recorded a general increase, with effect from 1st March, 1940, of one anna in the rupee for all traffic except fares not exceeding one rupee. In support of the increase in fares the Railway Member argued: "In respect of passengers we propose, for the present, a smaller enhancement. Fares will be increased by one anna in the rupee, and the increase will not be applicable to fares not exceeding a rupee. This means, so far as third class fares are concerned, that for distances up to 50 miles, fares will remain as they are, so that journeys to work and most of the journeys within a district will, for the third class passenger, be no dearer than before."* If the receipts do not come up to the expectations, the passenger fares may be raised still more in future. In his desire to increase the revenue, to make up the railway contribution to general revenues, the Railway Member has resorted to the easiest and most "obvious remedy" of "an increase in rates." In support of his policy, he has pleaded that "the traffic can bear increased charges." This is a short-sighted policy. The problem of increasing revenue is always important for a railway manager. But an efficient and enterprising railroad manager, possessed of foresight and good grasp of economic requirements of the people he serves, invariably adds to his

* *Vide*, Budget Speech, 1940-41, para. 19.

revenues by carrying larger volume of traffic at lower costs, which an increase in the efficiency of his services and reduction in charges enables him to do. Railroad industry is one of heavy fixed and specialised investment, with large unused capacity. An enlightened railway manager, therefore, tries to develop traffic with scrupulous care by offering lower rates and more efficient services. He practises careful and well-thought-out discrimination in rate-making, and explores all avenues of major and minor economies in order to reduce his costs. He attracts, creates and carries traffic, if it pays its marginal cost and leaves some surplus, however small, to defray the overhead costs. He keeps a ceaseless watch over his working expenses, efficiency of service and the traffic, both present and potential. He does not merely wait and carry the tonnage offered; he creates traffic by formulating a suitable rates policy. An enlightened and far-sighted railway manager offers an invaluable spur to the economic development of a country. He is a great public benefactor. But, a short-sighted, sluggish and ill-informed railway manager can equally retard the development of trade and industries of a country, by imposing unwarranted tax through a faulty rates policy. A short-sighted rates policy is, therefore, a serious danger to the body politic, more so because it imperceptibly poisons the whole economic system and the symptoms of the disease can be seen only at a later stage.

We shall analyse the passenger traffic in order to find out the effects of alteration in rates.

PASSENGER TRAFFIC AND RECEIPTS.

(In lakhs.)

Year.	First Class.		Second Class.		Inter. Class.		Third Class.		Total.	
	Nos.	Earnings.	Nos.	Earnings.	Nos.	Earnings.	Nos.	Earnings.	Nos.	Earnings.
		Rs.		Rs.		Rs.		Rs.		Rs.
1929-30	8.0	1,04	91	1,84	1,79	1,59	60,65	34,11	63,43	38,58
1930-31	6.7	94	81	1,70	1,62	1,41	55,09	30,24	57,58	34,30
1931-32	5.1	83	59	1,54	1,24	1,23	48,70	27,75	50,58	31,35
1932-33	4.0	75	50	1,42	1,09	1,15	46,44	27,07	48,07	30,39
1933-34	3.9	73	48	1,37	1,06	1,12	45,35	26,00	46,93	29,24
1934-35	3.8	74	46	1,37	1,03	1,12	46,06	26,24	47,59	29,47
1935-36	3.6	75	45	1,41	1,05	1,11	46,78	26,36	48,31	29,64
1936-37	3.9	78	43	1,42	1,11	1,15	47,38	26,02	48,96	29,37
1937-38	4.0	79	42	1,44	1,13	1,22	50,53	27,63	52,13	31,08
1938-39	3.8	77	40	1,39	1,14	1,23	51,48	27,34	53,06	30,73

From the foregoing table, it will be seen that the passenger traffic has declined considerably as compared with the pre-depression period, due to severe setback in the trade and industries of the country. Another important cause of the decline in traffic is severe road competition. The Wedgwood Committee estimated that road competition had reduced railway net revenues by Rs. 4½ crores per annum, and that the loss was increasing.* The loss due to road competition would have increased much more, but for the suitable changes introduced in railway fares and the frequency of services. The third cause which explains the present position of passenger traffic, is the faulty rates policy pursued by the railway administrations. From the alterations in fares it will be seen that the lead given by the N. W. R. was followed by other important railways. This means in practice a slight reduction in fares for shorter distances to meet the road competition, whereas for the long distance traffic fares were raised. This penalty on the long distance traffic was unwarranted. We have already shown in our analysis of the passenger traffic during the pre-depression period, that lower fares are an invaluable inducement for passenger traffic in India, and that the traffic had invariably increased with reduction in fares. Therefore the right policy for the railways to follow was to introduce drastic measures of retrenchment during the depression, and energetically explore all avenues of economy in order to reduce working expenses, which had risen rapidly during the period of railroad prosperity. To this ought to have been added the measures calculated to improve the speed and frequency of service, which would have reduced materially the loss from road competition. The policy of raising fares was against the interests of both the railways and the public. The Railway Member himself admitted that "as a result of the examination of their tariffs undertaken by the railway administrations, it was found that there was no great scope for an increase in freights without risk of undue hardship to trade or further reduction in earnings."† And yet the railways raised their fares. To explain this anomalous situation, the Railway Member added:

* *Vide*, Report, para. 212.
Vide, Budget Speech, 1936-37, para. 5.

"Nevertheless, railway administrations are taking steps to make small increases in their freights, where these are possible, without involving a risk of one or other of the contingencies to which I have referred, and it is expected that as a result of these changes, an addition of about a crore may be made to our earnings in the course of 1936-37." A railway, being a monopolist supplying an essential service to the community, can easily add to its receipts by raising its rates and fares, for the traffic will continue to move up to a point even if the absolute level of charges is high. But when the level of charges rises beyond the ability of the traffic to bear the charge the flow of traffic receives a setback. A railway traffic manager can therefore successfully tax the community. Usually the charge levied is higher than the marginal cost and lower than the ability of the traffic to bear it, such as promotes maximum development of traffic. In short, the plea that traffic continues to flow in is not a conclusive proof of the reasonableness of the charge levied.

Further, it is interesting to note that the first class passenger traffic has fallen by more than 50 per cent. The second class traffic has also recorded a similar setback. Valuable economies could be secured by having only two classes for the passenger traffic, and call them first class and ordinary class. The charges for the first class should be higher than those levied for the second class at present. The A. B. Railway has made an important experiment in this direction, and it is hoped that the other railways would also try the same.

Rates for Goods Traffic

The trade depression affected both passenger and goods traffic. Rates were raised to prevent the decline in railway revenue. In 1932, rates on coal were raised by the imposition of a surcharge of 15 per cent. In addition, the railways, after an examination of their tariffs, increased the rates for several other commodities which they thought would be able to bear enhanced rates, according to the local conditions obtaining on their respective systems.* The earnings of State-owned lines fell from Rs. 95 crores in 1930-31 to Rs. 86 crores in 1931-32, representing

* *Vide*, Railway Board Report ,1931-32 Vol. I, p. 19.

a decrease of about Rs. 9 crores. This decline in earnings was due to the fall of both passenger and goods traffic. The earnings from passenger traffic on all railways fell from Rs. 34.3 crores to Rs. 31.4 crores, a decrease of 2.9 crores, while the earnings from goods carried fell by about Rs. 5.7 crores from Rs. 64.4 crores to Rs. 58.7 crores. The more important decreases in the movement of goods traffic were due to decline in jute, cotton and oilseed traffic.

The railroad receipts recorded a further decline during 1932-33. The earnings of State-owned railways fell from Rs. 86 crores in 1931-32 to Rs. 84 crores in 1932-33, representing a decrease of about 2 crores. The decline in earnings was mainly due to the fall in goods traffic. The earnings from passenger traffic on all railways were about Rs. 31.3 crores, almost the same as in the preceding year, while the earnings from goods carried fell by nearly two crores from Rs. 58.7 crores to Rs. 56.9 crores. The most important decreases in the movement of goods traffic were in oilseeds, food grains, kerosene, sugar, etc. The movements of certain articles, however, increased and prevented thereby a more serious setback in goods receipts. The traffic in raw cotton and manufactures thereof on class I railways increased from 1.30 m. tons in 1931-32 to 1.46 m. tons in 1932-33, and the receipts from Rs. 4.76 crores to Rs. 5.19 crores. Similarly, the receipts from iron and steel wrought, jute, gur, fuel, tobacco, fruits and vegetables, fodder, etc., increased during 1932-33. The surcharge on coal, which was imposed during the preceding year, proved useful in conserving revenue. During 1932-33 " many special reduced station-to-station rates were introduced on all railways, with a view either to assisting indigenous industries, encouraging movement of traffic or meeting competition with sea, river and road transport."*

In 1933-34 the railway receipts increased for the first time. The earnings of State-owned railways rose from Rs. 84 crores in 1932-33 to Rs. 86 crores in 1933-34. Goods traffic was responsible for the recovery. Goods receipts recorded substantial increase from Rs. 56.9 crores to Rs. 61.58 crores. This showed that the intensity of the depression was relaxing.

* *Vide*, Report of the Railway Board, 1932-33, Vol. I, p. 27.

The earnings of State-owned lines showed a further rise from Rs. 86 crores in 1933-34 to Rs. 90 crores in 1934-35. Goods traffic was mainly responsible for the improvement: the total tonnage carried having increased from 76.5 on tons in the previous year to 84.5 on tons in 1934-35 and the earnings from Rs. 61.58 crores to Rs. 64.35 crores. The net ton mileage also increased from 18,707 m. to 20,352 m. Passenger earnings recorded slight improvement.

Some important changes were made in rates on certain articles. A rebate of 25% of the freight was allowed, over the N. W. Railway, for wheat exported overseas, west of Aden *via* Karachi. The rates for rice and paddy were reduced for distances from 401 to 500 miles from 1st April, 1934, and for 150 to 175 miles from 1st June, 1934, to stimulate the movement of Tanjore district rice and paddy to inland stations, and to assist the Indian rice to compete with imported rice. Reduced rates for distances from 175 to 400 miles were already in force. Special reduced wagon rates were introduced over the E. I., N. W. and B. & N. W. Railways for sugarcane consigned to sugar factories. Specially low (reduced) rates were quoted for sugar from sugar factory stations in the U. P., Behar and Punjab.

The gradual recovery in the traffic and receipts of the railways continued during 1935-36. The earnings of State-owned lines increased from Rs. 90.20 crores in 1934-35 to Rs. 90.65 crores in 1935-36. Goods traffic showed an appreciable improvement: The total tonnage carried having increased from 84.5 m. tons in the previous year to 86.9 m. tons in 1935-36, and the earnings from Rs. 64.35 crores to Rs. 64.69 crores. The net ton miles increased from 20,352 m. to 20,554 m. The improvement in goods earnings was due primarily to larger movements of cotton, raw and manufactured, metallic ores and iron and steel wrought. The increase was, however, partly offset by decrease in rice, raw jute, food grains and oilseeds traffic.

A few important changes were made in rates on goods traffic. The surcharge of 15 p.c. on coal, which had been imposed in January 1932, was reduced, with effect from the 1st April, 1935, to 12½ per cent., subject to a maximum of Re. 1 per ton. The rates in wagon loads for manures were raised on certain railways. The E. I., A. B. and E. B. Railways raised, with effect from 1st

January, 1936, the bases of charge for manures in wagon loads, from one-tenth pie per maund per mile, as follows :

	Per maund per mile.
	Pie.
1 to 150 miles	0·14
+151 miles and over ..	0·11

The M. & S. M. Railway also raised the basis of charge, from one-tenth pie to 0.14 pie per maund per mile, with effect from 1st February, 1936. The rates on petrol and liquid fuel were altered on principal railways, the new rate being 0.83 pie per maund per mile for petrol and 0.42 pie per maund mile for liquid fuel.

The traffic receipts of State-owned railways rose to Rs. 95.48 crores in 1936-37 as against Rs. 90.66 crores in 1935-36, an increase of Rs. 4.83 crores. Goods traffic was mainly responsible for the increase, the goods earnings having risen from Rs. 64.69 crores in 1935-36 to Rs. 69.79 crores, though the tonnage carried decreased from 86.9 m. tons to 86.3 m. tons. The increase in earnings was due to the increase in the average lead. The net ton miles increased from 20,554 m. in 1935-36 to 21,435 m. in 1936-37 —an increase in the average lead per mile from 236 to 248 miles. The increase in traffic was chiefly under cotton raw and manufactured, sugar refined and unrefined, oilseeds, food grains, raw jute, fuel and petrol.

Some important alterations in the rates on goods traffic were made during the year. The G. I. P. Railway revised the rates on coal traffic, with effect from 1st May, 1936, as follows :—

Previous.	Pie per maund per mile.	Revised.	Pie per maund per mile.
(*i*) For traffic upto 200 miles	0·165	(*i*) For traffic up to 200 miles	0·165
(*ii*) For traffic over 200 miles :—		(*ii*) For traffic over 200 miles :—	
1 to 300 miles ..	0·100	1 to 300 miles ..	0·110
+301 to 500 ,, ..	0·066	+301 miles and over ..	0·050
+501 miles and over ..	0·050		

These rates were further revised, with effect from 1st January, 1937. The revised rates brought in force were as follows :—

	Pie per maund per mile.
(*i*) For traffic up to 250 miles :—	
1 to 200 miles	0·165
& 201 to 250 miles	0·130
(*ii*) For traffic from 250 to 400 miles :—	
1 to 300 miles	0·110
+301 to 400 miles	0·050
(*iii*) For traffic over 400 miles :—	
1 to 200 miles	0·150
+201 to 400 ,, ...	0·060
+401 miles and over	0·050

The G. I. P. Railway raised the basis of charge for manures in wagon loads from one-tenth pie to 0.14 pie per maund per mile, with effect from 1st April, 1936. Similar increase was effected by the B. B. & C. I. Railway, with effect from 1st May, 1936. To encourage the return of dry cows from Calcutta to the grazing areas, (*a*) a rate of six annas per 4-wheeled vehicle per mile was introduced, with effect from 17th July, 1936, from any N. W. Railway station to Howrah : the return journey from Howrah, to the original booking station at any time within a period of nine months being free. (*b*) From 1st November, 1936, a rate of two annas per 4-wheeled vehicle per mile was introduced from Howrah applicable (1) over the E. I. and N. W. Railways, when consigned to any station on the N. W. Railway, and (*ii*) over the E. I. Railway, when consigned to any station on the G. I. P. and B. B. & C. I. Railways by certain junctions.

The gross traffic receipts of State-owned railways declined from Rs. 95.48 crores in 1936-37 to Rs. 95.01 crores in 1937-38. The total goods traffic carried increased from 86.3 m. tons to 87.3 m. tons to 87.3 m. tons. The receipts from goods traffic, however, recorded a setback from Rs. 69.79 crores in 1936-37 to Rs. 68.66 crores in 1937-38.

There was a further decline in the gross traffic receipts during 1938-39. The receipts of State-owned railways fell from Rs. 95.01 crores in 1937-38 to Rs. 94.48 crores, a decrease of about Rs. 53 lakhs. The total freight carried increased from 87.3 m. tons to 88.4 m. tons, but the earnings declined from Rs. 68.66 crores to

Rs. 68.57 crores. Net ton miles also decreased from 22,777 to 22,159 millions. The average freight earned per ton per mile for all commodities increased slightly from 5.78 pies in 1937-38 to 5.98 pies in 1938-39.

The bases of charge for coal were revised, in accordance with the recommendations of the Railway Rates Advisory Committee, with effect from 1st December, 1938, as under :—

Old Basis of Charge.	Pie per maund per mile.	Revised Basis of Charge.	Pie per maund per mile.
1. For traffic carried for distances 250 miles and under :—		1. For traffic carried for distances 400 miles and under :—	
(*a*) For all distances up to 200 miles inclusive	0·165	(*a*) For all distances up to 175 miles ..	0·165
(*b*) Plus for any distance in excess of 200 miles and up to 250 miles inclusive	0·130	(*b*) Plus for any distance in excess of 175 miles and up to 400 miles inclusive	0·060
2. For traffic carried for distances over 250 miles and up to 400 miles inclusive :—		2. For traffic carried for distances over 400 miles :—	
(*a*) For all distances up to 300 miles inclusive	0·110	(*a*) For all distances up to 200 miles ..	0·150
(*b*) Plus for any distance in excess of 300 miles and up to 400 miles inclusive	0·050	(*b*) Plus for any distance in excess of 200 miles and up to 400 miles inclusive	0·060
		(*c*) Plus for any distance in excess of 400 miles ..	0·050
3. For traffic carried for distances over 400 miles :—			
(*a*) For all distances up to 200 miles inclusive	0·150		
(*b*) Plus for any distance in excess of 200 miles and up to 400 miles inclusive	0·060		
(*c*) Plus for any distance in excess of 400 miles ..	0·050		

The declaration of war in September, 1939, affected materially the movement of traffic on railways. The revised estimate of earnings from State-owned lines during 1939-40 showed an increase from the budget estimate of Rs. 94.75 crores to Rs. 97.3 crores, an improvement of Rs. 2.55 crores. The increase in earnings was due to goods traffic. As the Railway Member* stated, 'the income up to middle of August failed to come up to expectations. The fall was particularly marked in passenger earnings, but traffic in sugar and some other food stuffs was also disappointing. Since the advent of war, however, there has been a marked change. Goods earnings began to increase as soon as war appeared to be imminent and have maintained the upward trend. The passenger earnings have been rather slow to respond, but the signs are encouraging.' Hence the improvement in receipts noted above. The future outlook is sufficiently encouraging.

Under these circumstances, the railway authorities ought to have redoubled their efforts for improving the efficiency of railroad system and spared no pains to provide adequate facilities to the traffic available. This is not all. They ought to attract traffic by offering prompt and better facilities. Such policy would materially improve the railroad earnings, from which an adequate reserve fund should be built up, to be used during the days of business recession. There is no need for raising the rates and fares. The railway industry being one of heavy fixed investments, operating costs constitute a relatively small portion of the total costs. There is a large unused capacity. Fuller utilisation of the railroad equipment, as a result of increased volume of traffic, adds substantially to net revenues. In the case of Indian railways, however, the obligation to contribute 1 p.c. on capital at charge from the railway revenues to the general budget, imposed by the separation convention, operates as a serious handicap to the proper working of the railway system and imposes a strain on the trade and industries in the form of higher freight charge.

The Railway Member argued†: we must look for the means of increasing our revenues, and the obvious remedy is an increase in rates. And this is clearly the sound course in the present situation, when the traffic can bear increased charges. The

* *Vide*, Budget Speech 1940-41, para. 4.

† *Vide*, Budget Speech, 1940-41, para. 16.

railways, like every other form of industrial enterprise, must expect marked fluctuations in their working. Periods of general prosperity are followed only too surely by periods of depression, and as the financial results of railway working depend closely on the economic situation in the country, a period of depression for the community is also a period of depression for the railways. Thus, if railways fail to take advantage of times when the demand for their services is brisk, the inevitable result is that when the demand falls off, they will be unable to meet their obligations to the tax-payer. That is precisely what happened in the years following 1928, the important consequence being that in 1931-33, when the need of the tax-payer was greatest, the railways were quite unable to fulfil their obligations to him and had indeed, at a time of depression in industry, to enhance their rates.

The foregoing argument of the Railway Member offers an instructive commentary on the present working of Indian railways. It is based on the assumption that the railways, like other industrial corporations, should charge higher prices for their services when the demand for them rises. This assumption is not correct. In the first place, the railroad industry is a public utility undertaking, possessed of the power of eminent domain, supplying services essential to the community, and hence its pricing policy needs to be more effectively regulated than that of other ordinary industrial enterprises. Further, railway industry, with its heavy fixed investments, irrevocably sunk, is essentially a monopoly of organisation, whose pricing policy must be regulated like those of all other monopolies, to prevent the exploitation of the general public. Again, the Indian railways are owned by the State, and hence their policy should be more enlightened, liberal and broad-based than that of a private corporation, where the shareholders are usually more absorbed by their immediate interests. Above all, the railways are public servants and owe higher duties to the public than other forms of industrial enterprise. Therefore, when the demand for railroad services rises, the railway authorities should not raise the rates till the unused capacity of the plant is fully utilised. *Fuller and efficient utilisation of the railway plant during the periods of general prosperity must increase the revenues materially, without raising rates, from which a strong reserve fund should be built up, to be used during the periods of depression.*

Another important assumption underlying the Railway Member's plea is the railway obligation to contribute to the general revenues. For this the Railway Member is not to blame. The Separation Convention, which imposed this obligation, was ill-thought-out and reactionary. Perhaps it was partly due to the suspicion created in the public from the experience of railroad working in the past. To expect relief to the tax-payer, by charging higher rates and fares to the users of this essential public service, is most uneconomic and short-sighted. And the practice does not become sound merely because other countries follow it. Taxing the users of transport service, for giving relief to the tax-payer, must prevent the public from getting maximum out of the iron-horse. *The only obligation that should be imposed upon rail-road industry is that it be responsible for its own financial obligations ; its financial structure should be sound and above reproach. It's services should be efficient and charges reasonable. The whole system should be maintained at the highest pitch of efficiency. This can be secured by an effective regulation of railway policy by an independent authority, imbued with a thoroughly national outlook.*

To provide for the railway contribution to the general revenues, the railway rates were raised, with effect from 1st March, 1940. Rates were raised by two annas in the rupee, or 12½% on the total freight, including terminals and other such charges, on all consignments of goods traffic, excluding coal, coke, patent fuel, military traffic, railway materials and stores on revenue account, food grains, fodder and manures ; two annas in the rupee on the total freight of each consignment of coaching traffic other than passenger. The surcharge on coal, coke and patent fuel was increased from 12½ per cent., with a maximum of one rupee per ton, to 15 per cent. without a maximum. This surcharge is to be raised to 20 per cent. from 1st November, 1940. In defence of the surcharge on coal, the Railway Member argued :* We estimate that this means an average increase in coal freights of less than two annas a ton until November and five annas for the remaining months. The preferential treatment we are giving to coal is based partly on the fact that part of the freight is technically a surcharge, but mainly on the better ground that we are anxious to avoid imposing anything that can be regarded as an

* *Vide*, Budget Speech, 1940-41, para. 18.

appreciable burden on industry. And by making only a trifling increase for the next eight months, we hope to encourage those manufacturers who can do so to follow our example and secure coal in the season when our wagon position is normally easier, and so to reduce the difficulties in the winter months.

