# Railway Budget

THE "inflationary pressures" of which the Finance Minister spoke in such grave terms on Wednesday are one aspect of the performance of the economy; the other, and more important aspect perhaps, is the slackness, even stagnation, in important sectors of industry. T T Krishnamachari was exercised over the need for fiscal ind monetary discipline to check the rise in prices, but it was the Railway Budget presented on Thursday which drew pointed attention to the other problem. Goods traffic on the railways was expected to increase by 17 million tonnes in 1964-65. In the event, the actual increase is likely to be no more than 3 million tonnes.

The slackening of the demand for coal in the beginning of 1964 persisted and coal traffic in the first nine months of 1964-65 was actually 2.5 million tonnes lower than in the corresponding period of the previous year. Movement of raw materials to the steel plants has also dropped. Nor has the anticipated increase of a million tonnes in carriage of mineral ores for export materialsed; the actual increase was just about one-fourth of this figure. Other revenue earning traffic also increased much less than the anticipated 5 million tonnes; in the first nine months of the year it was higher than in the previous year by one and a halt million tonnes. Clearly, the shortfall in freight traffic is the result of development programmes lagging behind schedule in such vital sectors as steel, cement, fertilisers, mineral ores, etc.

Even allowing for the "signs of revival of traffic", the best estimate of increase in goods draffic during 1964-65 is 3 million tonnes. And in 1965-66, the last year of the Third Plan, the Railway Minister expects that goods traffic will rise by 10 million tonnes. Even if this estimate proves correct, the total goods traffic in the last year of the Flan will be only about 205 million tonnes — far lower than the revised target of 245 million tonnes, not to mention the original Plan target of 260 million tonnes.

The smaller-than-expected increase in goods traffic has been reflected in freight earnings turning out to be Rs 24.5 crores lower than the Budget estimate. The shortfall, however, has been to an extent made up by a higher-than-expected increase in passenger traffic. The 1964-65 Budget had expected passenger traffic to increase by about 4 per cent. Actually, suburban traffic has increased by 8,6 per cent and non-suburban traffic by 5.8 per cent and earnings from passenger traffic are likely to be Rs 16 crores higher than expected. The overall shortfall in gross traffic receipts will thus be about Rs 8 crores.

This deficit in earnings is magnified into a Rs 17 crores shortfall in net revenue as a result of an increase of Rs 18 crores in working expenses — the lower-than-expected goods traffic notwithstanding. The rise in working expenses is attributed by the Railway Minister almost entirely to a higher wage bill owing principally to two revisions of dearness allowance of railway employees. There have been increases in the price of coal and electric power for traction, but these have been

Railway. Finance in Third, Plan

(Rs crores)

| | | 1961-62 Actual | 1962-63 Actual | 1963-64 Actual | 1964-65 Budget Estimate | 1964-65 Revised Estimate | 1965-66 Budget Estimate |
|---|---|---|---|---|---|---|---|
| (1) | Passenger earnings | 150.88 | 169.19 | 185.15 | 184.00 | 200.00 | 221.50 |
| (2) | Goods earnings | 306.90 | 349.52 | 395.30 | 432.00 | 407.50 | 441.90 |
| (3) | Other coaching earnings | 29.10 | 32.54 | 34.12 | 35.00 | 35.00 | 34.60 |
| (4) | Sundry other earnings | 13.61 | 16.68 | 17.47 | 18.00 | 18.50 | 19.00 |
| (5) | Suspense | +0.01 | −1.14 | +0.17 | −1.00 | −1.00 | −1.00 |
| (6) | Gross traffic receipts | 500.50 | 566.79 | 632.21 | 668.00 | 660.00 | 716.00 |
| (7) | Working expenses | 390.51 | 429.52 | 472.27 | 516.82 | 527.35 | 555.00 |
| (8) | Net traffic receipts | 109.99 | 137.27 | 159.94 | 151.18 | 132.65 | 161.00 |
| (9) | Net miscellaneous expenditure | 10.24 | 13.95 | 14.75 | 17.08 | 15.64 | 15.86 |
| (10) | Net revenue | 99.75 | 123.32 | 145.19 | 134.10 | 117.01 | 145.14 |
| (11) | Payment to General Revenues | 75.35 | 81.26 | 95.95 | 103.23 | 104.52 | 115.90 |
| (12) | Surplus | 24.40 | 42.06 | 49.24 | 30.87 | 12.