From the foregoing it will be seen that the Railway Member wants to tax the users of railroad services, so that the railways may be able to pay contribution to the general budget. We have already shown that this is a faulty practice. Further, the trade and industries of the country will be adversely affected. The industries will have to pay higher charge for collecting the raw materials and for marketing the manufactured products. This will affect the ability of the domestic producer to sell his produce in competition with the foreign producers, whose costs of transport have not been affected in like manner. Besides, an absolute rise of 12½ per cent. in transport costs, if passed on to the consumers in form of higher prices, will restrict sales and consumption if demand is elastic, unless the general purchasing power of the people is raised proportionately. This will affect the railway traffic in the long run. If the demand is inelastic, the railway will successfully impose a tax upon the consumers of the articles concerned. It is essential to remember that a substantial part of the demand for railroad services is inelastic. Railroad provides an essential public service, with a very limited scope for substitution. It is a quasi-monopolist. In other words, the demand for railroad transport services will continue, with certain changes, even if the rates are high. Of course, the development of traffic, which a reasonable rate structure promotes, would be definitely checked under such a faulty rates policy. The efficiency of the railroad services must also suffer under a system which permits larger revenues to be earned with smaller volume of traffic. Therefore, the fact that traffic continues without any serious setback is not in itself a sufficient justification for the continuance of the higher level of rates. That the level of rates was fairly high, and needed suitable reductions, even before the depression set in, has been shown in the preceding section. The general increase in rates enforced in 1922, to meet the post-war problems of railroad rehabilitation and higher prices, became a permanent feature of our rates policy and led to wasteful practices

of operation and higher working expenses. These wasteful practices were severely criticised by committees appointed to investigate the railroad problems in India. *The traditional policy of earning maximum revenue with minimum traffic, which the Indian railways have been following right from their inception, should be given up, if the public is to make an effective use of the railroad system. To secure maximum service at minimum cost, the railway policy should be regulated by an independent, impartial and expert tribunal, imbued with national outlook.*

CHAPTER V.

CLASSIFICATION OF GOODS.

RAILROADS supply essential national services. To enable the public to extract maximum out of the iron-horse, it is necessary that the services must be adequate and highly efficient; both efficiency and sufficiency of services must be secured. It is equally essential that the charges should be low and reasonable. The relative level of charges is very important to the business community, and the rates charged must not discriminate between the different users of the railway service of the same kind without an adequate and just cause. In short, the community is interested in the quality of railroad service as well as the absolute and relative level of charges.

Proper classification of goods is very important for the determination of a reasonable and equitable charge. "The railway classification of goods is the foundation on which the edifice of railway rates is built up; it is the framework to which the tariffs or schedules of the rates are attached."* The use public is able to make of railway services varies with the level of charges. This is not all. As shown in preceding chapter, railways are rendering a service to the community which is so important and essential to the public, that they can successfully impose to tax, and handicap thereby the entire economic development of the country. The utility of the railroad rate structure depends upon the classification on which it is based. Therefore the making of a freight classification is an important public function. The interests of trade and industries are intimately linked up with the railroad classification. The nature and implications of the classification should, therefore, be explained to the public and the informed public opinion taken into confidence in framing it. The classification committee should examine witnesses in public and publish the evidence as well as its findings thereon.

Determination of Classifications:—There are several factors which affect classification. The major considerations, however, which guide the deliberations of classification committees are

* *Vide*, Acworth, W. M.: "Elements of Railway Economics," p. 125.

two : the cost of service and the ability of the traffic to bear the charge. The ability or value principle is given greater weight* with a view to enabling the public to extract maximum service out of the railroad system. This, obviously, involves discrimination in rate-making. But there is nothing to fear of the discrimination based on the value of service rendered. On the contrary, this practice gives invaluable relief to the low-grade railroad traffic, which would otherwise have to pay higher freight charge.† A well-thought-out pattern of discrimination, based on a detailed and careful statistical analysis of traffic, should be an integral part of the modern rate structure.‡ So long as an article pays its differential or marginal cost, it should not merely be carried but encouraged. The principle of discrimination is, however, susceptible of being abused by an ill-informed or unscrupulous traffic manager. Hence State regulation has been resorted to in all advanced countries in order to provide an adequate and right pattern of discrimination in rate-making.

The bulk of an article in proportion to its weight is another condition which influences classification. The space occupied is an important factor which must be kept in mind in classifying an article. A light and bulky article provides a much less satisfactory load than a heavy and compact one, and therefore raises the cost of transport.§ For instance, if a wagon is loaded with

* "Where, for example, articles representing different stages of manufacture have to be graded, it is but fair that the raw material, or partly made product should be graded lower than the finished article. Similarly, articles which may fairly be substituted for one another ought to be classified with reference to their common market value. The relative value of commodities, as controlling classification, clearly governs the treatment of hard and soft coal. The practical difficulty, of course, is to know where to stop in admitting such considerations." *Vide*, Ripley : Railroads, pp. 317-18.

† "From the point of view of income, we come to the conclusion that, as the expenditure belongs almost entirely to the line as a whole, it is impracticable to fix rates with any approach to accuracy on the basis of what traffic costs to carry. And further, if it were possible, it would not be expedient or in the public interest. For to charge against each category and item of traffic not only its own special costs but also its full share of general expenses and interest on capital, would mean to shut out from carriage much traffic that in the interest of the community ought to be carried ; it would mean, further, a great restriction of total volume of potential traffic, and so a higher average rate on the traffic actually carried." *Vide*, W. M. Acworth : Elements of Railway Economics, p. 99.

‡ "This greater weight given to the ability principle is undoubtedly due in large measure to the part which it played through years past, prior to effective legislation, and to the force which it has thereby gained through custom and precedent rather than to any conscious preference given it to-day. However, because it is the obligation of a traffic official to endeavour so to adjust rates as to secure adequate revenue, he will always give greater consideration to what a particular type of traffic can afford to pay than will the operating official, whose prime guide will tend to be the relative costs of handling different types of traffic." *Vide*, Prof. Miller, op. cit. A proper pattern of discrimination in rate-making should be statutorily enforced by the regulating authority where the traffic manager either ignores or makes a faulty use of discrimination.

* "The cost of transporting the light and bulky commodity is greater per unit of weight than the cost of transporting the heavier one. More equipment is needed to carry a given weight of the lighter commodity ; more switching may be necessary and more yard space required to take care of it ; more dead weight must be transported, furthermore, since the weight of the car is greater in proportion to the weight of the contents." *Vide*, Prof. Locklin : "Economics of Transportation," p. 455.

grass its maximum weight capacity would be much less utilised than if it were loaded with steel products. A heavy and compact article provides a far greater paying weight to the railways and proportionately lower cost. Hence, bulky articles in proportion to their weight are placed in a relatively higher class in the classification of goods and charged a higher freight. But if the bulk of the same article is reduced by some process it is placed in a lower class. Full-pressed cotton is an illustration to the point.

Risk is another important factor which is taken into account in determining the classification of an article. In the case of ocean transport, shipments of freight are usually insured against loss and damage. A railroad company, however, is liable for the safe transportation of the goods it carries. The railroads are, in a sense, insurers of the goods they agree to transport. No separate insurance premium is charged to cover the risk, except that in some countries railways charge different rates when an article is carried at Railway Risk or Owner's Risk. The practice of differentiation in the railway risk is followed in England. India has also adopted that practice. In the United States, however, the railroads are prohibited (with certain exceptions) from limiting their liability by contract or stipulation in tariffs and classifications. But even where this differentiation in risk is made, it does not cover the entire risk. Risk as an element remains an important factor in rate-making.

Risk may take various forms : risk of breakage, risk due to the perishable character of the goods, or risk incident to the nature of the commodity—its inflammability or its explosive character, for example. There are certain articles liable to break easily and therefore need extra care in handling. For instance, glass, earthenware, etc., must be transported with special care to prevent breakage. A railroad is common carrier, and is responsible, with certain exceptions, for loss or damage of goods entrusted to its care, unless there is an explicit contract with the shipper to the contrary. Goods easily liable to damage will provide smaller loads than ordinary articles. Further, the liability to pay damages for breakage that may occur in spite of the care taken by the carrier is taken into account in determining the classification of an article. Articles easily liable to break are therefore placed in the higher classes. Inflammable and explosive character of the article seeking

transport is also an important consideration, for such an article is not merely susceptible to get easily damaged, but is also likely to endanger other goods carried in the train. Certain chemicals belong to this class. In this case is involved not only risk incident to the goods themselves, but also the danger to other shipment. The carrier is therefore justified in placing these goods in higher classes in classification.*

The nature of packing of an article is important in determining its classification. In certain cases liability to damage can be reduced by a proper method of packing. Articles shipped in crates are charged higher rates than in boxes, because the susceptibility to damage is much greater in the former case due to inadequate protection. Tea in bags is charged higher rates than in boxes or chests, because tea in bags readily absorbs the odour of the wagon in which it is carried. Canned meats and other foods are charged higher rates when in glass than in tin containers. Further, the method of packing helps to provide better loads to the carrier and facilitates handling of goods. Therefore, better packed articles are placed in the lower class, than the goods of the same quality not so well packed. Sometimes the nature of packing offers an indication of the value of goods, for more expensive goods are usually better packed than the articles of lower value. If so, the more expensive articles, even though better packed, are placed in the higher class than those of the cheaper qualities.

The regularity of the flow of traffic is also taken into account in determining the classification. Certain articles are despatched more regularly, while others are sporadic and intermittent. When a commodity is shipped with greater regularity, it is usually placed in a lower class, because it helps to utilise transport facilities more effectively and is therefore more economical to carry.† Sometimes transport agencies quote reduced or exceptional rates in favour of traffic which moves with greater regularity, instead of placing the article in the lower class.

The type of wagon required is also an important factor influencing the classification of an article. For instance, an article

* Loss and damage claims paid by a carrier can be used to measure the risk assumed.

† "More economical train schedule can be worked out, and empty cars can be supplied with a minimum of expense. Irregularity of movement has the opposite effect. This is often true when there is a distinctly seasonal movement which taxes the carrier's facilities at certain times and results in idle equipment and facilities at others."

Vide, Prof. Locklin: "Economics of Transportation," p. 462.

which can be carried in an open wagon is placed in the lower class, as compared with another one which requires a covered wagon, other things remaining the same. A closed wagon represents a larger capital outlay than an open truck. Further, an open wagon can be loaded by cranes, which economises substantially the cost of loading. An article which needs to be carried in shock-absorbing wagons is usually charged higher, because these wagons are more costly to build and maintain. Similarly, there are glass wagons, fish vans, banana vans, tank wagons, elephant wagons, ventilated or insulated vans, etc., to cater for diverse types of traffic. Usually long articles such as telegraph poles, propeller shafts, ship's masts, etc., require special flat bogie wagons. Bridge girders are transported in twin girder wagons, in which girder becomes part of the wagon while being conveyed. For heavy electrical machinery, granite blocks, pulleys, anvil blocks, or castings, well-wagons are utilised which bring the load a few inches of rail level.

The size of the consignment influences its classification. Wagon-load consignments are usually either placed in the lower class or offered reduced rates, as compared with the small-lot shipments. Modern railway practice is that when goods are shipped in less than carload lots, the packages are handled at terminals and transfer stations by railway labour force. The railways have established collection and delivery service for small-lot shipments. But, when the goods are moved in wagon loads or carloads, the railway is relieved of the responsibility of handling traffic during transfers *en route*, and the handling costs are borne by the shipper and consignee. Hence the distinction between wagon and small lot consignments in matters of classification and rate-making. It is, however, essential to note that the authorities entrusted with the task of rate regulation have always been very careful to see that the difference in rates between the carload and small-lot consignments is not so great as to prejudice unduly the interests of the shipper who cannot avail of the benefit of wagon-load rates, due to the smaller scale of his business operations.

The time within which the traffic is to be conveyed has its influence on the classification of goods. Distinction is made between fast and slow traffic. If a consignment can be held up for longer

time after it has been handed over for conveyance, the railway authorities can secure better load and economise thereby the cost of conveyance.

Competition between carriers is taken into consideration in determining the classification of goods. If there is keen competition between different types of carriers, such as rail and highway and water, the articles which have the choice of alternative routes, will get the benefit of lower classification, than would be the case in the absence of such competition. Here the railways will be willing to quote for the competitive traffic, a rate which would just cover the marginal cost of transport, and leave a surplus to meet the fixed costs.

The articles which compete or are substitutes for each other, are usually placed in the same class, so as to promote the flow of traffic.

Commodity Rates.

Sometimes *commodity rates** are offered as a substitute for a standard classification. Competition between carriers, inability of a particular type of traffic to bear the charge based on a classification rating, the movement of a particular commodity in large volume, and the desire of a carrier to encourage the development of a particular kind of traffic by quoting for a period a lower rate than its standard classification would permit,† are responsible for the important place commodity rates occupy in railroad rate-making. A far-sighted railroad manager, imbued with enlightened self-interest, quotes commodity rates usually for the development of trade and industries in the area he serves. It has already been shown‡ that transport costs play an important part in determining the localisation of industries; a suitable rates policy renders invaluable assistance to industrialists, particularly in the initial stages. Commodity rates are, therefore, offered to new and special

* "A commodity rate is a rate quoted directly on an article, instead of through the medium of classification. A commodity rate is almost always lower than the class rate it displaces. Many of the commodity rates are lower than the lowest class rates. Some commodities like coal, ore, grain, and other low-grade commodities are almost always carried under commodity rates. Other articles have commodity rates between certain specified points and not elsewhere. On many articles, then, both class and commodity rates can be found. A commodity rate supersedes the class rate between the points covered by it. Elsewhere the class rates apply." *Vide*, Locklin: "Economics of Transportation," p. 176.

† *Vide*, Prof. Miller, p. 339.

‡ *Vide*, Chapter I.

industries,* so that it may be able to compete with the well-established industries in other localities, until it gets a firm footing and is able to stand competition unaided. Once an industry is firmly established, the need for commodity rates disappears and they should be withdrawn. But the vested interests often create innumerable difficulties, with a view to obstructing the withdrawal of these rates. The traffic manager has to handle the situation, thus created, with great deal of tact, understanding and courage.

Commodity rates, quoted with a view to promoting the development of particular type of traffic, are in the nature of a temporary relief to overcome certain artificial disadvantages, and promote more rational and economic location of industries. It is based on the well-known principles of local discrimination. Mr. Ripley says : Commodity rates, as a means for enabling shippers to reach beyond this immediate territory and gain an entrance to new markets, form an entirely distinct variety of charges from those quoted in the classified tariffs. These are special rates made to suit particular contingencies. Such commodity rates, however, do not apply to persons but to localities. Although granted to shippers in a particular place to build up an industry, the privilege of shipment under the same conditions is theoretically open, of course, to all other at that point. Such Commodity rates naturally apply to three sets of commercial conditions: they either govern large shipments for long distances, as in the case of live-stock ; or, if for short distances, they are confined to commodities of the very lowest grade, such as lime, sand or paving blocks ; or else they are introduced to meet special conditions, as in the case of import or export trade. Such special rates are almost invariably granted for carload lots alone. The reason is that it would not be worth while to make an exception to the classified schedules for less than that amount. In all cases where fluctuating conditions have to be met, commodity rates by the carload are likely to appear.† We have already shown that discrimination is

* If it appears that a new industry can maintain itself in competition with already established industries elsewhere only by a concession in charges, the traffic manager may elect to grant a Commodity rate until such time as the industry has been placed firmly upon its feet. The tonnage moving under commodity rates in such circumstances may be much greater than that included under the classified schedules. The evidence tends to show that special rates granted in connection with industrial development tend to increase up to a certain point. But, industrial conditions having once become standardised and assured, the natural disposition of the railways is to substitute regular schedules for a multiplicity of special rates. The difference is that such a special rate once allowed, is exceedingly difficult to withdraw. *Vide*, Ripley : Railroads, p. 323.

† *Vide*, Ripley : " Railroads," p. 322.

essential in rate-making to promote fuller and effective utilisation of the railroad plant and a more rapid economic development of the country. The practice of local discrimination is therefore desirable, so long as the rate quoted is sufficient to meet the marginal cost of transport, and leaves a surplus to defray the fixed costs. No wonder that approximately three-fourths of the tonnage carried by American railroads moves under commodity rates.*

The conditions outlined in the preceding paragraphs give valuable aid in evolving a proper classification of goods. But it would be a mistake to expect too much from them. For a proper classification of goods cannot be built off-hand with the aid of a few general principles. It grows up as a result of experience gathered from railroad operation.† As the Inter-state Commerce Commission has pointed out: "Classification is not an exact science; nor may the rating accorded a particular article be determined alone by the yardstick, the scales, and the dollar. The volume and desirability of the traffic, the hazard of carriage, and the possibility or probability of misrepresentation of the article, are considerations of prime importance in classification. At best, it is but a grouping, and when the approximation resulting from it is not found to cause the exaction of an unreasonable or discriminatory charge, it will not be disturbed." Thus, the classification of goods is largely empirical. In the initial stages, when goods are classified and the classification is put into force on a railroad system, it is based largely on the judgment and foresight of the railway authorities, because the data then available is limited. The statistical results of railroad working are used to correct the errors of judgment, based on insufficient data available at the inception of the railroad system. A proper classification of goods is, therefore, gradually evolved as a result of better experience of railroad working, and a more intimate and sympathetic understanding of the requirements of the business community. A railway manager should have a thorough grasp of the economic conditions of the area he serves and the working of the railroad system.

* *Vide*, Prof. Locklin: "Economics of Transportation," p. 176.

† "In truth, though we have personified the management and imagined a man fixing system of railway rates, no one man, and indeed no combination of men, could erect such a system off-hand from the foundations. It can only grow gradually, developing here and changing there, as the country itself develops, and its industry and trade are modified by time and circumstances."

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

This can be secured by organising an Economic Research Department, attached to each railroad administration, with an experienced economist at its head. The research department would very carefully study the working of railroad system, requirements of the business community and the economic resources of the area it serves. The studies of this department would enable the railroad administration to eliminate wasteful expenditure and make more effective use of the equipment. Further, the efficiency and sufficiency of the railroad services would be materially improved. The department would also be able to advise the businessmen and industrialist, in the area it serves, to improve their methods and help the establishment of new industries. The services of this department would remove the traditional suspicion business community has against the railway administrations, and establish a more intimate cooperation between the two, so essential for the development of Indian trade and industries.

Railroad classification of goods is different from and supplementary to freight tariffs. The freight tariffs specify rates per maund or ton for different classes of commodites, without specifying their names. Classification of goods supplements the freight tariff in the formulation of a proper railway rates policy. Tariffs are issued by the individual railway administrations independently and applicable to that system alone. Classification of goods, on the other hand, is determined by mutual consultation amongst all the railways and is applicable to all railways, subject to certain specified and agreed exceptions. Thus, classification secures considerable uniformity in rate-making, permitting at the same time fair scope to individual railway administrations for necessary adjustments, determined by local requirements. Sometimes, however, these exceptions become unwieldy and complicate the rate structure. This danger needs to be very carefully guarded against.

Individual Railroad Classifications in India

We have shown in the preceding chapter, that in the earlier stages of railroad development in India, railway companies did not have any agreed classification of goods, and followed their own individual practices in rate-making without any correlation. Complications in the railway tariffs therefore increased and

discouraged the growth of traffic. The *laissez-faire* attitude taken up by the State, was partly responsible for this chaotic state of affairs. Besides, the railway administrations wanted to earn maximum profits with minimum traffic and were therefore reluctant to restrict their liberty of action in this direction by any common understanding. No wonder that long distance traffic did not show sufficient response. The growth in short-distance traffic was also not rapid enough. Old and inefficient modes of conveyance continued to flourish. The railroad traffic was largely confined to high grade and valuable traffic.

Early Uniform Railroad Classification in India

The State could not long remain indifferent to this short-sighted and reactionary policy, pursued by the railway companies. According to the terms of contracts with the railway companies, the Secretary of State for India possessed the right to regulate the rates and fares charged to the public. The contract with the G. I. P. Railway provided that "the said railway Company shall be authorised and empowered to charge such fares for the carriage of passenger and goods, and such rates for telegrams and such tolls for the use of the said railway, as shall have been approved by the East India Company, and shall not in any case charge any higher or different fares or tolls whatever, without such approval being first obtained ; but such fares and tolls shall, when such net receipts as are hereinafter mentioned, shall in any year have exceeded ten per cent. upon the outlay, be reduced in accordance with any requisition of the East India Company in that behalf, but only with a view of limiting the said fares and tolls so far that the net receipts shall not exceed 10 per cent. as aforesaid." It was held that under this clause, the Secretary of State for India had no power to reduce rates and fares already established, until the railway Company earns a dividend of more than 10 per cent. Therefore the Government could not interfere in matters of rates and fares. The Government of India was, however, very anxious to remove the undesirable features of the rates policy so as to promote maximum growth of traffic consistent with the financial solvency of the railroad systems. The Government Director of Railways, therefore, proposed that "the Government, instead of fixing the actual fares to be charged, approve of a scale of maximum rates, leaving it to the Company's

officers, in communication with the Consulting Engineer of the Government, to impose such rates from time to time, within the prescribed limit, as may be found conducive to the interests of the undertaking." The regulation of railway rates policy on these lines was expected to protect public interests and improve the railway receipts. The Government of India therefore addressed the Secretary of State on these lines. The Secretary of State approved the policy of fixing maxima rates, within which the railway companies were to be permitted full latitude to vary the rates and fares. The Government of India instructed the Provincial Government to regulate the maxima rates and fares, retaining the power to guide the general policy. The maxima rates fixed were as follows :—

MAXIMA RATES AND FARES.

	Per passenger per mile.			Goods per ton per mile.					Food grains	Coal
	1st	2nd	3rd	1st	2nd	3rd	4th	5th		
G. I. P. ..	24	12	3*	12	18	24	36	54	12	10
B. B. & C. I. ..	24	12	4*	12	18	24	36	54	12	10
Madras	18	5	3	12	14	16	24	36	..	..
Great Southern ..	18	5	3	12	14	16	24	36	..	..
Scinde	24	12	4*	12	18	24	36	54	12	10
	Goods per maund per mile.									
E. I. R.	18	9	3	¼	½	¾	1	2	¼	⅓
E. B. R.	18	9	3	⅓	½	¾	1	2	⅓	⅓
Calcutta & Southern Eastern..	18	9	3	⅓	½	¾	1	2	⅓	⅓
Punjab	18	9	2¼	⅓	½	¾	1	2	⅓	⅓
Delhi	18	9	2¼	⅓	½	..	1	..	¼	¼
O. R. R. ..	18	9	2	..	..	..	..	..	..	..

Thus, the then existing fares on all open lines were fixed as maximum, while on all lines which were to be opened thereafter, it was decided that the lowest class fare was not to exceed two pies per passenger per mile, and the maxima rates for the conveyance of food grains and coal was to be 0.25 pie per maund per mile. Thus, for the first time a definite policy in respect of rates and fares was formulated in 1867.

This was, however, a very crude attempt at classification of goods. No doubt there were five classes, into which goods traffic could be classified, but the Government had made no attempts at grouping the articles into different classes. This was a serious defect. The railway companies were left full latitude to classify

* This was the rate charged for the fourth class on these lines which was equal to the third class of others. E. I. R. and E. B. R. had Inter. Class also. All rates and fares are in pies only.

the articles. The Government merely laid down five general classes into which all goods could be classified and fixed the maxima rates for each class. No wonder that the State regulation of railway rates policy on these lines proved ineffective. Each railroad administration was free to have its own classification, which made the tariffs complex and restricted the flow of traffic.

These early classifications of goods were very single and short. There were five classes. In the first class were grouped minerals, manures, salt, timber, firewood, pig iron, etc. The second class consisted of agricultural products, such as cotton, jute, oilseeds, foodstuffs, hides, etc. The third class was composed of wines and spirits, tobacco, machinery, etc. In the fourth class were placed books, cutlery, glassware, medicines, perfumery, tea, etc. Fifth class consisted of gold, jewellery, etc.

The Early Railroad Classification of Goods in America

The early classification of goods on the American railways was also very simple. For instance, the South Carolina Railroad in 1858 classified the goods into four groups. The first group included a variety of articles like "bonnets, saddles, pianos, and tea," and the second "dry goods, glass, raisins, turpentine, feathers, certain spices and stoves." In the third class appeared numerous items, among which were butter, lard, tobacco, dry hides, tin, copper, machinery and boxes, gums, wool, crockery, and melons," while the fourth class covered "bacon, sugar, nails, ice, coal, green hides, stone, hay, tanbark, dry fruits, car springs, copper ore," etc. In addition to these classified articles, were fowls at so much per dozen, and live stock at so much per head. As late as 1873, the Louisville and Nashville Railroad classified goods under three heads, the first covering bulk goods, the second, goods of considerable weight, and the third, live stock.*

It will be seen that the classification of goods on the Indian railways was essentially of an individual character. The simplicity of the classification disappeared, as the classification grew very rapidly in size. For instance, the classification of goods on the E. I. Railway grew from one page in 1868 to thirteen pages in 1873, and to 109 pages by 1889. This development in railroad classification was not peculiar to India, but has been a common feature of all railway systems in their earlier stages. For instance,

* *Vide*, Prof. S. L. Miller: "Inland Transportation," p. 334.

in the United States, with the rapid development of railway mileage and the concurrent increase in the volume of traffic following the Civil War, there came an equally rapid elaboration of classifications. It is significant to note that this elaboration was of an individual character rather than uniform and general in its nature, with the result that in a short time, well-nigh intolerable conditions developed. There were at one time 138 distinct classifications in trunk line territory alone, and this number had been only slightly reduced to 130, at the time of the adoption of the Interstate Commerce Act of 1887. In face of a rapid development of through traffic, this complication of through classifications proved inconvenient to the carriers and highly objectionable to the shippers, both because of the uncertainty which must necessarily result as to the rates applicable to the shipment moving over two or more lines, and because of the wide variations in the treatment received by the competing concerns at the hands of different railways.*

Indian Railroad Classification of 1887

The Government of India realised the defects of the system and decided to remove them promptly. They enunciated four important general principles to guide the future railway rates policy. They prescribed the schedule of maxima and minima rates "to be adopted on all railways worked directly by the State, and by all other railway administrations, whether their lines be already open or not, so far as this schedule is not inconsistent with any contract or agreements previously entered into; and that it shall not be departed from without due cause being shown." The maxima and minima rates introduced were as follows :—

MAXIMA & MINIMA RATES AND FARES.

	Rates (in pies per maund per mile).			Fares (in pies per mile).	
	Max.	Min.		Max.	Min.
First Class ..	1/3	1/3	First Class ..	18	12
Second ,, ..	½	½	Second ,, ..	9	6
Third ,, ..	2/3	2/3	Inter. ,, ..	4½	3
Fourth ,, ..	5/6	5/6	Third ,, ..	3	1½
Fifth ,, ..	1	1			
†Special,, ..	1/3	1/10			

* *Vide*, Prof. S. L. Miller, op. cit.

† Coal and grains were carried at Special rates.

The Railroad Classification of 1891

As can be seen from the table, the maxima and minima rates, except for the special class, were the same. Railway companies rightly objected to the rate schedule and declared it to be unworkable because except for the lowest class they were not left any latitude at all. Therefore the revised schedules were issued in 1891, and the companies were prohibited from making any alteration in the classification without the sanction of the Government. The revised schedule was as follows :—

	Goods Rates (in pies per maund per mile).			Goods Rates (in pies per maund per mile).	
	Max.	Min.		Max.	Min.
First Class ..	1/3	1/6	Fourth Class ..	5/6	1/6
Second ,, ..	1/2	1/6	Fifth ,, ..	1	1/6
Third ,, ..	2/3	1/6	Special ,, ..	1/3	1/10

To the special class belonged coal, edible grain, and other low-priced staples.

No alterations in classification could be made without the sanction of the Government. But, even the new schedule could not secure sufficient uniformity in rate-making and created complexity in tariffs. Within the maxima and minima-fixed by the State, the individual railway administrations had full latitude to levy the charge they thought proper. This gave rise to a wide diversity in the bases of charge on different railway systems. Long-distance traffic suffered most from this diversity.

The Indian Railway Conference Association

The Indian Railway Conference Association has rendered invaluable service, in reducing the perplexing diversity in bases of charge for through traffic. This Association was constituted to formulate general regulations for the interchange of traffic passing over more than one railroad system. It is composed of representatives of practically all railway administrations in India. The Traffic Simplification Committee of the Indian Railway Conference Association, has introduced a great deal of uniformity in the bases of charge for rates and fares. The Committee evolved a general classification of goods for through traffic, which was

enforced on the Indian Railways from 1st July, 1910. To secure the unanimity of opinion amongst the different railway administrations, without which the classification could not be enforced, the commodities were placed in classes which were the highest in force on any important railway, unless the representative of that railway accepted a lower classification. This new classification in effect raised the maxima rates in many cases. The Railway Board, therefore, recalled their sanction to the classification previously granted. The Government of India rightly refused to secure uniformity of classification, at the cost of a general rise in maxima rates, which railways were permitted to charge. They laid down that no commodity should be charged at a rate higher than that permissible for that commodity on the 30th June, 1910.

The Railway Conference Association, however, continued their efforts at evolving a uniform classification of goods, and persuaded the railways to effect voluntary reduction in the classification of about 600 commodities, between 1st September, 1911, and 1st January, 1915. Further, they prepared a list of about 250 commodities, in which traffic was relatively negligible, and sought permission of the Railway Board in 1915 to raise their classification, so that a uniform classification could be enforced. The Railway Board sanctioned the increase, except for a few commodities.

Classification of Goods, 1922

The classification of goods was further revised by the Government of India, in 1922, as follows :—

Class.	Pie per maund per mile.	
	Maximum.	Minimum.
First	0·38	0·100
Second	0·42	,,
Third	0·58	0·166
Fourth	0·62	,,
Fifth	0·77	,,
Sixth	0·83	,,
Seventh	0·96	,,
Eighth	1·04	,,
Ninth	1·25	,,
Tenth	1·87	,,

We have already discussed the implications of this classification in detail in the preceding chapter, while reviewing the growth of our rates policy. The Railway Board did not give sufficient thought to the problem of classification, and hastily interpolated four additional classes by splitting up four of the six classes into two. The increase in rates varied from 20 to 25 per cent. The difference between the classes was arbitrary. Further, minima rates remained unaltered, which gave the railway administration wider discretionary power.

British Railroad Classification of 1928

In contrast with this hasty and arbitrary revision of the classification of goods in India, we find that the British railways carried out detailed investigations, and effected a scientific revaluation of the practices and procedure in force. They started the work in 1921, after the passing of the Railway Act, 1921, and took practically seven years to hammer out the essential details of various charges, and was put into force in 1928. It is divided into five main sections with a large number of sub-divisions. First section relates to the classification of goods by merchandise train, and is sub-divided into five parts. Second section contains the classification for live-stock carried by merchandise train. Third section gives the classification of perishable merchandise by passenger train or other similar service. There are two divisions: one relating to milk traffic, and the other referring to various kinds of fish, flowers, vegetables, and other foodstuffs. Fourth section contains the classification of merchandise (other than perishables) and live-stock by passenger train or other similar service. There are thirteen groups in this section, with specific scale of charges applicable to each. Fifth section contains the classification of insurable goods.

First section, as stated above, relates to the classification of goods by merchandise train and is sub-divided into five parts: A, General; B, Timber; C, Returned Empties; D, Rolling Stock running on its own wheels; and E, Dangerous Goods. Subsection A, which contains the general classification of merchandise, is the most extensive, and contains twenty-one classes in place of the eight classes of the former statutory classification. It enumerates about 6,000 different commodities and covers about 400

printed pages. The classification of certain commodities is minutely discriminated. For instance, two tons of green twigs are in class 10 ; the same quantity of brown twigs are charged class 12 ; and the white twigs are placed in class 14. All the important principles of scientific classification, briefly reviewed in the preceding section, have been carefully weighed and properly considered in determining the grouping of articles. Weight, bulk, methods of packing, etc., of the consignment have been scrupulously kept in view. For instance, the lowest rates are applicable only when the commodities are sent in bulk. As regards methods of packing, it may be noted that cider sent in casks is rated in class 11, if sent in crates in class 16 and if in stone-ware jars in class 18.

The Need for a Preliminary Statistical Study

Fortunately, the defects of the classification of goods on the Indian railways, introduced in 1922, were realised even by the railway administrations themselves. The Railway Board invited the Indian Railways Conference Association in 1932, to consider *inter alia*, the following points with a view to forging out a more scientific basis of railway rating in India :—(1) The number of classes there should be. (2) The maximum and minimum rates for each class. (3) Whether class rates should be on a telescopic basis and if so, whether they should be applicable on the local distance or on the through distance. (4) Whether an assimilation of scheduled rates on the various railways is practicable, and if so whether the scheduled rates should be applicable on the local distance or on the through distance. (5) Whether terminal charges should be levied, and if so whether they should be included in the class of scheduled rates, or be levied separately on the scale varying with the class, commodity or condition of carriage. (6) Whether short distance charges should be continued to be levied. (7) Whether some degree of uniformity in transhipment charges is feasible. (8) What difference should exist between rates applicable at railways' risk and owner's risk. These were some of the most important issues raised by the Railway Board which awaited proper solution.

The issues formulated by the Railway Board could be properso lved only after a detailed and comprehensive statistical

analysis of the traffic. The Indian Railways Conference Association studied and debated these issues for about four years, but the discussions could not bear fruit due to lack of adequate statistical data, which alone could provide scientific basis for definite and useful suggestions calculated to remove the defects of the classification. The Indian Railways Conference Association appointed a whole-time Committee, to sugggest the statistical data that had to be collected for arriving at proper decisions on the issues raised by the Railway Board. The Committee held that detailed statistical information should be collected and studied by another special committee to be appointed, the cost of which was estimated to be about Rs. 20 lakhs. Further, such a detailed study would have taken about three to four years. This was a very valuable suggestion and ought to have been adopted. We have already shown that the British Railways Classification of 1928 took practically seven years to shape. The period of three to four years for detailed statistical analysis suggested by the Committee was therefore quite reasonable. The cost of Rs. 20 lakhs, in view of the importance of the subject, was not excessive. The President of the Railway Conference Association, in October, 1935, characterised this cost of compiling the information as "formidable." This attitude was very unfortunate and hasty. Another plea he raised was "the want of any very clear idea of what definite complaints the customers had against the present classification." These lame excuses clearly show that the Indian railway authorities were in no mood to face this most important problem. The Railway Administrations, therefore, rejected the method of detailed statistical analysis on the plea that "it involved delay and expense and there was no certainty that it would lead to the desired results." Since the railway administrations, with their characteristic conservation and lack of foresight, declined to study this important problem, the Railway Board ought to have undertaken the compilation of statistical information as a preliminary to a proper classification of goods.

Revised Classification of Goods, 1936.

In the absence of adequate statistical information, no useful and radical changes in the rate-structure could be effected. The changes introduced were bound to be superficial and arbitrary.

The revised classification, put into force on 1st May, 1936, was as follows :—

Class.	Pie per maund per mile.		Class.	Pie per maund per mile.	
	Max.	Min.		Max.	Min.
1	0·38	0·100	5	0·77	0·166
2	0·42	,,	6	0·83	,,
2A	0·46	,,	6A	0·89	,,
2B	0·50	,,	7	0·96	,,
2C	0·54	,,	8	1·04	,,
3	0·58	0·166	9	1·25	,,
4	0·62	,,	10	1·87	,,
4A	0·67	,,			
4B	0·72	,,			

The number of classes has been increased from ten to sixteen by the interpolation of six new classes. This revised classification is at best a poor imitation of the British classification of goods introduced in 1928. In the absence of adequate statistical data it was very difficult to make a scientific regrouping of commodities into the different classes. And without proper and scientific regrouping, the mere increase in the number of classes had little significance or value. But, as has been shown in the preceding section, the Indian railway administrations were in no mood to undertake the difficult task of scientific classification and the Railway Board also shirked its responsibility. The result was that the railways utilised these new classes to level up the rates so as to increase their earnings. No attempts were made to simplify the rate structure. The Indian railways, at best, built up a poor imitation of the British classification. Further, they failed to take advantage of the subsequent developments in the practice of rate-making on British railways. No wonder that the revised classification has failed to improve the situation.

Recent Developments in Rating on the British Railways

At this stage it is essential to note, in brief, the more recent developments in the practice of rate making on the British railways with a view to finding out how far that experience may be useful to us in revising our rates policy. It is significant to note that immediately after the revised classification was introduced in 1928, it had to be modified by the introduction of numerous

exceptional and special rates to meet growing road competition.* It shows that the British railways promptly recognised the challenge of the internal combustion engine to the supremacy of the steam locomotive and suitably moulded their practice of rate-making in keeping with the new situation. It was the intention of the Railway Act, 1921, to reduce the number of exceptional rates by absorbing them into the twenty-one classes. But, on account of the increasing severity of road competition the anticipated reduction could not be obtained, and the traffic carried at exceptional rates has steadily increased. At present over two-thirds of the traffic is carried at exceptional rates.

The Road and Rail Traffic Act, 1933, introduced an important change in the practice of rate-making by allowing the railways to make " agreed charges " with individual traders. According to this Act, a railway company may, if it thinks fit, make such charge or charges for the carriage of merchandise of any trader, or for the carriage of any part of his merchandise, as may be agreed between the company and the trader. This effected an important breach in the traditional practice of railroad rate making, which was based on a fixed general tariff applicable to all shippers. The law of undue preference has been the corner-stone of modern rates policy. The principle of " agreed charges " marks a change in railroad rating from general to individual pricing. Once an agreed charge is approved by the Rates Tribunal, a railway company is exempt from the obligation to make equal charges to all persons under like circumstances and from the obligation to accord no undue preference to any person. The rate is a flat charge irrespective of the distance traversed. In the case of F. W. Woolworth and Co., Ltd., the charge is an agreed percentage of the total value of the goods purchased by the firm. The tonnage carried under this agreement is easily the largest under any agreed charge. In determining agreed charges attempts have been made to obtain as nearly as possible the true average charge, or cost per unit, of the trader's traffic, over a representative period in the past. The agreed charges are subject to periodical revision and are confined almost entirely to the higher classes of merchandise. There are over 850 agreed charges in operation, representing a gross railway turnover of just over £4 million. This

* We have given a brief review in the first Chapter.

system has become popular with the business community and helped the railway companies materially in improving their financial structure.

Present Structure of the Railroad Tariffs in India

The rates charged for the transport of a commodity on the Indian railways are of three types : Class Rates, Schedule Rates and Station-to-station Rates. (1) Class Rates are of two kinds. We have already shown that the present classification of goods in force on Indian railways is composed of sixteen classes, into which all the commodities are grouped. For each one of these classes the Railway Board has fixed maximum and minimum rates. A class rate proper is calculated at the maximum rate permitted by the Railway Board for the class in which the commodity is placed, and does not include terminal, short distance charges, etc. Sometimes class rates lower than the permissible maxima are quoted to encourage the growth of traffic. These are known as *Adjusted Class Rates*. But the adjusted Class rate is never lower than the permissible minima. (2) *The Schedule Rates* are quoted on a basis lower than the maximum and higher than the minimum prescribed for the class. These rates are also sometimes known as *Scale Rates*. Here the basis may be cumulative or sliding. The difference between the cumulative and sliding basis is important. Under the cumulative basis the rate for the shorter distance is on a higher scale and is the same for both long and short distance traffic up to a certain distance, and it is only for the distance in excess that the charges are on a lower basis. The actual rate charged for the long distance traffic on the cumulative basis is the sum total of these rates. Under the sliding basis, however, the lowest rate for the longer distance traffic applies on such traffic for the entire distance traversed from the starting station to the destination. (*3*) *The Station-to-station* or special rates are quoted in special circumstances such as to encourage the growth of new traffic, to help new industries or old ones suffering under temporary difficulties, to meet competition, etc.

To ascertain the proper rate applicable to a particular commodity station-to-station rate must be referred to in order to find out if such a rate is quoted. If a station-to-station rate is not quoted, the Exception List must be referred to so as to find out

whether the commodity is charged at a schedule rate or at a class rate other than that quoted in the General Classification of Goods. If the reference is available, the Junction Rate Lists will give the rate chargeable over each railway forming the route. This list will give the adjusted class rates if they are quoted for that commodity. If the Exception List does not contain the proper entry, it is clear that the commodity is charged at the class rate entered in the General Classification of Goods.

In view of wide difference in the schedules, adjusted class rates, exceptional classifications, routing arrangements, the absence of rate registers at the stations, etc., the calculation of through rates is extremely complicated and the mistakes in quotation of such rates even by the experienced railway staff are not uncommon.* In fact, the station staff frequently commit mistakes and, to err on the safe side, quote higher rates to the public. This causes great deal of inconvenience and trouble to the business community, because they have to apply for refund, a dilatory and irksome procedure. The railway administrations, instead of striving hard for a simple and uniform tariff, seem to think that complexity is an essential feature of railroad tariffs,† and that they should necessarily be unintelligible to the public. Under these circumstances, it is essential that the Railway Board should promptly give a bold and courageous lead. It is not impossible to simplify the tariffs materially and reshape them in such a way as to give sufficient spur to the growth of indigenous trade and industries.

A Scheme for the Simplification of Railway Rates Structure

The Railway Board should collect full statistical data about the goods traffic and railroad working expenses, irrespective of cost and time taken. Whatever expense is incurred for this work it will be more than adequately repaid as a result of economy in

* "The calculation of foreign rates is, on the other hand, apt to be extremely complicated, and, as already indicated, we see no ready means of simplifying it. In our opinion the quotation of these rates makes undue demands both on the time and competence of the station staff. Experience shows that they are frequently at fault in the quotations made, and that the resultant errors cause irritation to the public as well as unnecessary correspondence to all parties." *Vide*, The Wedgwood Committee Report, para. 132.

† In the course of a personal interview, the General Traffic Manager of an important Indian railway told me that "from my eighteen years unbroken experience I can tell you that graduates from Universities can never understand railroad tariffs, no matter what efforts they put in." This is typical of the attitude of railway authorities in India and explains the present chaotic state of our tariffs. They have never felt strongly the need for simplifying these tariffs.

working expenses and growth of traffic. This data should be carefully studied by a Committee of independent and impartial experts. No doubt the task of the Committee will be delicate and difficult. A few broad suggestions may, however, be offered for the proposed revision. The Committee should formulate a standard classification of goods, with class rates on a telescopic basis, to be enforced on all Indian railways. Departure from this standard classification should be permitted in very rare cases. The removal of uniform basis of charge would make the rates policy more reasonable. Further, this would remove the complexity resulting from wide diversity of schedules and adjusted class rates. I have shown in detail elsewhere the diversity of schedules and their effects on our trade and industries.* The Wedgwood Committee also made a pointed reference to this defect. The Committee said : " It is unfortunate that at this stage they have themselves given an opening for criticism. For whilst the classification is reasonably uniform for all railways, there are surprising variations in the application of schedules. Cement, for instance, is carried by twelve Class I Indian railways on seven different schedules, so that the charge for 300 miles varies from 51 pies per maund to 114 pies per maund. Salt is carried on ten different schedules, and the same is true of grain and pulses."† These surprising variations in schedules have been defended by the railway administrations on the plea that they are more in keeping with individual railroad requirements and economic conditions. There is some truth in this argument, for transport conditions are apt to differ‡ and the proposed revision will have to provide for genuine differences in costs of transport. But the differences in schedules at present in force cannot all stand the test of cost of transport. After a careful and scientific study of transport costs the differences in present schedules can be materially reduced. There may be a few cases where departure from the standard classification will have to be permitted, to prevent undue hardship to the carrier. Further, to encourage the growth of traffic

* *Vide*, Tiwari, R. D.: " Railway Rates in relation to Trade and Industries in India."

† *Vide*, para. 127.

‡ " There are many circumstances which may justify the maintenance of different schedules for the same commodity, even on one railway system, costs may be widely dissimilar on different sections owing to gradient or gauge; while a scarcity of traffic may warrant a higher schedule of rates, just as density of traffic may make a lower schedule remunerative. The demand for a uniform schedule for each commodity is unreasonable, and particularly so in a vast country like India where conditions vary so remarkably between one district and another."

Vide, Wedgwood Committee, para. 127.

and to meet special traffic requirements, rates lower than those prescribed in the standard classification will have to be offered. These reductions should take the form of station-to-station rates.

Further, in the case of through traffic, passing over two or more railway systems, the principle of continuous mileage should be adopted in quoting the telescopic rates. This measure would not merely simplify the tariffs, but facilitate materially the movement of long distance traffic. In a vast country like India, long distance traffic is more important and would help substantially the growth of indigenous trade and industries. This is not all. The principle of continuous mileage would help to neutralise the defects in the construction of Indian railways which are a serious handicap to the development of internal trade. It would give an invaluable spur to the economic development of the country and soon make up the loss, if any, in railway revenues. Besides, the fear of loss in revenues cannot be a proper defence for the continuance of an otherwise erroneous, illogical and uneconomic practice. The Wedgwood Committee admitted that "apart from break of gauge and transhipment, the natural and logical method of calculating the rate is upon the throughout distance, not upon a series of discontinuous distances."* But they rejected the claim for an immediate enforcement of this sound and judicious principle on the ground that it "would involve heavy losses to the railways."† This is the common argument advanced in defence of a most inequitable and uneconomic practice in rate making. But this argument when advanced by a Committee of experts comes as a surprise. The right policy for the Committee to suggest was an immediate adoption of the principle of continuous mileage, a more radical reconstruction of working expenses, a more sympathetic attitude towards the business community and a more courageous and far-sighted rates policy. If with all these measures, the Committee felt that railway finances would not improve, they should have suggested a general increase in rates rather than the perpetuation of an unscientific and wasteful practice.

* *Vide*, para. 128.

† "Application of the continuous mileage principle, where the discontinuous principle is now applied, can only involve rate reductions: this course would therefore involve heavy losses to the railways, the extent of which cannot be computed and there is no ground for supposing that there would be a countervailing increase of business to them. The losses might indeed be so heavy as to cripple railway finances, and we can see nothing in the circumstances to justify such a risk being taken." *Vide*, op. cit.

Where alternative and competitive routes are available, with varying distances and bases of charge, the tariffs become excessively complicated. In such cases it is desirable to fix a standard charge, which should be applicable to all routes. The routing of this traffic should be arranged by a special department, in which all railway administrations are represented, through the most economic route available. This would reduce wasteful competition and secure material simplicity in railway tariffs.

The problem of risk rates should be faced seriously and effectively. In the first place, at present, trader gets the option of shipping his goods at owner's risk or railway risk in a few cases only.* Further, the difference between the two sets of rates, where they are available, is often excessive.† According to the Wedgwood Committee "the difference between railway risk and owner's risk normally varies between 7 and 16 per cent. but in the higher classes it may be as much as 35 per cent.‡ In so far as this difference reflects the amount of risk involved, it is fair, and should be an essential feature of the rate structure. But the difference in rates which is unwarranted by the actual risk incurred has no justification. The difference between the owner's risk rate on a telescopic basis and the railway risk class rate is considerably higher and makes the latter rate prohibitive. The trader is compelled to forward his goods at owner's risk. The Committee cite the example of flour.§ But there are a large number of similar cases,¶ where the difference is unwarranted by the risk incurred. Besides, in India, the railways are not insurers of the goods entrusted to them; they are mere bailees. In England, on the contrary, carriers are the insurers of goods entrusted to them. This essential difference has often been ignored by the railway authorities in India.

The present state of affairs can be considerably improved by imposing a statutory obligation upon the railway administrations to provide for the transport of a damageable commodity a

* *Vide*, Tiwari, R. D.: "Railway Rates in relation to Trade and Industries in India."

† *Vide*, Tiwari, op. cit.

‡ *Vide*, para. 129.

§ "Flour for instance, is normally carried at a schedule rate at owner's risk. On the G. I. P. Railway the charge for 600 miles would be approximately Re. 0-14-0 per maund. If the sender wishes to forward the flour at railway risk he must pay the class rate which for the same distance is Re. 1-6-0 per maund, or 57 per cent. above the owner's risk level." *Vide*, para. 129.

¶ *Vide*, Tiwari, op. cit.

railway risk rate as an accessible and reasonable alternative to the owner's risk rate, and *vice-versa*. Further, difference between the two sets of rates " must fairly reflect the amount of risk involved."* These suggestions are in no way new. The British railroad tariffs are based on these principles ; the Railway Act of 1921 has imposed statutory obligations upon the railway companies.† If the suggestion of telescopic basis for all class rates is accepted, then, in general, for the sake of simplicity of classification, the rate at railway risk may be one class higher than that at the owner's risk, and a special station-to-station rate may be quoted at owner's risk, consistent with the difference in the nature of risk undertaken by the carrier. If a trader feels aggrieved, he should have the right to refer his case to the Rates Tribunal, which should be established immediately to secure efficiency of railroad services and the reasonableness of the charge.

Further, the terminal charges should be reasonable and standardised. Calculated rate tables should be supplied to all stations. A simplified tariff, on the lines suggested above, will make the task of station staff much easier and improve the relations between the railways and the business community. The railroad traffic will also receive invaluable spur and strengthen thereby the financial position of our railways.

* *Vide*, The Wedgwood Committee Report, para. 129.

† Section 46 of the Railways Act of 1921 lays down :

"(1) When settling a schedule of charges, or within 12 months or such longer period thereafter as in any case the Minister may allow, the Rates Tribunal shall determine what reductions shall be made from the standard charges where damageable merchandise is carried by railway under owner's risk conditions, and such reductions shall be shown or indicated in the schedules in such manner as the Tribunal prescribed.

"(2) Where an exceptional rate is in operation and the conditions applicable to that rate are the company's risk conditions, or, as the case may be, the owner's risk condition, and the difference in the company's liability under the two sets of conditions in respect of the merchandise in question is not insignificant, the company shall, on request in writing by a trader, quote a corresponding rate under the other conditions, and, if within twenty-eight days from such request company fails to quote such a rate to the satisfaction of the trader, the trader may apply to the Rates Tribunal, and the latter shall settle such corresponding rate and determine the date from which it is to come into operation.

"(3) The difference between an ordinary rate and the owner's risk rate shall be such as in the opinion of the Rates Tribunal is fairly equivalent to the amount by which the risk of the company in the case of the merchandise in question differs under the two sets of conditions."

CHAPTER VI.

RAILROAD REGULATION: RAILWAY BOARD

LORD DALHOUSIE made a strong plea for entrusting the construction and working of railways in India to British capital and enterprise. This plea was accepted and a number of British Companies were formed for the construction of railroads in India. State guarantee became a *sine qua non* of railway construction in this country. Under the terms of contracts with the railway companies the Secretary of State for India had a right to regulate the rates and fares charged by the different railway companies.* But the power of regulation of rates and fares exercised by the Government was just nominal and confined to mere fixation of maxima and minima.† The control was exercised by the Government Consulting Engineer of Guaranteed Railways. Some years later the Government of India thought of decentralising railway control and appointed several Consulting Engineers to supervise and control the working of different railway systems. The policy of decentralisation was, however, found inefficient and ineffective and soon discarded. The Government of India had adopted a policy of state construction of railroads in 1869 which had resulted in rapid development of railway facilities and needed a more centralised regulation. Therefore in 1874 a Director General of State Railways was appointed with power to control both company and State lines. The Director, however, was not free to formulate railroad policy and had to refer all important matters to the Public Works Department. In 1877 a further change was made and instead of one Director General of Railways, the whole railroad system was divided into three divisions and each territorial division was placed under the charge of one Director. In addition a post of Director of State Railways Stores was created.

* There is an important clause in the contracts which runs as follows:—

"The Secretary of State shall from time to time authorise maximum and minimum rates within which the Company shall be entitled to charge the public for the services rendered by way of, or in connection with, the conveyance of passengers and goods on the undertaking, and shall prescribe the several classes and descriptions of passengers and goods to which such rates shall be respectively applicable."

† Mr. Srinivasan rightly says that the policy followed by the Government of India for more than half a century in matter of rate regulation was one of "non-interference." *Vide*, Railway Freight Rates, p. 265.

The new system, however, was not very successful in its working and had to be given up. It was cumbrous and inefficient. Therefore in 1880 the posts of two divisional directors were abolished and their work entrusted to the Consulting Engineers of Guaranteed Railway Companies. Thus the power of regulating railway rates policy was vested into the hands of a single individual, the Director General of Railways, with the Director of Stores, the Director of Traffic and the Consulting Engineer as advisors. The post of the Director of Traffic was newly created, for giving advice to the Director General of Railways on traffic problems. In 1897, again, some important changes were introduced. The post of Director General of Railways was abolished and instead the post of a Secretary to the Government of India in the Public Works Department was created. This new railway authority " combined the advantages of general supervision with intimate local knowledge."*

From the foregoing brief review it will be seen that the State regulation of railway rates policy in India was very general and largely ineffective.† As regards the machinery for regulating rates policy the Government of India had not yet realised the economic importance of railroad industry and had relegated it to a secondary place, at best a part of the Public Works Department. The railways were not worked as a commercial public utility undertaking, with due regard for economy in operation and improvement of railroad services. This faulty policy increased the cost of construction and working expenses and retarded the development of railroad facilities in India. Besides, it led to higher level of rates and fares, with the result that the public could not make maximum use of the railroad system. It is significant to note that by this time the regulation of railroads in the United States had been considerably improved, but the Government of India failed to take advantage of the American experience.

The United States had established the Interstate Commerce Commission by the Act to Regulate Commerce of 1887. The Commission consisted of five members, appointed by the President

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

† *Vide*, Chapter IV, " The Government of India were more anxious at the time to prevent the quotation of unremunerative or confiscatory rates than to prevent the quotation of unreasonably high rates." Srinivasan, op. cit., p. 264. The Government of India believed that the State regulation of rates policy beyond the fixation of maxima and minima would be a restraint of trade and that the railway administrations were best qualified to fix proper rates within the limits laid down by the State.

with the consent of the Senate for a period of six years with a statutory pay of $7,500. They had to make an Annual Report to the Secretary of Interior, which made them subordinate to the Minister, a Cabinet member. Their dependence on the Cabinet Minister was found undesirable and hence in 1899 the Section was amended and it was laid down that the reports should be submitted direct to the Congress. Since then the Commission has become an independent body.

It will be seen that the American practice is based on an important principle that the responsiblity of the State in respect of rates regulation is not confined to mere fixation of maxima and minima rates and fares, as was believed by the Government of India; it extends far beyond. The entire railway rates policy must be regulated by an expert and impartial board, independent of the executive. It has been argued that "an unreasonably high rate is of preponderating importance when public utility undertakings are private property and the income therefrom swells the coffers of the few and leads to unequal and inequitable distribution of wealth. Things are different, at least in degree, when nearly the whole of such income goes into the public treasury and is utilised in the amelioration of the conditions of the peoples of the land. That is exactly what has happened in India. Railway revenues have till recently been part and parcel of the general revenues of the State and have been utilised for the purpose of education and sanitation on the one hand and to meet military expenditure on the other".* Hence the need for a different method of and machinery for the regulation of rates in India than that in the United States or England. This argument needs a closer examination. The need for regulating rates policy by an independent, impartial and expert board when railroads are private property is accepted. But the need for such regulation does not become less imperative by a mere change in the form of ownership. The need for effective regulation arises due to the nature of railroad industry and the importance of services rendered. It is a public utility undertaking with heavy fixed investment and a large unused capacity. It is usually a quasi-monopolist. Regulation is essential both for the prevention of ruinous railroad competition and the exploitation of the users of railway services.

* *Vide*, Srinivasan, op. cit., p. 265.

The rates charged should be reasonable. This reasonableness is equally important under State as well as private ownership of railroad property. The use of railroad services for the relief of general tax-payer is fraught with serious dangers. The need for an effective regulation of rates policy, to protect the interests of the users, through an independent and expert tribunal, becomes more important when railroads are State property, because the State, being the owner, is apt to shield railroad inefficiency and increase the receipts by raising rates and fares. The experience of railroad working in India for about a century, which the present work attempts to portray, bears an eloquent testimony to the inefficiency and waste inherent in an ineffectively regulated State-owned railroad system.

In October 1901, Mr. Thomas Robertson was appointed, by the Secretary of State for India, to enquire into and report on the administration and working of Indian railways. Mr. Robertson, after a very careful study of the Indian railway system, came to the conclusion that the method and machinery for the control of railways in general and the regulation of railway rates in particular was faulty; it retarded the extension of railway net and hampered the economic development of the country. He therefore recommended that the administration of railways in India should be entrusted to a small Board of specially qualified railwaymen, who, free from unnecessary trammels, should *be allowed to conduct the railways on purely commercial principles.* This was a very significant suggestion, based on the experience of other advanced countries, which would have done immense good to the country if it was accepted by the Government of India and worked in its proper spirit. He further suggested that the Board should consist of a President or Chief Commissioner, who should have thorough practical knowledge of railway working and be a member of the Viceroy's Council for railway matters, and two other Commissioners who should be men of high railway standing with training similar to that of the President. Thus, Mr. Robertson wanted to assign proper place to Indian railways, which their economic importance warranted, in the economic system of the country. He advocated that there should be a Minister in charge of Railways in the Central Government of the country.* He,

* This arrangement was based on the British experience. The President of the Board of Trade was in direct control of the Railway Department.

however, failed to provide for the establishment of an independent tribunal to regulate the rates policy of Indian railways, though Britain had the Railway and Canal Commission to determine the reasonableness of the rates and fares charged.

Britain had a Railway Commission as early as 1846. The Commission was, however, dissolved in 1851 and its powers transferred back to the Board of Trade. The Regulation of Railways Act of 1873, once again, provided for the appointment of not more than three Railway Commissioners, of whom one should have experience in law and one be experienced in railway business. The decisions and orders of the Commission were final. But the Commissioners were empowered to state a case for the opinion of any superior court, which might affirm, amend or reverse their decision on the matter stated. The Railway and Canal Traffic Act, 1888, established a new Commission consisting of five members, two appointed and three ex-officio. The two appointed Commissioners were to be appointed on the recommendation of the President of Board of Trade, of whom one was to be experienced in railway matters. The three ex-officio Commissioners were to be judges of a superior Court, one for England, one for Scotland, and one for Ireland. The Commission was known as the Railway and Canal Commission. It was laid down that no appeal should lie from the decisions of the Commission to a superior Court on question of fact or upon any question regarding the *locus standi* of a complainant. On a point of law appeal lay to a superior Court of Appeal.

The Government of India very carefully studied the Report submitted by Mr. Robertson and accepted some of his recommendations. The Railway Branch of the Public Works Department of the Government of India was abolished in 1905 and the control of Indian railways was transferred to a newly organised Railway Board consisting of a Chairman and two members. The Board was, however, not vested with sufficient authority; its powers were strictly limited. The right of decision on questions of railway policy and programme were retained by the Government of India and the Railway Board was expected merely to supervise the details of administration. The Board was placed under and made subordinate to the Commerce Department of the Government of India. Thus, the Government of India completely

ignored the spirit of the recommendations made by Mr. Robertson. They failed to appreciate the suggestion that Indian railways should be managed by a small body of railroad experts, who should be free from needless interference; and that the railways be independently represented in the Viceroy's Executive Council. The Government of India was, obviously, in no mood to learn from the experience of other countries and stuck up to its traditional and wasteful practices.

Constant and needless interference of the Commerce Department of the Government of India impaired the efficiency of the Railway Board. The Board was constituted with the object of conducting railway administration at the highest pitch of efficiency, free from needless trammels. That seems to have been the objective of the higher authorities, for Lord Curzon said that "the idea of a Railway Board was that there should be a body of practical businessmen entrusted with full authority to manage the railways of India on commercial principles, and free from all non-essential restrictions or needlessly inelastic rules." But this hope was not realised due to needless interference of the Commerce Department and the Secretary of State for India. If the Railway Board had been given an independent representation in the Executive Council the situation would have been much better. The defect lay in placing the Railway Board under the Commerce Department and the unduly critical attitude adopted by the latter. Besides, the Board was burdened with multifarious duties,* with the result that the members wasted their time and energy in looking after the routine details of railroad administration. The Board was responsible for the detailed control and management of State railways, exercised the power of the Governor General in Council under the Railways Act of 1890 and advised the Government in matters of general railway policy. In view of the multifarious functions entrusted to the Board, it became a

* The duties assigned to the Railway were as follows :—

"Its deliberative functions include the preparation of the railway programme of expenditure and the discussion of the greater questions of railway policy and economy affecting all lines, the final authority for decision in regard to which is still retained by the Government of India. Its administrative duties include the construction of new lines by State agency, the carrying out of new works on open lines, improvement of railway management with regard to both economy and public convenience, the arrangements for through traffic, the settlements of disputes between lines, the control and promotion of the staff on State lines, and the general supervision over the working and expenditure of Companies lines. The final authority in regard to these administrative duties has been delegated, subject to certain restrictions, to the Railway Board."

Quoted by S. C. Ghose: "Indian Railway Economics," Appendix I, p. 4.

slow and impersonal machine with no eyes and ears for public needs and grievances.

The Mackay Committee, in 1907, disapproved the constitution and working of the Railway Board and made important suggestions for improvements in the management of Indian railways. They recommended that the Government of India should interfere as little as possible with the actions taken by the Board in technical matters. Further, the constitution of the Railway Board should be modified and it should consist of a President and two members, one experienced in railway construction and the other in railway traffic, whose position should be that of assistants and advisors of the President. The Government of India accepted the recommendations and modified the constitution of the Board. The appointment of the Chairman of the Railway Board was changed into that of the President of the Railway Board and his powers were increased. The President of the Board was given direct access to the Viceroy, as if he were Secretary to the Government of India. The Board became the Railway Department, distinct from and independent of the Department of Commerce and Industry. But the Railway Department had no independent representation in the Executive Council of the Governor-General and continued to be under the administrative charge of the Commerce Member, who also represented the Railway Department as the Railway Member. It is significant to note that the Government of India had not recognised the need of giving independent representation to the Railway Department in the Executive Council. This lack of independent representation impaired the efficiency of the Railway Department. As Dr. Mehta says :* "The representation of such important interests in the Executive Council by a man who was incidentally interested in the railways and who could give the subject no more than a medicum of his time and attention, did not and could not conduce to the successful administration of the Department." The claims of the Railway Department were given inadequate consideration and not unoften neglected.† The slow construction of railway lines during this

* *Vide*, Indian Railways, p. 51.

† Besides, the Board lacked intimate knowledge of the transport requirements of the areas under their control. The contact of the Railway Board with the business community was just nominal; they did not possess sufficient means of obtaining intimate local knowledge essential for the formulation of a proper railway policy. The work between the different members of the Board was not properly distributed and each one of them was expected to possess an intimate knowledge of the transport problems of the whole country. Above all, almost equal voting power possessed by the members led to needless delay and indecision on important problems of policy, where prompt action was essential.

period was partly due to these defects. The Commerce Member could not pay adequate attention to the Railway Department,* due to pressure of work of his main (Commerce) Department. Besides, his knowledge of railway problems was second-hand and incomplete. He was a mere titular head of the Railway Department. No wonder that he did not plead the cause of the Railway Department in the Executive Council as strongly as he did of the Commerce Department, of which he was the real head and took personal interest. The Acworth Committee rightly point out: "It would be in accordance with human nature if he supported a policy not his own less resolutely than a policy of the side of the office of which he is the real and not merely the titular head; and if, when the Railway Board's proposals met with serious opposition at the Council, he attached more weight to the arguments of colleagues, with whom he is in constant and intimate relations, than to those of a Board which brings before him, not their every day work, but only such portions of its work as are important and likely to be contentious. The Railway Board is in effect in the position of a stepchild, and, like most stepchildren, tends to be less well treated than the other children of the family." †

To remedy the defects in the constitution and functions of the controlling authority, outlined above, which had retarded the development of railway facilities in the country, the Acworth Committee suggested that there should be a Member of the Executive Council in constant touch with railway affairs. "We are convinced," they remarked, "that the Indian railways will never be able to give a satisfactory account of themselves, to earn the revenue which they should earn, and to render to the public the service which they ought to render, until they are represented in the Viceroy's Council by a Member who is fully in touch with their daily work.‡

The Committee, therefore, recommended that there should be a Member of the Viceroy's Executive Council in charge of Communications, whose portfolio should comprise Railways, Ports, Inland Navigation, Road Transport and Posts and Telegraphs.§ This suggestion was calculated to promote closer contact between

* *Vide*, the Acworth Committee Report, para. 91.
† *Vide*, Report, para. 95.
‡ *Vide*, *Ibid.*, para. 95.
§ *Ibid.*, para. 97.

the different transport agencies and a co-ordinated development of the transportation system as a whole. This was a far-sighted and sagacious recommendation. The advantages of a close relationship between railways, ports, water transport and road transport are obvious. They need to be co-ordinated by a common controlling authority. They are feeders to each other. But, at the same time their conflicting interest as carriers necessitate expert supervision and adequate protection. All agencies of transport are necessary for the economic development of India, and all new schemes, whether for transport by rail, road or water, should be considered by the same authority as a part of a well-ordered general programme.*

The Member in charge of Communications, to be named the Minister of Communications, should be the Chairman of the Indian Railway Commission. He should be a capable administrator, parliamentarian and railway expert. The Committee said: If a man could be found to combine the qualifications of a capable administrator, parliamentarian and railway expert, he should be an ideal selection for the post. But to find a man with all these qualifications would be very difficult; to find one possessing them who would be attracted by the salary attaching to the appointment of Member of Council would be impossible. We take it for granted, therefore, that the Member must rely upon others for technical advice; but we consider it essential that he should himself possess the other qualifications mentioned.†

The Railway Commission to consist of a Chief Commissioner, a Financial Commissioner and three territorial Railway Commissioners with Minister of Communications as the Chairman.‡ The Chief Commissioner was to be made responsible for deciding technical problems and for advising the Minister for Communications on matters of railway policy. "He would be a technical railwayman. He would have the status of a Secretary to Government and so would have a right of access to the Viceroy, and he should be invited to attend meetings of the Executive Council when the matters relating to the Commission are under consideration, with freedom to advise on technical matters, without

* *Ibid.*, para. 98.
† *Ibid.*, para. 104.
‡ *Ibid*, para. 111.

a vote."* The vesting of responsibility for decisions on technical questions and for advising the Minister on matters of railway policy in one man would undoubtedly promote initiative, prompt decision and a bold and continuous railway policy. The Committee rightly remarked that "the present organisation, under which the members have practically equal voting power and responsibilities, inevitably leads to lack of initiative, lack of decisiveness, and lack of a definite policy."† This was a very significant suggestion and if a competent person was selected to fill the post the machinery for controlling railroad working would have materially improved. The other four Commissioners were to assist the Chief Commissioner. The Financial Commissioner was to be second in command to the Chief Commissioner at the headquarters. The other three Commissioners were to be in charge of three divisions into which the entire railroad system was divided—Western, Eastern and Southern.‡ These three Commissioners, in charge of a division each, were expected to develop a more intimate contact between the Railway Board and the business community. They were expected to study the transport requirements of the area under their control, make necessary improvements in the sufficiency and efficiency of the transport services and create thereby greater public confidence in the Railway Board.§ The technical staff to consist of five directors—two directors of Engineering; two directors of Traffic; one director of Ports, Inland Navigation and Road Transport; one director of Accounts. In addition, there was a post for the General Secretary.

Further, the Committee recommended that the Railway Board, subject to control on broad questions of policy, should be

* *Ibid.*, para. 112.

† *Ibid.*, para. 117.

‡ *Ibid.*, para. 113.

§ "The appointment of a Chief Commissioner, who will be an executive officer with full powers, will not in itself eliminate the disabilities under which the controlling authority is at present labouring. Local touch and local responsibility must be developed. At present the Railway Board has not the means for obtaining the necessary intimate local knowledge. The local authorities and the public are fully aware of this, and in consequence have no confidence in the Railway Board, of which the members are seldom seen, and in consequence the Board is practically disregarded. Subdivision and concentration of supervision will cure this. We have for this purpose apportioned the railway map of India into three divisions, and it is proposed to allocate a Commissioner to each division. It will be the duty of the Commissioner in charge of a division to concentrate and specialise upon the study of its ransport problems so as to become thoroughly intimate with them. He will by this means obtain a confidence and power of decision which knowledge alone can give, and in addition will win for the Board throughout India the confidence in its control which is now non-existent."

Acworth Committee, para. 118.

responsible for its own administration. "We assume that in future the Railway Commission will be responsible for its own administration; will itself fix scales of pay and conditions of service for its own staff, and be free to engage and dismiss them as it thinks proper; will prepare its own programme of work and expenditure; and within the limits of its budget will carry it into effect; that in a word, though remaining an integral part of Government machine and subject to control on broad questions of policy and the major questions of finance on which policy must depend, it will be an independent administration."*

The Government of India accepted some of the recommendations of the Acworth Committee and modified the constitution of the Railway Board. In November, 1922, the Chief Commissioner was appointed. He was made solely responsible for arriving at decisions on technical questions and for advising the Government of India on matters of railway policy. In April, 1923, the Financial Commissioner was appointed. The reorganised Railway Board consisted of the Chief Commissioner as President, the Financial Commissioner and two other members. The Chief Commissioner was also Secretary to the Government of India in the Railway Department. The Financial Commissioner was to deal with all financial questions. Of the two other members, one was in charge of technical subjects and the other of traffic and general subjects. Thus the territorial basis suggested by the Acworth Committee was ignored and the work of the Members of the Board was divided on the basis of subjects. Members of the Board were given adequate assistance so that they might be able to devote their attention to larger questions of railway policy and improve the contact between the Railway Board and the business community by frequent and extensive tours. The separation of routine official work from general and broad questions of policy was a decided advance calculated to increase the efficiency of the Railway Board and the railroad system it was expected to supervise. The Acworth Committee had criticised the constitution and working of the Railway Board in very strong terms. They said: "It seems to us that, in consequence of the regulations under which the Railway Board act, they spend a large part of their time, on the one hand, in doing the work of their

* *Ibid.*, para. 127.

subordinates, which these subordinates ought to do for themselves; and on the other hand, in obtaining from their superiors permission to do the things which they are fully competent and ought to be permitted to do themselves."* They further added: "Complaint was made to us in different parts of India that the Members of Railway Board seldom or never visited them. In Delhi we were told that, if a Member of the Board absented himself for a fortnight, the accumulation of papers would be so great that it would be almost impossible for him ever to overtake them. And we fully believe it. There is laid upon their shoulders a burden of routine work which is more than three men can cope with. The proper function of the Railway Board is not to carry out routine duties, but to shape policy, to watch, to think, and to plan."† The reorganised Railway Board consisted of the Chief Commissioner, Financial Commissioner, Technical Member and General Member. The Financial Commissioner was assisted by a Director of Finance, a Deputy Director of Finance, and an Assistant Director of Finance. The General Member was assisted by a Director of Establishment and a Director of Statistics. The Technical Member had as his assistants a Director of Mechanical Engineering, a Director of Civil Engineering, a Deputy Director of Stores, a Deputy Director of Programme, and a Technical Officer. In addition there were the Secretary, Deputy Secretary and Chief Superintendent.

The suggestion of the Acworth Committee that there should be a separate Member of the Executive Council of the Governor General in charge of the Communications was brushed aside by the Government of India and the Railway Board was kept under the Commerce Member, known as the Member for Commerce and Railways. This was the most serious defect of the scheme of reorganisation, which prevented a co-ordinated development of the transportation system of the country. Besides, the Railway Department, being under the charge of the Commerce Member, continued to suffer under the serious handicaps outlined above. The Government of India took long time to appreciate the value of this recommendation.

During 1931-32, Railway Board was again reorganised as a measure of economy, in view of a serious setback in railroad traffic

* *Ibid.*, para. 109.
† *Ibid.*, para. 110.

and receipts. Some superior posts were held in abeyance. To that class belonged the posts of Traffic Member,* Engineering Member,† Director for Civil Engineering,‡ Director for Mechanical Engineering¶, Assistant Director of Finance§ and Deputy Secretary.†† An additional temporary post of Deputy Director of Traffic was created during the abeyance of the post of Traffic Member.‡‡ The reorganised Board consisted of the Chief Commissioner, the Financial Commissioner and one Member, assisted by three Directors, six Deputy Directors and a Secretary. Under the scheme of reorganisation, the Chief Commissioner had taken over the duties of the Engineering Member. But it was soon found that the Chief Commissioner could not devote the time that was required for the prompt disposal of the Civil Engineering business, and therefore to prevent causing serious delay in the work and consequent inconvenience to the parties affected thereby, it was decided to revive the post of Director of Civil Engineering from November, 1932, and instead to keep in abeyance the post of Deputy Director of Civil Engineering. It was also decided in October, 1932, to convert the post of Chief Superintendent to that of Assistant Secretary. The post of Technical Officer was abolished in 1930 and a Central Standards Office for Railways was established. Thus by the end of 1932 the superior staff of the Railway Board consisted of the Chief Commissioner, the Financial Commissioner, one Member, four Directors, five Deputy Directors, one Secretary, and one Assistant Secretary.

The post of Director of Mechanical Engineering was revived in April, 1935. The post of Traffic Member was revived in October, 1936. The work done by the Central Standards Office for Railways established as an experimental measure for a period of five years was found satisfactory and hence it was made permanent in 1935. The existing superior staff in the Railway Board's office consists of the Chief Commissioner, the Financial Commissioner, two Members, five Directors, six Deputy Directors, one Secretary, one Assistant Secretary, and one Assistant Director of Finance.

* With effect from 29th March, 1932.
† „ „ 5th May, 1932.
‡ „ „ 4th December, 1931.
¶ „ „ 1st April, 1932.
§ „ „ 1st March, 1932.
†† „ „ 31st July, 1931.
‡‡ „ „ 1st April, 1932.

The most significant feature to note is that the Government of India established the Department of Communications in 1938 and the Railway Department was amalgamated with it. The Railway Board directly administers the State Railways and regulates the working of company-managed lines. In this connection it is essential to point out that the Financial Commissioner should sever his connections with the Finance Department and be an officer of the Railway Department. The Railway Board should, subject to control over major questions of finance, have full independence to work the railroad system on lines it thinks proper. The public should have the right to refer their grievances to the Rates Tribunal, which should be an integral part of the Indian railway system. The railways have no cause to fear of the Rates Tribunal so long as they work the railroad system with efficiency and economy and charge reasonable rates and fares to the public. Efficiency of services and reasonableness of charge must be definitely secured, if the public is to extract maximum out of the iron-horse.

CHAPTER VII.

RAILROAD REGULATION: RAILWAY RATES ADVISORY COMMITTEE.

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

In India, as in England and America, the early construction and development of railways has been associated with private capital and enterprise. But one important difference in the analogy is that whereas in England and America private capital and enterprise shouldered all risks incidental to such a vast commercial enterprise, in India the state guaranteed a safe and high return on the capital invested by the railway companies and in addition undertook to bear the losses incurred in working the lines. And yet the Government of India, as shown above, failed to safeguard adequately the interests of the public. The Indian Industrial Commission, which was appointed by the Government of India in 1916 to examine and report upon the possibilities of further industrial development in India, received substantial evidence to the effect that the Indian railway policy failed to foster

the economic development of the country. Inadequate government control over the rates policy and the lack of proper authority to redress the grievances of the public, especially the commercial community, was definitely emphasised. The Commission also found that there was unhealthy rivalry between the various transport agencies which retarded the industrial development of our country.*

The Acworth Committee was set up in 1920 to report, *inter alia*, " whether the present system of control by the Government of rates and fares and the machinery for deciding disputes between railways and traders are satisfactory, and, if not, to advise what modifications are desirable." The Committee found that in fixing rates and fares the railway companies were allowed a large measure of freedom. The fixing of maxima and minima rates for each class, usually in the relation of about three to one, did not protect the traders against undue preference. The enforcement of the remedy under the Railway Act was so cumbrous and inapt that no court had ever sat. A cheap and expeditious tribunal was needed to remedy the defects in railway rates policy. The Committee, therefore, unanimously recommended the establishment of a Rates Tribunal, similar to that of the English Rates Tribunal consisting of an experienced lawyer as Chairman and two lay members, one representing the railways and the other commercial interests, with power, in any case deemed of sufficient importance, to add two additional members, one on each side.†

The need for the establishment of an impartial and expert body, simple in procedure and efficient in working, to investigate the alleged grievances of the traders against the Indian railway authorities, impervious to public opinion, could hardly be exaggerated. There is complete unanimity in the public opinion so far. But on the question as to what should be the power and function of the Indian Rates Tribunal the expert opinion was, and is, even now, divided. The Interstate Commerce Commission of the United States and the Rates Tribunal of Great Britain are invested with decisive and mandatory power, and therefore the Acworth Committee recommended a Rates Tribunal for India based on the English model.† This proposal, however, did

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

† *Vide*, Report of the Acworth Committee, para. 156.

not find favour in certain quarters. The critics argued that the Committee overlooked the peculiarities of the countries and their railway systems. In India, where nationalisation of railways has been accepted both in principle and practice, and the state has fostered the development of railways by guarantee and subsidy, it is doubtful as to whether the state would allow an independent authority to dictate the rates policy. The Indian taxpayer has great interest in the working of Indian railways, not merely because they are important public utilities providing an essential service, but the public has shouldered the burden of heavy financial losses which the extravagant construction and working of railways entailed in the last century. A powerful tribunal on the English or American model can work with success in a country where the risks of railway construction and working have been undertaken by private corporations and where state has no stake. But in India such a tribunal is neither desirable nor practicable. With enormous financial stake in railways, the State cannot view with equanimity the possible decision of a mandatory Rates Tribunal to pursue a course of action which may thwart its purpose or may not inconceivably endanger its financial equilibrium. The Acworth Committee seems to have ignored the possibility of friction between the State and the mandatory tribunal.*

It is difficult to agree with these arguments. It makes no difference as to who is the financing authority of the Railway system. We have already stated that the railways are entitled to fair returns, consistent with efficient and economic operation, as a commercial enterprise, irrespective of the character of financing authority. The State as a financing authority has no special claim. Per contra, on the accepted principles of commercial practice, a certain portion of capital investment which was due to wasteful methods of construction should, after an expert enquiry, be written off. It is undesirable that the public using transport service be made to bear the burden of uneconomic costs of construction and heavy guarantee. The taxpayers, who have borne this burden, willingly or unwillingly, have no right to claim relief. Needless and extravagant expenditure cannot be rewarded, nor can the inefficient and wasteful management. A railroad administration is entitled to a return just sufficient to attract necessary

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

investment under honest, efficient and economical management. Besides, the nature of railroad industry, as stated above, is such that the railway authorities can impose a tax upon the public using railway services, directly and indirectly, in the form of higher rates and fares and disguise thereby their inefficiency and lack of foresight. Where the State itself has a direct financial stake in the railroad industry, as in India, there is a greater need for an impartial, expert and judicial authority to determine the reasonableness of rates charged, because in this case the railway authorities are more susceptible to abuse their power with the direct support or connivance of the government. Inefficiency in railroad industry must be definitely and scrupulously guarded against.

The Government of India, however, was not prepared to go far enough and yet it could not totally ignore the insistent public demand* for an impartial and expert body to adjudicate between the railway authorities and the business community, which has also received adequate support from the disinterested experts† on railway problems. The railway companies had also agreed.‡ Therefore they effected a compromise and appointed an advisory committee, known as the Railway Rates Advisory Committee, as an experimental measure. The powers and functions of the Committee are strictly limited.

Composition of the Railway Rates Advisory Committee

The Acworth Committee recommended the establishment of a Rates Tribunal consisting of an experience lawyer as chairman and two lay members, one representing the railways and the other commercial interests, with power, in any case deemed of sufficient importance, to add two additional members, one on each side.§ It is difficult to visualise members representing railway

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

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

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

§ *Ibid.* para. 156.

and commercial interests giving an impartial judgment on questions referred to the tribunal. The Committee ought to have suggested three independent, permanent and paid members, having no connection with railways or commercial interests. The persons who have established business connections, to which they intend to revert after serving their connections with the Rates Tribunal, cannot be expected to be impartial judges on questions which affect the business interests. Similar is the case with the member having connections with any railway administration. No doubt it is essential to secure on the Tribunal the services of men "who are intimately in touch with the problems of trade and transport," but it is not necessary that they should be connected with business or railroad interests. They should be independent persons. This intimate knowledge of the economic conditions of the country and its transport requirements may also be secured by empowering the Rates Tribunal to call for evidence and carry on its own investigations, which alone will enable it to collect full data necessary for forming a proper transport policy and deliver proper judgments on the disputes referred to them. It is both unnecessary and undesirable to have on the Tribunal "men who are still engaged in trade and transport."

The British Rates Advisory Committee had recommended that "*the tribunal should consist of two permanent members giving their whole time to work, one being a person experienced in railway business, a second being a person experienced in commercial affairs, and the chairman being an experienced lawyer, having no connection with railway or trading concerns, and not holding judicial office.* In addition there should be two panels, the one to be called the traders' panel and to be nominated by the Minister of Transport after taking the advice of such Associations, Federations, and Chambers of Commerce and Agriculture as he shall consider best represent the traders' interests, and the other to be called the railway panel, and to be nominated by the Minister of Transport after taking the advice of the Railway Companies Association. Whenever required by the parties or whenever the permanent members of the tribunal in their discretion think fit, the tribunal for the hearing of any particular case should be increased by the addition of two members, one summoned from the traders' panel and one from the railway panel. In the event of a permanent member of the

tribunal other than the chairman being unable to attend on any hearing, a member of the panel selected by the Minister of Transport should be authorised to take his place with all the powers and duties *pro hac vice* of the permanent member."* Further, the Committee recommended that the panel members should have vote on every question, but that they should not pronounce judgment in public.† *The whole objective seemed to be to create a quasi-business tribunal rather than a quasi-judicial tribunal. The power of vote given to panel members must impair the impartiality and judicial value of the findings of the tribunal. If it is possible to find competent and impartial judges to preside over law courts and pronounce judgments over the most complicated commercial problems, it is difficult to understand why should equally competent and disinterested people be not found to work on the Rates Tribunal. A person who has worked for a series of years in a railway department imbibes a 'railway-spirit' and an outlook which is narrow and sectional. The outlook of a businessman or an industrialist is similar; he will support the interests of trade and industries at the cost of railways and the public. What is needed is expert knowledge, impartial judgment and broad outlook to decide over conflicting claims. The 'panel members' should have been mere advisers to the tribunal without a vote. The other two members of the Tribunal should be experts, without any interests in business or railroads.*

The British Government accepted the recommendations of the Rates Advisory Committee and Section 20 of the Railways Act, 1921, laid down the constitution of the Rates Tribunal. It is composed of three permanent members, one of whom must be a person of experience in commercial affairs, one person of experience in railway business, and the third, the President, an experienced lawyer. They are appointed on the joint recommendation of the Lord Chancellor, the President of the Board of Trade, and the Minister of Transport. Before appointments are made it has been customary for the Minister to consult the principal interests concerned. The members are appointed for a period not exceeding seven years, but are eligible for reappointment. Provision has been made to add to the membership of the Tribunal for the hearing of particular cases whenever the Minister of

* *Vide*, Report, p. 29.

† *Ibid.*

Transport or the interest affected desire it. Two panels have been formed, one consisting of representatives of trading, agricultural, passenger and labour interests, and the other of representatives of the railway interests. Fortunately, this means of increasing the representative character of the Tribunal, has not been used so far.

The Interstate Commerce Commission, which regulates the working of American railways, consists of seven members, who are permanent and full-time officers. They are appointed by the President with the consent of the Senate for a period of seven years.

From the foregoing brief review it will be seen that the necessity of an effective regulation of railway working has been generally accepted, though there is some difference of opinion as regards the method. Further, it is accepted that there must be an independent body to enforce the regulation. The regulating laws are usually very general in terms. For instance, the law lays down that rates must be just and reasonable, but the statute cannot definitely specify what constitutes a reasonable rate. Similarly the railway law prohibits undue preference, but it does not and cannot lay down what constitutes undue preference. The fact of undue preference in individual cases must be established by the parties affected thereby. Discrimination in rate-making is essential in the interests of both railways and the shippers; it is inherent in the very nature of the railroad industry. The principle of what traffic can bear, an important principle of rate-making, is based on discrimination. In fact, the utility of the railroad system to the public varies with the pattern of discrimination on which the rate structure is based. It is difficult for law to specify when is a discrimination just and hence lawful, and when it is unjust and unlawful. It must be proved by the parties. Railways are required to provide adequate facilities to the public, but the statute does not attempt a definition of what constitutes adequate facilities. It is the general form of the statute which requires that regulation, to be effective and impartial, must be enforced through an expert and independent body, which can hold the balance even between the conflicting claims. The utility of this regulatory body depends essentially upon its competence, independence and impartiality.

Judged from these tests, the Constitution of the Indian Railway Rates Advisory Committee is faulty in the extreme, which has impaired its efficiency. It is the purpose of the present chapter to review in brief the constitution and working of the Committee in order to find out in what direction the changes needs be made so as to make the regulation effective, efficient and impartial. The Government of India established the Railway Rates Advisory Committee, in April 1926, consisting of a lawyer president, a railway member, and a commercial member selected for individual enquiries from a panel of gentlemen elected or nominated by the principal commercial bodies. The president of the Committee was a permanent and whole-time officer.* He was an independent and competent officer. But the other two members represented definite interests and could not have dispassionate and detached outlook. This was one of the most important defects, for which the Acworth Committee was partly to blame. They thought that the Indian Tribunal might not get sufficient work. The Government of India showed wonderful resourcefulness in evolving a shrewd compromise to appease the public opinion. We have already shown that even in Britain this expedient of increasing the representative character of the tribunal has never been used. They have three permanent full-time members, though as we have pointed out even the British Tribunal could be improved.

In October, 1931, the Railway Retrenchment Sub-Committee recommended that the Railway Rates Committee as such should be abolished and an *ad hoc* Committee, appointed from time to time to deal with cases as they arise, should be sufficient to meet the requirements of the public and the expenditure should not be more than Rs. 50,000 a year. The Government of India,

* The Acworth Committee held : That the proposed Tribunal in England will not lack work is evident. It is not, however, possible at present to say how far this will be the case in India. We suggest that in the first instance the lay members of the Tribunal should be appointed, but only paid a retaining fee until it can be seen what the work is. We think, however, that the legal chairman should be appointed forthwith as a whole-time officer. The law of railway rates is not a simple matter. In addition to legal knowledge there is required a grasp of the economic principles involved and at least a general familiarity with geographical and business relations and the communities to which they are to be applied. Railway Rates are not a subject in which, as far as we know, any lawyers in India have specialised at the present moment. There are not a few lawyers who have so specialised in England. But to preside over an Indian Tribunal a chairman would need both to be a specialist in railway law and to be familiar with Indian conditions. *Vide*, Report para. 157.

however, did not agree with the suggestion of an *ad hoc* Committee and held that the Committee might not ordinarily be employed for more than six months during the year. The post of Secretary to the Committee was abolished. The services of the President were to be retained on emoluments which would not exceed Rs. 24,000 for the financial year so long as the number of applications referred to the Committee did not necessitate it remaining in session for a longer period than six months in any one year. The President was to be paid a retaining fee of Rs. 1,000 per mensem throughout the year, plus a salary of Rs. 3,000 per mensem (instead of Rs. 4,000 per mensem) for periods during which the President is employed on cases. The Railway Member, who had hitherto been a whole-time officer with a fixed salary of Rs. 3,000 per mensem, to be selected from Railways Administrations for each case, drawing his substantive pay plus a special pay of Rs. 300 a month during the period in which the Committee sits. The office staff to be reduced from ten to three, for the period during which the Committee is not functioning. An additional staff not exceeding five, may be employed during the period when the Committee is functioning. These changes were expected to effect an economy of about Rs. 50,000 annually, as compared with the average annual expenditure of about Rs. 1,50,000. The new arrangement was put into effect from the 1st April, 1932. After the death of Sir Narasimha Sarma in December, 1932, the services of a retired High Court Judge on a salary of Rs. 2,000 per mensem (in addition to his pension) were secured for the President's post. The pay of the former President was Rs. 4,000 per mensem. A senior scale officer of the Commercial Department of a Railway with experience and knowledge of rate work was appointed as the Railway Member and Secretary of the Committee, his remuneration being his substantive pay plus a special pay of Rs. 300 per mensem. Under the previous arrangement, the pay of the Railway Member was Rs. 3,000 per mensem and the post of the Secretary was held by another officer in the senior scale. The Commercial Member of the Committee is paid Rs. 80 for each day he is present at a meeting of the Committee plus a travelling allowance of Rs. 20 per day. The expenditure of the Committee since its re-organisation has

been substantially reduced, as will be seen from the following figures :—

Year.	Expenditure.	Year.	Expenditure.
	Rs.		Rs.
1926-27	1,38,000	1932-33	39,000
1927-28	1,48,000	1933-34	71,000
1928-29	1,67,000	1934-35	75,000
1929-30	1,56,000	1935-36	74,000
1930-31	1,80,000	1936-37	79,000
1931-32	1,45,000	1937-38	75,000

Thus the composition of the Committee has been weakened still more and its efficiency impaired. The Railway Member, selected by railway administrations, and drawing his substantive salary from the railway, is expected to exercise independent judgment in deciding cases affecting railways. He holds a most unenviable position. The cost of maintaining the reorganised Committee is very moderate. It is, however, interesting to note that the cost of the Interstate Commission for 1937-38 was more than $8 m. There was no cause for the Government of India to make indecent haste in reducing costs ; it was a false economy. On the contrary, the Government ought to have tried to find out the cause of unpopularity of the Rates Advisory Committee with the business community and changed the constitution to suit the economic requirements of the users of railroad services. The Wedgwood Committee stated : " In hearing complaints placed before us by the Chambers of Commerce and other bodies, we have formed the impression that the trading community feel themselves burdened by the sense of helplessness in trying to obtain a fair hearing." It was evident that the constitution of the Committee needed improvement to relieve " the sense of helplessness." Lack of work for the Committee was therefore due to defects in its constitution. Besides, the existence of the Committee was not generally known to the public due to lack of publicity. The Wedgwood Committee admitted : " The existence

of the Railway Rates Advisory Committee does not appear to be generally known. Those members of the public who know of it complain that its procedure is slow and that it is too much under the wing of the Railway Board."

Functions of the Committee

The Acworth Committee had recommended that the Rates Tribunal should have wide powers. "The jurisdiction of the new Tribunal should, we think, embrace all questions of the reasonableness of rates even within the contractual maxima and minima, and of the conditions attached thereto, whether the question be the unreasonableness of a rate *per se* or its unreasonableness as compared with the rates charged to other persons or at other places in what are alleged to be comparable conditions. The same Tribunal might have jurisdiction in respect of the obligation to provide reasonable facilities, a matter which at present also has to be determined by a Railway Commission."* The Government of India, however, empowered the Railway Rates Advisory Committee to investigate and report only on such cases as might be referred to them by the Railway Department affecting : (*a*) complaints of undue preference ; (*b*) complaints that rates are unreasonable in themselves ; (*c*) complaints, or disputes in respect of terminals ; (*d*) the reasonableness or otherwise, of any conditions regarding the packing of articles specially liable to damage in transit, or liable to cause damage to other merchandise ; (*e*) complaints in respect of conditions regarding packing attached to a rate ; (*f*) complaints that railways do not fulfil their obligations to provide reasonable facilities under Section 42 (3) of the Indian Railways Act.

Functions of the British Rates Tribunal

British experience as regards the functions of the Rates Tribunal is very instructive. In fact, the Acworth Committee has relied largely upon the recommendations of the Rates Advisory Committee and the action taken by the British Government thereon. The Committee† recommended that the Tribunal should have following powers :—(1) To fix, if not determined by the Parliament, new classification of goods with power thereafter from time to time to alter, vary or add to such classification.

* *Vide*, Report, para. 158.

† *Vide*, Report of the Rates Advisory Committee, 1920, pp. 30-31.

(2) To fix, if not determined by the Parliament, rates, tolls and charges for the carriage of goods by merchandise and passenger trains and to determine from time to time what alterations should be made therein. (3) To determine as a question of fact whether any particular article falls within the description contained in the classification or tariff, and to declare in what class the article should be placed. (4) To determine whether an article is properly included in the description of dangerous goods. If a railway company has declared any article to be dangerous the onus of proof should be on the trader to show that it is not dangerous. The Tribunal may call in expert advice. (5) To determine reasonableness of a rate, toll, or charge. (6) To determine in cases of dispute what charge the railway company is entitled to levy for any services or accommodation when it is not specified. (7) To fix and alter the terms and conditions upon which minerals and merchandise other than dangerous goods are to be carried. (8) If the recommendation to the effect that every railway company should quote a rate at owner's risk and at railways risk in all cases where there is a substantial difference in the liability imposed upon the railway is adopted, the Tribunal should determine what liabilities are to be undertaken by the railway and the difference in rates charged on various articles when they are carried at owner's risk. The Tribunal should have power to vary such determination from time to time. (9) To decide upon an application for a through rate, to which objection is made, whether such through rate needs be modified, and the apportionment of such through rate as between the railways interested. (10) To fix fares and rates for passengers and their luggage and variation from time to time. Thus, the Committee recommended fairly wide powers for the Rates Tribunal, essential for an effective regulation of the railway rates policy. But they laid down a salutary check on the discretion of the Tribunal. They held that when the Tribunal is considering the amount of rates to be charged in connection with the new classification it will have to aim at raising the amount necessary to place the railways on a profit earning basis.*

The British Government accepted the recommendations of the Committee and embodied them in the Railways Act, 1921.

* *Ibid.*, p. 22.

The functions of the Tribunal are laid down in Section 28,* on the lines recommended by the Committee. But the most important section of the Railway Act is that which imposes an obligation on the Rates Tribunal to so frame the rates and fares of the railways as would yield them standard revenue. Section 58 stipulates that charges for each amalgamated railway company should be such that together with other sources of revenue they would yield an annual net revenue equivalent to the aggregate net revenues of the constituent and subsidiary companies in 1913, together with (*a*) a sum equivalent to five per cent. on the capital expenditure, which formed the basis on which interest was allowed at the end of the period during which the railways were in the possession of the Government; and (*b*) an allowance for additional capital expended so as to enhance the value of the undertaking since January 1, 1913; and not included above; and (*c*) a reasonable allowance in respect of capital expenditure on works enhancing the value of the undertaking, but which had not become fully remunerative in 1913, and (*d*) an allowance up to 33⅓ per cent. of any economies that might be effected through amalgamation. Section 59 empowers the Tribunal that if in any year there should be a surplus over the standard revenue 80 per cent. of this is to be used for the reduction of charges and 20 per cent. to be retained by the railway company. Further, the Tribunal was asked to review the charges, standard and exceptional, at the end of each successive year. If on any such annual review the Tribunal found that a railway company failed to earn the standard revenue, and the deficiency was not due to lack of efficiency or economy in management, it should recommend such modification in charges as would enable the company to make up the deficit.

As regards the methods followed in the annual review, the Tribunal said: "It has been our task to follow the development

* Section 28. The rates tribunal shall, in addition to any other powers conferred upon them under this Part of this Act, have power to determine any questions that may be brought before them in regard to the following matters—(*a*) the alteration of the classification of merchandise, or the alteration of the classification of any article, or the classification of any article not at the time classified, or any question as to the class in which any article is classified; (*b*) the variation or cancellation of through rates; (*c*) the institution of new, and the continuance, modification, or cancellation of existing group rates; (*d*) the variation of any toll payable by a trader; (*e*) the amount to be allowed for any terminal services not performed at a station, or for accommodation and services in connection with a private siding not provided or performed at that siding; (*f*) the reasonableness or otherwise of a charge made by a railway company for any services or accommodation for which no authorised charge is applicable; (*g*) the reasonableness or otherwise of any conditions as to packing of articles specially liable to damage in transit or liable to cause damage to other merchandise; (*h*) the articles and things that may be conveyed as passengers' luggage; and (*i*) the constitution of local joint Committees and their functions and the centres at which they are to be established.

of companies' cases and see that their methods are correct; to test the results of companies' calculations and to listen to all objections." This is a most unsatisfactory method to follow. Second-hand information cannot provide a scientific basis for study. But the present constitution of the tribunal does not permit a better method to be adopted. The Tribunal is not an investigating and originating body. It has to depend largely upon the information placed before it by the parties. Of course, the Tribunal may call upon the Minister of Transport to supply the information it needs, but that information is available to all parties. Besides, the Tribunal being independent of the Ministry, it will not be supplied with confidential information. This is a very important limitation. The result is that the Tribunal has to base its decision on an insufficient data, which impairs its efficiency materially.

Thus, Britain has made commendable efforts to protect both the railway companies and the users of railroad services, which the Government of India ought to have studied with benefit. But, it should be stated that, *in their zeal to protect railway property, the British Government have guaranteed the railway companies a much greater security than is normally required in the interest of efficient and economic working of railways. The guarantee to each railway the same net revenue as it earned in 1913, one of the best pre-war years for the railways, was rather excessive. Besides, a large part of the railroad capital investment, which was economic in 1913, has become uneconomic to-day with the new and far-reaching developments in other means of communication. The competitive value of rail transport has suffered a serious setback. Hence the need for a radical readjustment in railway capitalisation. An important part of the railway capital investment should be written off, to prevent a setback in the economic development of the country. The objective should be reasonable rates, rather than standard revenue. Further, the Rates Tribunal should be made an investigating and originating body, with full power to regulate rates policy of both railways and roads.* The Interstate Commerce Commission of the United States has greater powers and renders more useful services to the community, as we shall presently show.

Functions of the Interstate Commerce Commission

Rate-Making Power:—The Interstate Commerce Commission has full authority over railway policy. In matters of

rates, the Commission has power to fix maximum and minimum rates, prevent discrimination and decide an adequate level of rates. Section 15a. of the Interstate Commerce Act laid down that: "In the exercise of its power to prescribe just and reasonable rates the Commission shall initiate, modify, establish or adjust such rates so that carriers as a whole (or as a whole in each of such rate groups or territories as the Commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income equal, as nearly as may be, to a fair return upon the aggregate value of the railway property of such carriers held for and used in the service of transportation: Provided, that the Commission shall have reasonable latitude to modify or adjust any particular rate which it may find to be unjust or unreasonable and to prescribe different rates for different sections of the country."

The Commission was *to determine from time to time what should be considered a fair rate of return*, but this had to be uniform throughout the country. In fixing the fair rate of return the Commission was to give due consideration to the transportation needs of the country and the necessity (under honest, efficient and economical management of existing transportation facilities) of enlarging such facilities in order to provide the people of the United States with adequate transportation. Congress prescribed 5½ p.c., however, as the fair rate of return for the first two years that the section was in force, but it authorised the Commission to add an amount not exceeding one-half of one per cent. to make provision for improvement and betterment. The Commission was also to determine the aggregate value of the railroad property for the purpose of administering the section, but the values found under the Valuation Act of 1913 were to be used when available.

Thus, the Commission had to see that the railroads provide adequate transport facilities and get a fair rate of return on the capital invested in providing the services. The railways were assured that under an efficient and economical management they would be able to earn a reasonable income. But if the railways failed to earn an adequate income, the Government did not undertake to make good the deficit. Further, the rate of fair return in rate

making applied to the carriers as a whole or in rate groups, and not to individual carriers. This caused hardship to some lines, for when the rate structure is framed to secure a fair return on the aggregate value of railroad property, the individual carriers must obtain more or less than a fair return. Operating and traffic conditions differ widely on different roads with the result that a level of rates which secures a fair return to carriers as a whole or in groups may prove inadequate for certain lines in the group. No wonder that on some lines rates were higher and on the others they had confiscatory effect. Besides, the task of determining a fair return on the fair value of the entire railroad property was extremely difficult. Again, the railways could not build up reserves during the up-swing of the trade cycle and therefore demanded higher level of rates in times of depression.

The Emergency Transportation Act of 1933 repealed Section 15a. of the Interstate Commerce Act, reviewed in the preceding paragraph, and laid down a simple principle for rate making. The new rule says : " In the exercise of its power to prescribe just and reasonable rates the Commission shall give due consideration, among other factors, to the effect of rates on the movement of traffic ; to the need, in the public interest, of adequate and efficient railway transportation service ; and to the need of revenues sufficient to enable the carriers, under honest, economical, and efficient management, to provide such service."

The new principle is better than the former one. In the first place, there is no positive obligation on the Interstate Commerce Commission to frame such rate-structure as would secure " a fair return upon the aggregate value of the railway property." The Commission has, while fixing rates, to keep in mind that the rate structure should be such as would enable the railways under honest, economical, and efficient management to render such service. The carriers have no claim for a definite income ; there is no guarantee. This is a decided improvement over the former practice. Secondly, the Commission is expected to fix just and reasonable rates, and in so doing give due consideration to the need for sufficiency and efficiency of transport services supplied by the carriers. The rates charged should be such as would enable the carriers to provide an adequate and efficient transportation service. This is a simpler but less definite rate to guide those entrusted

with the task of rate making. The Commission has a wider discretion. But under the new arrangement the rate structure of each individual line should be just and reasonable; the rate protects individual carriers from confiscatory rates. This is a decidedly better practice to follow. Thirdly, the amendment adds a new factor to be taken into consideration in fixing the rates. The Commission is asked to consider the "effect of rates on the movement of traffic;" the level of rates should not be such as to discourage the movement of traffic. This change is of special significance to traders in times of depression and more reasonable.

As regards services, the Commission has power to compel the railways to furnish safe and adequate facilities, to extend their lines; to refrain from new construction and from the abandonment of lines already constructed; to permit the use of terminals by other railroads; and to divert traffic that they cannot handle properly to other railroads. The power of compulsory construction of new line is novel and interesting. The Transportation Act empowered the Commission to require a railroad to extend its lines. The exercise of this power was conditioned upon two findings that must be made by the Commission: first, that the extension was "reasonably required in the interest of public convenience and necessity"; and second, that the expense involved would not "impair the ability of the carrier to perform its duty to the public." The effective utility of this provision has, however, been substantially impaired due to restricted interpretation put upon it by the Supreme Court.

Similarly, the Transportation Act empowered the Commission to control new railway construction. The law laid down that "no carrier by railroad subject to this Act shall undertake the extension of its line of railroad, or the construction of a new line of railroad.....unless and until there shall first have been obtained from the Commission a certificate that the present or future public convenience and necessity require or will require the construction.....of such additional or extended line of railroad." Thus the existing railway lines are protected from the unrestricted growth of competition. In view of the nature of railroad industry, with heavy fixed investments, an effective regulation of unhealthy competition is beneficial to both the carriers and the community.

The Commission had also sufficient say in matters such as pooling arrangements, consolidations, interlocking of directorates and control of one railroad by another. For instance, pooling is permitted only when approved by the Commission. The approval of the Commission is dependent upon its finding that the pooling agreement (1) " will be in the interest of better service to the public, or economy in operation," and (2) " will not unduly restrain competition." The Commission may authorise pooling on such terms and conditions as it finds just and reasonable, subject to the assent of all of the carriers which are parties to the proposed pooling agreement.

Procedure of the Rates Advisory Committee

We have already shown that the Acworth Committee had recommended Rates Tribunal for India with powers to see that the railways charge reasonable rates and provide reasonable facilities. They also suggested definite procedure for the Tribunal to follow. The Committee said : " Both in respect of reasonable rates and reasonable facilities we think the Tribunal should be protected from being flooded with applications. We think that the application should in the first instance be addressed to the Minister of Communications. The Ministry should bring the two parties together, not necessarily having regard to great distances in India, face to face, but by the interchange of statements, and should then express its opinion on the merits of the dispute."* This procedure was expected to facilitate settlement of disputes by mutual consultation and understanding, under the good office of the Minister of Transport, without resort to the Tribunal. The Minister was expected to help the parties in arriving at a settlement and if no settlement was reached, the parties were left to their legal rights. They could go to the Tribunal even if the Minister was opposed to such a course of action. The Committee were clear and emphatic on this issue. They said : " We do not think that applicants should be prevented from taking their case to the Tribunal by the fact that the opinion of the Ministry was adverse to their claim. But the question should be considered whether frivolous allegations should be checked by requiring the deposit with the Tribunal of a certain sum—a figure of Rs. 100 has been suggested—

* *Vide*, Report, para. 159.

to be dealt with at the discretion of the Tribunal."* This was an extremely useful and practical suggestion.

The possibility of the wide discretionary power vested in the Tribunal being abused had to be provided against. Whenever an administrative body with broad regulatory powers is set up there is a grave danger of arbitrary exercise of the power, endangering the rights and liberties of the parties affected. Protection against their abuse is secured by a proper selection of the personnel of the Tribunal and judicial review of its decision. The Acworth Committee recommended " that in cases of importance, either by reason of the amount of money involved or because they raise a question of general principle, there should be an appeal. We suggest that it should lie to the Governor General in Council—this is in accordance with the Canadian precedent. Leave to appeal may be granted either by the Tribunal itself or by the Governor General in Council."† An appeal to the Executive is undesirable; more so when the railroad property is owned by the State. There ought to be a definite provision for the judicial review of decision on a point of law by the Federal Court, and findings of fact of the Tribunal should ordinarily be conclusive, as is done in the United States.

The Government of India did not accept the recommendations of the Acworth Committee and appointed a new Advisory Committee, whose recommendations are not binding. No wonder that the Committee has failed to inspire sufficient confidence in the business community. The procedure of the Committee, however, is simple and informal. An application for a reference to the Rates Advisory Committee must be made in writing, signed by the applicant and should be addressed to the Government of India,‡

* *Ibid.*, para. 160.

† *Ibid.*, para. 161.

‡ In the early stages when the Committee was set up the procedure adopted was slightly different. It was laid down that applications for a reference to the Committee should be addressed to the Agent of the Railway concerned with a deposit of Rs. 100 and that within three months of the receipt of such application the Agent of the Railway should prepare a statement of the case and submit it with his observations thereon to the Secretary to the Railway Board. In the light of the experience gained and upon the recommendation of the Rates Advisory Committee the Government of India reviewed the above procedure and decided that in future applications should be submitted direct to the Government of India, Railway Department, copies being forwarded to the Agent of the Railway concerned, that the deposit of Rs. 100 be reduced to Rs. 10 and that the period of three months allowed to the Agents of Railways for the submission of the statement of their case be curtailed to two months. The revised procedure was introduced with effect from 24th January, 1927. *Vide*, Report of the Railway Board for 1926-27, Vol. I, p. 5.

Railway Department.* A copy of this application must be sent to the Agent of the railway concerned and in case of through rates, over more than one railway, to the Agent of the railway on which the traffic originates. Every such application must be accompanied by a deposit of ten rupees. The Agent of the railway concerned is given two months' time within which he must prepare a statement of the case and submit it with his observations thereon to the Secretary of the Railway Board. This period should be shortened to 21 days, as in England, to expedite the matter.† After the receipt of the application and the Agent's observations thereon, the Government of India decides whether or not it should be referred to the Rates Advisory Committee for consideration.‡ If the Government of India comes to the decision that the application ought not to be referred to the Committee, the applicant is informed accordingly. The applicant has no other remedy thereafter. If, however, the Government of India decides to refer the application to the Committee, the respective parties are informed to that effect and the Committee is instructed to deal with it. On the other hand, if, before the expiry of two months, the Agent is able to dispose of the matter raised in the application, the deposit is refunded. On the receipt of the application with the observations of the Agent thereon from the Government of India, the Rates Advisory Committee may furnish the applicant with a copy of the observations, and the applicant has to reply thereto within two weeks.

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

* This provision has a restrictive effect. In order that the public grievances against the railway administration be given sympathetic consideration, it is essential that provision should be made for a direct reference to the Rates Advisory Committee, without any interference from the Government of India. This interference is needless and vexatious.

† The Wedgwood Committee recommended: "Less time should be occupied in preliminaries, and the procedure generally should be expedited. At present, for example, a railway is allowed two months in which to prepare an answer to an applicant. This might well be reduced to 21 days as in Great Britain, subject to the right to apply for further time in special circumstances." *Vide*, Report, para. 133.

‡ The applicant should have a right to get a decision from the Committee even if the Government of India decides to the contrary. The Government of India should at best strive to effect an amicable settlement between the parties and if that fails, the parties should have a right to refer claims to the Committee.

The Rates Advisory Committee is frequently mistaken for a judicial tribunal, though it is merely an advisory body. There is a mistaken belief prevalent in the business community that it is essential to brief a lawyer for arguing the case before the Committee and hence many traders are frightened at the heavy costs. Besides, even if the complainant knows that it is not necessary to appear through a lawyer, he finds that if he does not brief an experienced lawyer he would lose whatever little chance of success he has against the railway administration, which is usually equipped with the best legal advice as well as technical information. Further, the Committee bases its recommendations on the facts placed before it by the parties. In this respect the contesting parties are not on the same footing. The statistical data in the possession of the applicant is usually inadequate and defective. The railway administrations, on the other hand, possess full technical and commercial data necessary for proving their case. No wonder that the applicants are discouraged and fail to get the best out of the Committee.

In this connection the experience of the Interstate Commerce Commission is very instructive to a student of railroad economics. The applicants can make direct reference to the Commission. Complaints pertaining to rates pass through the examiners. Complaints are ordinarily heard by an examiner in the first instance. He impartially elicits all information necessary for the adjudication of issues raised and submits over his signature a report on the complaint, containing a statement of issues, facts, and findings, which he thinks the Committee should make. This is a preliminary report against which parties can appeal to the Commission. If the parties do not appeal, the examiner's report becomes the basis of the report of the Commission.

As regards the report of the Commission, findings of fact are ordinarily conclusive. The Commission is a fact-finding body. The problem of reasonableness of rates, undue preference and discrimination are largely questions of fact which the Commission is admirably fitted to determine. On questions of fact, therefore, the courts will not set aside the findings of the Commission. There is, however, an important exception to this general principle. If constitutional rights are involved in a matter before the Commission, the courts reserve the right to an

independent judgment on both law and facts, provided this is necessary to a determination of the question of constitutionality. When constitutional rights are based on pure matters of fact, the courts have power to try those facts and come to an independent judgment, notwithstanding the decision of the Commission on questions of fact. The Supreme Court has rightly pointed out that to make the findings of fact of an administrative body conclusive where constitutional rights are involved would be "to place those rights at the mercy of administrative officials and seriously to impair the security inherent in our judicial safeguards." This does not mean that the courts are to disregard, or treat lightly, the carefully considered findings of an expert body, the Commission.

Another important principle to note is that negative orders of the Commission, denying or dismissing a complaint, are not subject to the review of the court. There are, however, two recognised exceptions to this rule. When an order of the Commission is affirmative in effect, though negative in form, it may be reviewed by the court. Further, when the Commission dismisses a complaint on the plea that it lacks jurisdiction, the order may be reviewed. Court is the final authority for determining a question of jurisdiction. This principle has caused considerable hardship to the business community, for in most cases shippers appear as complainants, and if they win before the Commission, the carriers have a right of appeal to courts; but, if the shipper loses his case, he has no right of appeal, even though the decision might be based on a mistake of law. Fortunately under the Civil Aeronautic Act of 1938 the negative orders of the Civil Aeronautic Authority are reviewable.

Grounds of judicial interference with the decisions of the Commission may now be noted. The orders of the Commission will be set aside by the Courts if based on a mistake of law. The orders of the Commission may also be set aside if constitutional guarantees are violated. For instance, if the Commission prescribes a rate which results in confiscation of private property, the order may be set aside. A third ground for setting aside an order is when the Commission exceeds its authority. Lastly, an order

of the Commission will be set aside if made without evidence or contrary to evidence.

The procedure is simple and informal. The Commission is empowered to "conduct its proceedings in such manner as will best conduce.....to the ends of justice." The result is that the Commission is not bound by the technical rules of procedure and seeks primarily for the ends of justice. It is not a court. It puts extremely liberal construction on pleadings before it to help the cause of justice. The Commission has rightly stated: "technicalities will not be permitted to defeat the ends of justice; hence we are not over-exacting with respect to the form or nature of pleadings. Nevertheless, we must be guided by considerations of equity and cannot sanction unwarranted broadening of issues or the fashioning of a case along lines not so explicitly stated at the outset as to enable defendants to come before us with reasonable certainty of the things to be defended."

Similarly, the proceedings before the British Rates Tribunal are refreshingly informal, and technical objections are not tolerated. Proceedings are brief because most of the Tribunal's work consists of an examination of written applications, evidence and pleadings complete in details. This material has to be presented to the Tribunal well in advance of the proceedings. The Tribunal is not bound by any formal rules; it has power to make its own rules. One of the rules provides that "no proceedings before the court shall be defeated by any formal objection." Speeches by counsels are discouraged and seem out of place, for the Tribunal is interested in tackling the issues direct to secure prompt despatch and justice to the parties. The cost of referring a case to the Tribunal and its hearing and final disposal is moderate. All charges are definitely stipulated in the Rules. For instance, the charge per day for hearing is £2 for ordinary cases and £5 5*s*. for disputes between railway companies. The employment of special counsels is unusual, because in most cases arguments are conducted by the full-time employees of the respective railway companies or trade associations, as a part of their manifold duties. In view of the informality of procedure and moderate cost it is difficult to understand the objection raised by the Wedgwood

Committee to instituting a mandatory body for regulating rates policy in India on the lines of the British and American institutions with suitable modifications. The Committee said: "Whilst we consider that the present arrangements can be, and ought to be, improved we do not favour the appointment of a body like the Railway Rates Tribunal or the Interstate Commerce Commission, on the ground of the legal character necessarily assumed by the hearings before such a body and the cost involved to applicants."* *In India, costs would be materially reduced if the trade association have a rate section with a man trained in railroad economics and commercial law, whose services should be available to members of the association for preparing and arguing cases before the Committee. He should be a full-time employee of the association. Costs of this department could be met partly by the association and partly by making a charge to the member whose case has been handled by the department.*

On questions of fact, the decisions of the Tribunal are usually final.† The rules provide that "no appeal will lie from the court upon a question of fact, or upon any question regarding the *locus standi* of an applicant or the right of audience. An appeal will lie from the court to a Supreme Court of Appeal upon a question of law." The Tribunal may review, rescind, or alter its own decision or order in case of submission of further evidence, some substantial wrong or miscarriage, or mistake or inadvertence. The decisions of the Tribunal are therefore usually final. There has been only one reversal out of half a dozen appeals since the Tribunal was established.

Work of the Indian Rates Advisory Committee:

We have shown that the constitution of the Rates Advisory Committee is defective. In the present section we shall review

* *Vide*, Report, para. 133.

† The British Rates Advisory Committee recommended: "Upon the question of appeal from the Tribunal we are of opinion that the rule should be similar to the present rule in regard to appeals from the Railway and Canal Commissioners, that is to say without leave upon questions of law only, but that an appeal with leave should lie in any case in which the Tribunal thinks fit by reason of its importance or otherwise to give leave to appeal, and that in either case such appeal should be to the Superior Court of Appeal. We, however, advise the exceptions that appeals as to any question in regards to through rates should lie to the Railway and Canal Commission, and that an appeal should lie to the Court of Appeal without leave on the question whether any specified goods are dangerous and as to the conditions to be attached to the carriage of goods. We think that an appeal without leave should lie to the Court of Appeal in case the question is one of the jurisdiction of the Tribunal to hear a case." *Vide*, Report, *opp. cit.*, page 29.

the work done by the Committee since its inception. The following table shows the number of cases referred to and disposed of by the Committee :—

Year.	Referred.	Disposed of.
1926-27	6	1
1927-28	9	4
1928-29	9	15
1929-30	8	7
1930-31	0	4
1931-32	2	1
1932-33	5	1
1933-34	4	2
1934-35	2	7
1935-36	2	3
1936-37	0	1
1937-38	3	2
1938-39	6	6
Total ..	56	54

From the foregoing table it will be seen that the number of cases referred to the Committee have been limited. The reasons for unpopularity of the Committee with the business community are many. In the first place, the complaint has to be submitted to the Government of India in the first instance and if the Government think it proper they may refer the same to the Committee. There have been several cases in which the Government of India has declined to refer the complaint to the Committee. For instance, during 1926-27, fifteen cases were submitted to the Government of which only six were referred to the Committee. In several cases the Government of India have rejected the applications on the plea that the applicants have failed to make out a *prima facie* case. This is a faulty practice. The applicants should have direct access to the Committee and frivolous complaints can be checked by requiring an applicant to deposit a sum upto Rs. 500, which may be forfeited if the Committee finds that the complaint was vexatious or frivolous. Secondly, the Government of India have at times rejected the recommendations of the Committee. For instance, the Central Provinces Portland Cement Company complained against the G. I. P. Railways alleging that the terminal charges levied on coal delivered at the siding leading to the Company's Works at Jukehi was unreasonable. The

most important issues raised for decision were as to whether Jukehi was a terminus where a terminal charge could be levied, and if so, what are the services rendered at the terminus for which terminal charge could reasonably be imposed. The Committee after discussing the American, the English and the Indian law on terminals came to the conclusion that Indian law should not be construed as being different from the English law, and therefore held that Keymore is the terminus or the receiving end at which the applicant's coal was agreed to be delivered in respect of which no terminal charge should be levied. On the second issue they found that no service were rendered at Jukehi in respect of which a separate charge could be made. Accordingly the Committee recommended that the terminal charge of four annas per ton levied at Jukehi from the applicant should be remitted. The Government of India, however, did not accept the findings of the Committee, and held that the Indian Railway Act entitled the railway administration to charge a reasonable terminal at Jukehi and that in view of the services actually rendered at Jukehi the terminal charge levied was reasonable. Thus, the findings of the Committee, both on the point of law and of fact, were arbitrarily set aside by the Government of India. No wonder that the public has lost confidence in the utility of the Committee. In the case of the Amritsar Sugar Mills Company, the Government of India accepted the recommendations of the Committee with certain modifications.

Third cause, which explains the unpopularity of the Committee, is its composition. The Railway Member, who is an employee of one of the railway administrations, usually puts the railway case to the President. In any case, it is difficult to expect him to exercise an independent judgment which may go against the railway administrations. The Supreme Court of the United States have rightly said, " It is quite evident that one who holds his office only during the pleasure of another cannot be depended upon to maintain an attitude of independence against the latter's will." Besides, the railway problems being highly technical and complicated, the president, an elderly and retired gentleman, usually a retired Government servant, will usually find it trying to wade through the mass of statistical data and to escape the monotony may rely upon his colleague, the Railway Member. No wonder that in large number of cases referred to the Committee, even after

they have passed through the ordeal of the Railway Department, the decisions are against the complainants. These decisions have invariably been accepted by the Government of India. Further, the complainants have no right of appeal.

Lastly, the onus of proof is usually upon the complainant. The proof of a case of unreasonableness of a rate, or undue preference, usually requires a mass of statistical information, in the possession of the railway administrations, which the complainant cannot easily collect. If there is any inadequacy in the data, the decision is that the rates complained of are not unreasonable, or that the case of undue preference has not been established.

From the foregoing review of the constitution and procedure of the Rates Advisory Committee it will be seen that it does not meet the requirements of the business community. It is necessary, therefore, to change the constitution and procedure of the Committee in material particulars, so as to inspire confidence in the commercial circles and keep the railroad administration at the highest pitch of efficiency. Railways are public carriers and render essential service to the community. On the efficient and economical management of the railroad industry, therefore, rests the industrial development of a country. This feature of railway administration is particularly significant for our country at the present stage, as she is passing through a period of industrial rebirth. It is imperative that there should be a mandatory authority, properly constituted, instead of a purely advisory body, to sit in judgment over the conflicting interests of the railroads and the users. The users should have the right to refer the complaint direct to this Committee, without the intermediary of the Railway Department. The Government of India, being financially interested in the working of some of the important railways, is usually a party to the contest and hence the Railway Department should not, in fairness, be entrusted with the delicate and difficult task of deciding whether a particular complaint should or should not be referred to the Committee for investigation. To guard against frivolous complaints, every complainant may be asked to make a deposit of a sum upto Rs. 500, to be forfeited if the Committee comes to the conclusion that the complaint was frivolous

and vexatious.* In certain cases appeals may be allowed to the Federal Court, particularly on points of law.

The composition of the Committee should be improved. The Members of the Committee should neither be businessmen nor railway employees. Even Government employees should not be eligible. The President should be a trained lawyer, and not a retired judicial officer, with a fairly good knowledge of the economic conditions of the country. The other members should be selected from public life, who have adequate training in economics. Specialisation in railroad economics should be a special qualification. The Members and the President of the Committee should hold office for ten years and during the term of office be removable only for inefficiency, neglect of duty, or malfeasance in office, duly proved before a competent court of law. They should also be eligible for re-appointment. This alone can secure impartiality and independence, essential for a proper discharge of their duties. American experience is an invaluable guide in this direction. Stronger safeguards are necessary in India because the railroad property is owned by the State.

The powers of the Committee should be increased; they should have full powers to regulate the working of our railways. Both efficiency and sufficiency of the railway services should come within the ambit of the Committee. Further, the Committee should have power to regulate road and water carriers also and promote thereby a co-ordinated development of rail, road and water transport facilities in the interests of the community. It is also necessary that the Committee should have an adequate staff so as to be able to collect the information necessary for the understanding of a particular transport problem, which the railways may not be able or may not like to furnish. It should be an investigating body as well. Above all, the Committee must be imbued with a national outlook and regulate the working of the railways in the interests of the community.

* The Wedgwood Committee said: "At present it rests with the Government to determine whether or not an application should be referred to the Advisory Committee for consideration. In our view the Government should accept an obligation to refer to the Advisory Committee any relevant application, unless in the opinion of the Government the application is frivolous or vexatious. If the Government should refuse to refer an application to the Committee, they should give their reasons in writing, for so doing." *Vide*, Report, para. 133. The mere giving of reasons in writing for refusal to refer an application will not improve the situation.

CHAPTER VIII.

CO-ORDINATION OF RAIL AND ROAD TRANSPORT.

THE problem of rail and road competition has been studied in considerable detail in most of the advanced countries and solutions offered suited to the economic requirements of individual countries. The problem of rail and road competition is a dynamic one, changing in its nature and complexity with developments in the transportation system and the transport requirements of the community. Hence the need for a continuous study of the problem and prompt changes both in transport services and regulatory measures. No permanent solution can be offered Suitable changes must be made from time to time to maintai the efficiency and sufficiency of the transport services.

Need for Transport Co-ordination in India

In India the problem of rail and road competition has come to the fore. Railways in India are faced with growing competition from road carriers, both in passenger and goods traffic, as shown above.* The Wedgwood Committee, in 1937, estimated the annual loss caused to railway revenues through road competition at about Rs. 4½ crores. It is obvious that competition has assumed serious proportions. The Government of India have felt the pinch of this competition as owners of railway property and efforts are therefore being made to regulate road carriers. The Motor Vehicles Act was passed in 1939 and measures have been taken since then to enforce its provisions. Provincial Governments are fixing the fares to be charged by the road carriers and regulating their working. In this connection it is necessary to point out that the measures taken by the Government of India should be very carefully scrutinised and watched by an expert and independent body lest they should restrict the growth of motor truck, which is rendering efficient and essential services to the community. Indian railways, as shown in the preceding section, have hitherto followed a very conservative and reactionary policy

* *Vide*, Chapter I.

and their attitude throughout has been impervious to public opinion. The plan of railway construction was faulty, the cost of construction heavy and wasteful, facilities provided have been inadequate and inefficient, and the rates policy extremely short-sighted. Maximum profits with minimum traffic has been the watchword of their policy. They could pursue this reactionary policy because railroads have hitherto enjoyed almost unrestricted monopoly of transport, and the Government of India was not responsible to the Indian public opinion. To-day, though the Government of India is still irresponsible to public opinion, the motor truck has seriously challenged the monopoly of railways within a certain ambit. It is largely due to this growing road competition that railway authorities have for the last few years tried to improve railroad facilities and lowered rates and fares for short distance traffic

Competition, as such, is not undesirable. On the contrary, it is an essential spur to efficiency. Competition nerves the shrewd and the alert and weeds out the inefficient and the short-sighted. Competition places the industrial management in the hands of the most efficient and competent captains of industry and helps to pass on the advantages accruing from improvements in the technique of production to the consumers. But, competition has its limitations. In the absence of effective and impartial regulation, competition is apt to become dangerous. Cut-throat competition is both uneconomic and anti-social. This is particularly true of the railroad industry, with heavy fixed investments. We should therefore try to secure the invaluable advantages which the railroads and the motor truck offer as carriers of men and merchandise and at the same time allocate economic spheres of activity to both of them, so that both may be able to work with maximum efficiency and provide to the public varied transport services at minimum cost. In other words, we must assign to each form of transport—rail and road—its economic place in the transportation system.

Economic Spheres of Activity: Railroads.—Both means of transport are equally essential for the economic development of a country. There is nothing to choose between the two, for each in its own sphere possesses exceptional economic advantages, without which the community would be poorer. Even to-day, railways

are the most important inland means of communication. The industrial structure of a country is largely determined, *inter alia*, by the efficiency and sufficiency of the railroad transport facilities. For instance, bulk of the raw materials and the mechanical equipment of a modern factory is hauled by railroads. In marketing of finished goods as well railways play an important part. The importance of railroads in the economic system of a country is increased much more if the length of haul is long. Notwithstanding the rapid expansion of motor truck traffic, railways still hold their own in carrying long distance traffic. Railroads are admirably suited for the transport of heavy and bulky articles and most of the primary raw materials of industries; in this sphere the motor truck has not seriously challenged their supremacy. Similar is the case with long distance passenger traffic. Of course, it has to be noted that the automobile is steadily extending its ambit with technical improvements in the machine and the road system.

Economic Spheres of Activity: Motor Vehicle.—The motor vehicle renders rapid, flexible and a more individual type of transport service. For short routes the motor truck is indispensable and superior to railroads or any other mode of transport because of its safety, regularity, mobility, speed, frequency and cheapness. It offers door-to-door services, picks up and delivers goods with greater convenience and ease to the shipper. This is so because, unlike the railway, the motor truck does not require any fixed and costly road-bed to construct, and hence it is free to move to any part of the country to draw traffic, and leave without incurring any loss the route which proves uneconomic. The railways, on the other hand, require a fixed and costly road-bed, and widespread organisation for the collection and distribution of traffic, involving heavy capital investment. The capital thus invested is sunk for ever and is irrecoverable. Railways are, therefore, committed to their route. This is a serious handicap. Further, for passenger traffic, the motor bus can pick up and set down at any point *en route*. Thirdly, the manufacturer can use the motor bus for despatching goods promptly at his convenience and need not wait for the train timing. Fourthly, the automobile eliminates transhipment costs and delays. Reduced risk of pilferage is another advantage claimed by the bus, because the consignments during transit are under the control of a definite individual.

Reduced packing costs and less likelihood of damage to delicate articles are some of the other advantages of motor transport.

The road carriers are of special importance to agricultural countries. India needs motor trucks to link up the agricultural areas with the important trade centres or railway junctions, so as to facilitate the marketing of agricultural products. The motor truck thus acts as a feeder to the railways and any increase in the road services will also increase the railway traffic. Improvement of agricultural marketing is an important problem of the day. In view of the isolated nature of agricultural operations in India, road carriers provide the sole means of contact between the farm and the market. The material welfare of the agricultural masses therefore depends upon the efficiency and sufficiency of the road services. This is not all. Railways can use motor trucks for opening up outlying areas and linking them with the nearest railway station. Joint rail and road services can be established, as has been done in most of the advanced countries. This would materially improve both the railway earnings and the income of the agricultural classes.

Though railways and road carriers have largely their own spheres of economic activity, in which they hold supreme, overlapping is not uncommon. Besides, the railways have taken the motor truck as an undesirable upstart which they think must be suppressed and they are using all the resources at their command to that end. Similarly, the motor trucks have resorted to the easiest and short-sighted method of diverting railroad traffic and have not devoted sufficient resources and time for developing new traffic. This is probably due to the fact that the motor carrier industry of India has not attracted big financiers. The development of new traffic requires large financial investments and fairly good waiting capacity. For the small investor diversion of traffic is the easiest and the safest method, though it is against the interests of the community. It is therefore desirable that motor-carrier business should usually be undertaken by joint stock concerns which would rapidly develop large volumes of new traffic and at the same time maintain better standards of service. Of course, the concentration of control in the hands of a few financiers may promote monopoly. The danger of monopoly will have to be checked by prompt and effective state regulation. The Rates

Tribunal, suggested above, would be able to keep an effective watch over these tendencies and regulate unwarranted developments in this direction.

The competition between the railways and the motor truck has become very keen and has led to the huge waste of India's economic resources. The imperative need of the day is to eliminate this waste and at the same time secure maximum variety and efficiency of services at minimum cost. The railway authorities allege that road competition is unfair, due to ineffective State regulation and inadequate taxation of motor vehicles. The conditions of road services in India, as we find to-day, are far from satisfactory; overcrowding of buses, overloading of lorries, irregular timing, defective mechanical equipment, etc., are common. This is largely due to defective State regulations. The Wedgwood Committee said: "The policy hitherto followed by the Provincial Governments encourages an unorganised and inefficient type of road transport whose competition will cripple the railways without providing a trustworthy service on the roads; whilst on the other hand the control exercised by the Central Government can only be made effective by delaying or restricting the provision of an adequate road system, which is a public need of the first order, quite irrespective of the railways. In this way, a continuance of the present policy seems certain to give India the worst of both worlds—unprosperous railways and inadequate roads."* The problem therefore needs prompt attention

Need for Road Transport Regulation.—Investigations have shown that to a certain extent present competition between railways and road carriers is unfair. Effective regulation of road transport is essential to place the competition on equitable basis. Railways have alleged that inspection of motor vehicles is inadequate. There is a great deal of truth in this allegation. Those who have travelled in rural areas in motor buses will bear unequivocal testimony to this statement. Delays are often caused due to mechanical defects and passengers are stranded. "We think it is true," said the Mitchell-Kirkness Committee, "that while railways and rolling stock are subjected to close inspection to ensure the safety of the travelling public, the inspection of public motor vehicles is not so rigid."

* *Vide*, Report, para. 138.
† *Ibid.*

Overcrowding of motor buses is a common feature. Of course this is not peculiar to road transport. Railways in India are equally guilty of not having paid adequate attention to this most important problem. Overcrowding of the third class compartments of through trains is an every day affair with which we have by now become fairly familiar and the complaints, notwithstanding the nationalisation of Indian railways, having proved fruitless, the public opinion in the characteristic Indian way has resigned to the Will of God. The railways were hitherto monopolists even for short distance traffic and dictated their own conditions of travel. The Government of India have failed to fulfil their obligation of providing adequate railroad services at reasonable rates, even though they are the owners of the railroad property and manage some of the more important railway systems. Today the railroad monopoly for short-distance passenger traffic has been seriously questioned, as is admitted by some of the railway administrations. The motor bus is diverting a very large proportion of railroad passenger traffic. They find this practice economic by resorting to overcrowding of motor buses. The Mitchell-Kirkness Committee said: "We think the contention of railways in regard to overcrowding is frequently correct, there being few localities which we visited where complaints of this were not made. Overcrowding is not unknown on railways, but we think that while railways attempt to correct it, its prevention in public service motor vehicle is often difficult."* Overcrowding, both on railways and motor buses, should be effectively regulated.

Further, under the Railways Act the railway administrations are expected to keep regular accounts, to issue tickets to passengers and pass receipts for goods, and to issue time, fare and rate tables. But, on the motor bus proprietors there are no such obligations. This increases malpractices in motor bus fares. In the absence of regular tickets it becomes difficult to keep proper check over the employees working on the buses. The obligation to issue tickets to passengers would therefore help the motor bus proprietors as well. The practice of not passing receipts for goods carried on the passenger buses—usually on the top of the buses—frees the motor bus proprietor from the legal

* *Ibid.*

liability for damages in respect of any loss, pilferage or damage caused to goods due to his negligence or carelessness. The Indian Railways, on the contrary, have definite responsibility on this behalf. It is essential that as public carriers the responsibility of motor buses should be increased and the remedial measures made more easily available to the public. This would facilitate co-ordination of rail and road transport.

Another interesting fact to note is that the Indian railways are bound by the statutory rules to limit the hours of work of their employees. In the case of bus drivers employed by private individuals there is no such limit prescribed. The owner-driver has his own hours of work. In the case of passenger motor buses, owner-drivers are more common. There are a few important motor bus companies, catering for passenger traffic, which have fixed hours for their employees; but they are usually confined to cities. The need for an effective regulation in this direction is urgent. This would also facilitate co-ordination.

Further, in the case of motor bus drivers, both the medical and the driving test should be of a fairly high standard.* The vehicle must also be mechanically fit and its equipment of a fairly high standard when used for passenger transport. The driver and other workmen should have their weekly day of rest. This would improve road services and facilitate rail and road co-ordination. The Mitchell-Kirkness Committee rightly remarked that "the use of motor buses has outrun the provisions of the rules and existing machinery for their application, and owing to financial stringency and a natural disinclination to elaborate rules, control is perhaps inadequate to the requirements of the case."†

General Objects of Motor-carrier Regulation

(*i*) *Prevention of discrimination.*—Reasonable discrimination in rate making is essential and facilitates the movement of traffic. It helps a more equitable apportionment of transport costs over the total volume of traffic carried. In the case of railroads, the principle of discrimination plays a very important part in rate

* "Railways also believe that motor drivers licenses are often granted without strict medical examination and driving tests. The medical examination of the railway operating staff and tests of fitness are and must be strict. We believe that most provincial motor vehicles rules now prescribe both medical examination and a driving test, and clearly these are necessary and should be strict." Mitchell-Kirkness Committee Report, para. 20.

† *Ibid.*, para. 21.

making. In fact, the utility of a railroad system to a country depends on the pattern of discrimination upon which its rates structure is built up.* Discrimination is obviously a double edged sword and should be used with considerable skill and judgment. In the hands of an inexperienced railroad manager the principle of discrimination must result in dangerous consequences. Besides, in the absence of adequate safeguards the principle of discrimination is apt to be abused. Hence the need for an effective state regulation. Railway law has provided sufficient safeguards against such practices by railways, though the machinery for enforcing them in India is far from satisfactory. In the case of motor carriers, however, there is no such regulation. Of course, the motor trucks have much less incentive to practise discrimination, because their fixed costs are just nominal as compared with those of the railways; their expenses are largely operating costs. But unhealthy discrimination in rate making should be effectively regulated.

(*ii*) *Dependable Service.*—Regulation is necessary to ensure dependable transport services to the public. Railroads have this obligation enforced upon them by the Railway Act. It is therefore desirable that common carriers by highway should also assume the responsibilities which are ordinarily imposed upon other common carriers. Regular bus services would stimulate the growth of traffic and facilitate co-ordination of transport services.

(*iii*) *Reasonable Rates.*—Another important objective of motor carrier regulation is to secure that the public shall be charged only reasonable rates for the services rendered by the road carriers, even in those areas where they enjoy monopoly powers. The motor carrier industry is not a monopoly of organisation. This is so because the fixed capital investment is not very large and competition, in the absence of state regulation, is usually strong enough to keep the rates charged reasonably low. Hence there is no need to regulate the rates charged by motor trucks. On the other hand, there have been innumerable cases of wasteful competition and needless duplication of services in the absence of state regulation. Motor carriers regulation was therefore introduced to eliminate this wasteful duplication of services. In most advanced countries before a person can get a certificate to ply a

* For detailed discussion refer to "Railway Rates Policy" by R. D. Tiwari.

motor truck or bus for hire must prove to the satisfaction of the authorities the public need for that vehicle. This procedure is generally complicated and costly. The joint stock companies running the motor trucks and buses find it easier and cheaper to get these certificates. If the Indian railways are given the powers to run bus services, they will easily create an artificial monopoly, if the regulatory authority permits only one operator over a given route. If a monopoly is created it is desirable to regulate its charges. The Rates Tribunal, outlined in the preceding chapter, should have the power to regulate the rates and hear complaints affecting them.

(*iv*) *Stability of Rates.*—Progress aims at the elimination of uncertainty. It cannot be denied that uncertainty is a serious handicap to the growth of modern trade and industries. With the development in the means of communication and interchange of commodities between distant countries, cost of transport has come to play an important part in the cost of production of modern industries and consequently in their pricing policy. Unstable rates inject an element of uncertainty in business transactions and poison the entire economic system. Relative stability in transport costs is therefore essential for a proper development of trade and industries. Experience of advanced countries has shown that desirable degree of stability in transport costs cannot be attained without proper control of transport agencies.

(*v*) *Financial Stability.*—To secure efficient, adequate and continuous motor transport service, the public will have to pay reasonable charges. The road transport undertaking must be able to defray its costs from the traffic receipt and have fair profits under honest and efficient management. In other words, the community will not be able to get efficient, economic and dependable motor transport service if the charges levied do not yield reasonable income to the operator under honest and efficient management. The inadequacy of earnings may be due to wasteful competition and needless duplication of facilities. Under such circumstances, it would be desirable to regulate the rates policy and competitive activities of motor carriers. Of course in the case of railways the cut-throat competition assumes more dangerous proportions due to heavy fixed investment, which is irrevocably sunk for ever. But even in the case of motor trucks competition

leads to fairly large losses. It is desirable that rates policy of the motor carriers should also be regulated. The Government of India should follow the American precedent.

(*vi*) *Financial Responsibility.*—As public carriers motor vehicles have a great responsibility to the public for any injury or damage caused to their person or property and must possess the means to pay the damages. These risks are insurable. With the rapid growth of insurance therefore the problem has been materially simplified and what is needed today is compulsory insurance and regular payment of the premium. This condition can be easily enforced.

(*vii*) *Co-ordination of Transport Agencies.*—The most important objective of regulation is to facilitate proper co-ordination between different transport agencies. In this case the aim is not the complete elimination of all competition but restriction of wasteful competition. Economic functions of each transport agency are carefully and continuously studied and the spheres of activity allocated. There are certain spheres which are definitely economic for a particular transport agency and others are therefore not permitted to compete. These may be called non-competitive zones. Each transport agency may have such zones. Evils of monopoly in those zones can be checked by state regulation. There are other spheres of activity which are competitive, where more than one transport agency can perform the functions equally efficiently. In such cases competition is in the interests of the community and is usually permitted, subject to State regulation. Here the objective of the State regulation is to prevent cut-throat competition. Effective joint services will be provided to the public where the journey is covered over more than one transport agency or over more than one transport system. There will be through rates on the continuous mileage principle. "In India," says the Wedgwood Committee, "no less than in other countries, the omnibus can do much to transform life in the villages by bringing them into direct contact with the neighbouring towns and the railways. The goods lorry, too, will render invaluable service, particularly to the agricultural community, in opening up new markets either by direct delivery where they are nearer at hand or by conveyance to a convenient railroad where they are more remote. It is along these lines that the authorities can most

profitably direct a policy of road improvement and construction, and the establishment of public road transport services which will follow that development."*

Machinery of Regulation

In India, road transport is regulated by the Central Government and the Provincial Governments jointly. This is an extremely unhealthy practice. In the first place, it is essential that the transport system of a country should be regulated by a policy, based on general principles, uniformly applicable to the whole country. Divided control must lead to waste and inefficiency. Secondly, the machinery of regulation must be very efficient. An ordinary department of the Government, either Provincial or Central, cannot be expected to perform this most difficult and delicate task with efficiency and to the satisfaction of the parties concerned.

The problem of evolving a suitable machinery of regulation in India is further complicated because the Government of India owns major part of the railroad property. This is an additional disqualification for the Government of India to regulate directly the road carriers. The duty of regulating road transport should therefore be entrusted to an independent and expert body, so that the public may be able to get adequate transport services, with sufficient diversity and at reasonable rates. The Railway Rates Tribunal should be vested with the power of regulating road transport as well. The United States of America has followed this practice with admirable success. The Inter-state Commerce Commission was authorised by the Motor Carriers Act of 1935 to regulate the transportation by motor carriers. Section 202 of the Motor Carriers Act of 1935 contains the most important declaration of policy. "It is hereby declared to be the policy of Congress to regulate transportation by motor carriers in such manner as to recognise and preserve the inherent advantages of, and foster sound economic conditions in, such transportation and among such carriers in the public interest; promote adequate, economical, and efficient service by motor carriers, and reasonable charges therefor, without unjust discrimination, undue preferences or advantages, and unfair or destructive competitive practices; improve the relations between, and co-ordinate transport

* *Vide*, Report, para. 140.

by and regulation of, motor carriers and other carriers ; develop and preserve a highway transportation system properly adapted to the needs of the commerce of the United States and of the national defence ; and co-operate with the several states and the duly authorized officials thereof and with any organisation of motor carriers in the administration and enforcement of this part." The Commission has discharged its difficult duties with admirable skill and efficiency, to the entire satisfaction of the public and the carriers concerned. The confidence reposed in the Commission has been well deserved. That the task of regulating motor carriers is difficult will be seen from the remark of J. B. Eastman, Chairman, Interstate Commerce Commission. He said: "I often wish that it would be my good fortune to have in hand the regulation of a prosperous monopoly. It must, I feel sure, be an infinitely easier task than the regulation of a multitude of violently competing and more or less impecunious carriers. The latter work requires, if it is to be done at all satisfactorily, an extraordinary amount of patience, care and wisdom. The stock of those qualities which we possess is strictly limited, and if the economists of the country can help us with their own mental powers and stores of acquired knowledge, we shall be very grateful indeed."* Thus it is evident that the best machinery of regulation is the Railway Rates Tribunal.

Road Transport Regulation in India

Regulation to Secure Safety.—We have already shown that the condition of motor carriers in India is very unsatisfactory ; overcrowding of buses, overloading of lorries, defective mechanical equipment, paucity of qualified drivers, long hours of work, etc., are common. Removal of these defects would not merely equalise conditions of motor competition with the railways but at the same time secure safer travel and conveyance to passenger and goods traffic. The Motor Vehicles Act of 1939 and the rules made under it have improved the situation materially. Section 38 prescribes that a certificate of fitness must be obtained by every transport vehicle, which would ordinarily remain effective for three years. The certificate may, however, be cancelled any time, if the authority concerned is satisfied, for reasons recorded in writing, that the vehicle no longer complies with the requirements laid down by

* *Vide*, The American Economic Review. March 1940, p. 129.

the Government. Section 65 restricts hours of work of transport vehicles. A driver shall not work for more than nine hours in any one day or for more than fifty-four hours in the week. Further, he must not work more than five hours without an interval of rest of at least half an hour. A certificate of physical fitness of the driver is necessary under Section 7 before a license may be granted. The license may be revoked if the licensing authority has reasonable grounds to believe that the holder of the license is, by virtue of any disease or disability, unfit to drive a motor vehicle. Rules have also been made for preventing overcrowding of buses, overloading of lorries, etc. It is too early to judge the effect of these measures. The success of the measures will largely depend upon the efficiency of the administrative machinery.

Route Licensing of Vehicles.—For a healthy development of road transport it is necessary that cut-throat competition between road carriers should be regulated. Needless duplication of services is uneconomic and wasteful. A system of route licensing by competent authority could be usefully applied. The Mitchell-Kirkness Committee agreed that the restriction of vehicles running on different routes was necessary. They said: "The number of motor vehicles licensed for a route should be limited to the number for which that route offers employment. We admit at once that there is the danger that with a limited number of owners, it would not be difficult to make a pool approaching a monopoly. But the cost of operating motor transport can be determined with sufficient accuracy to allow of fares being fixed by rule at a level not greatly different from that which would operate under healthy competition, and in any event we think that the evils attending unlimited competition are now such that the alternative would be preferable."* From the fact that the number of vehicles on a route is such as can be kept fully employed it is difficult to infer that the number of owners would be sufficiently limited; the ownership may be continued to be fairly diffused. When ownership gets centred in a few hands, effective state regulation of the carriers through an expert and independent body, like the Rates Tribunal, would minimise the evils of monopoly, as the Committee has rightly visualised. The Wedgwood Committee recommended that "fares should also be fixed, not in relation to maximum or minimum

* *Vide*, Report, para. 24.

limits, but absolutely. This is necessary in order to prevent unfair and uneconomic competition, where, as may frequently happen, two or more operators are serving the same route."* The suggestion of the Committee that the fares of motor carriers should be fixed absolutely is very useful because the fixed charges are relatively small and the total costs can be calculated with greater degree of accuracy by experts and more precisely allocated than is possible in the case of railroads. The Rates Tribunals will be able to fix these charges.

Regional Transport Authorities.—The Government of India have accepted these recommendations of the Committees. Regional Transport Authorities have been provided for under the Motor Vehicle Act of 1939 and established thereafter in different provinces. Under Section 42, every owner of a transport vehicle must obtain a permit from a Regional or Provincial Transport Authority to use the same. The Regional Transport Authority is vested with wide powers† and the aggrieved party is permitted to appeal against the decision of the authority. The Provincial Governments have also started fixing rates for the motor carriers, where alternative road transport is available. We have already shown that there is a need for regulating unhealthy competition between railroads and motor carriers and the fixing of rates to be charged by the latter goes a great way in improving the situation. But the rates fixed by an expert and impartial body like the Rates Tribunal would have provided a more judicious basis for rail and road co-ordination than the present arrangement.

Compulsory Insurance of Motor Vehicles.—Another essential requirement for placing rail and road competition on an equitable basis and for promoting co-ordination of these two important transport agencies is to prescribe for motor vehicles compulsory insurance against third party risks. The importance of this

* *Vide*, Report, para. 144.

† As regards stage carriages, Section 48 provides that the Regional Transport Authority may limit their number on a particular route, limit the use of specified routes to stage carriages of a particular type or design, regulate timings of arrival or departure, fix the maximum number of passengers and specify the amount of luggage to be carried, ask for the fare table and time table to be exhibited on the carriage itself, and stipulate that tickets should be issued to passengers for fares paid.

As regards contract carriages, Section 51 lays down that the Regional Transport Authority may limit the number of carriages; fix in the case of motor cabs the fares which may be charged; require that every motor cab shall carry a copy of the fare table for inspection by passengers; require that motor cab shall be fitted with a taxi meter; or impose any other condition.

As regards public carriers, the Regional Transport Authority may limit the number of transport vehicles on any route, or attach to the permit any condition about its use on specified routes, laden weight and axle weight of a vehicle, etc.

provision to the community cannot be overstated. The Mitchell-Kirkness Committee emphasised the need of compulsory insurance. They said : " Apparently no existing regulations prescribe insurance against third party claims or against fatal or other injury to passengers. In practice, however, a few concerns do ensure, while the hire purchase companies require this until instalments are paid. In such cases vehicles and drivers are usually ensured on comprehensive policies covering third party risks, but not claims in respect of passengers. The industry has now developed to a stage at which it has a responsibility to the public, and since, in the case of death or injury due to a driver's negligence, there is now often no civil redress except judgment against an insolvent, compulsory insurance against passenger risks must be considered."* The Government of India have accepted this recommendation. The Motor Vehicles Act of 1939 provides for compulsory insurance of motor vehicles against third party risks. If the vehicle is used for the carriage of goods, the policy of insurance shall cover any liability incurred in respect of any one accident upto Rs. 20,000. Where a vehicle is used for passenger traffic, the policy of insurance must cover any liability incurred as a result of any accident upto a maximum of Rs. 20,000 in respect of passengers, and Rs. 4,000 in respect of an individual passenger, if the vehicle is registered to carry more than six passengers or Rs. 2,000 in respect of an individual passenger, if the vehicle is registered to carry more than six passengers. These measures have admirably facilitated the task of rail and road co-ordination. The grievance of railways against the road carriers have been largely removed and the competition between the two transport agencies is placed on a more equitable basis.

Future Policy

Railway Participation in Road Transport.—An essential pre-requisite for securing adequate and effective rail and road co-ordination, as can be learnt from the experience of other advanced countries, is to empower the railways to conduct road services of their own or to make arrangements with road service companies. In South Africa, the Government railways have full power to run their own road services and to make working arrangement with companies running road motor services. They have, therefore,

* *Vide*, Report, para. 27.

succeeded in achieving a very high degree of co-ordination. The British railways obtained these powers in 1928, which has helped them substantially in improving their relations with the road carriers. The Wedgwood Committee held that in the interest of rail and road co-ordination it is essential that the railways should be permitted to participate in road transport. They said: "We consider it of first importance that the railways shall have full powers to run road services for the conveyance of passengers and freight traffic, subject to the same licensing and operating conditions as apply to every other person providing road services for hire. These powers should enable the railways: (*a*) to run road services themselves; (*b*) to hold a financial interest in undertakings providing passenger or freight services for hire, and to enter into working agreements with such undertakings with the object of co-ordinating rail and road transport facilities; and (*c*) to make agreements with contractors for the running of road services whether on a profit-sharing, charter-hire or other basis. We are advised that all railways do not possess these powers and will not possess them when Part VIII of the Government of India Act, 1935, is brought into operation. We recommend that measures be taken, whether by legislation or otherwise, to confer on all railways the powers enumerated."* If the Indian railways are given powers to operate motor lines, either directly or through controlled subsidiaries, they would be able to arrest the present decline in railroad traffic and receipts. They would improve road transport facilities and attract new traffic. The British and American experience shows us that there the railway companies, instead of passively allowing their traffic to pass to independent and rival motor carriers, are making use of bus and truck lines to supplement their own services and traffic. Their efforts have been adequately rewarded. Co-ordinated rail and road services have eliminated wasteful expenditure to the railway companies and provided efficient and economic services to the public. At this stage it is essential to bear in mind that once the Indian railways are given wide powers to run their own road services or to enter into agreements with road carriers, the plea for an impartial tribunal to watch the working of these carriers and prevent these powers from being abused would acquire an added force. The experience of the United States is the best guide in this direction.

* *Vide*, Report, para. 159.

Taxation of Motor Vehicles.—Railways have to construct and maintain their own road-bed. Road carriers on the other hand, find the roads made and maintained for them. It is fair that the road carriers should pay proportionately for the use they make of the roads. The taxation of motor vehicles should therefore be sufficient to cover the "proportionate cost of providing, maintaining, and policing the roads." This would equalise the conditions of competition and facilitate rail and road co-ordination. The motor vehicles are taxed in India, but the basis of taxation should be uniform and scientific. The Wedgwood Committee emphasised the need of a scientific and uniform basis of taxation in unequivocal terms. They said: "There are very wide differences in the rates of license fees, provincial taxes, and other duties levied on motor vehicles. In the case of a 30 cwt. lorry the variation is as much as from Rs. 125 in one province to Rs. 800 in another. We see no reason why such wide differences should continue and we recommend that a movement should be made towards equalisation. The concern of the Provincial Governments will quite properly be to obtain the maximum revenue from these sources, but we consider that the contributions by motor vehicles should be fixed at a level which shows due regard for the proportionate cost of providing, maintaining and policing the roads."* This was a very valuable suggestion. But neither the Central Government nor the Provincial Governments have adopted the suggestion and the situation remains the same in material particulars.† The Government of India should give a prompt and effective lead in this direction. The problem of adequacy of motor vehicle taxation should be carefully investigated before any legislation is undertaken. The taxation of motor vehicles on the user basis would place the rail-road competition on a more equitable basis and promote proper co-ordination between these two most important inland carriers. Grant of public subsidy to a transport agency is a serious obstacle to an effective co-ordination of transport facilities.‡

* *Vide*, Report, para. 151.

† The receipts from the taxation of motor vehicles in the different provinces during 1938-39 were as follows:—

Province.	No. of motor cars.	Receipts M. V. T. Acts. Rs. (Lakhs.)	Taxation Per cent. Rs.
Madras	22,000	81	368
Bombay	31,000	44	142
Bengal	28,000	21	75
U. P.	17,000	11	65
Punjab	20,000	8	40

‡ "An economic division of traffic between different forms of transport ca not be brought about if a part of the costs of some transportation agencies is borne by the taxpayer." Prof. D. P. Locklin: Economics of Transportation, p. 852.

To sum up, co-ordination of railroad transport services is essential to provide efficient and economic services to the community. Co-ordination, by assigning to each form of transport its economic place in the transportation systems, would promote optimum development of transport agencies. Proper and effective regulation of transport agencies is an essential pre-requisite of any healthy scheme of co-ordination. The regulatory authority should, therefore, be such as to be able to inspire confidence both amongst the carriers and the general public. An expert and independent body will have to be entrusted with this responsible work. The regulatory authority will, also, have to study the transport problems of modern India and formulate schemes of co-ordination, based on detailed statistical studies. The rail and road carriers may also be encouraged to work out their own schemes of co-ordination. The regulatory authority should fix the absolute level of rates and fares to be charged by the railways as well as road carriers. Further the regulatory authority should use its influence with the parties to popularise schemes of co-ordination. To secure prompt co-ordination, the regulatory authority should have power, where persuasion fails, to compel the parties to accept a scheme of co-ordination, which, it thinks, is in public interest. The regulatory authority should also be empowered to order the railways to establish new supplementary bus or truck lines to secure sufficiency of transport facilities. Regulation and co-ordination of transport facilities on these lines will secure efficiency, sufficiency and economy of services, which is an essential need of the trade and industries of modern India.

The Regulatory Authority should be the Rates Tribunal, with sufficiently wide power to supervise and regulate the working of the entire national transportation system, including railways, roads, rivers, canals and coastal shipping. This would secure a co-ordinated national transport policy, and maximum efficiency and sufficiency of transport services.

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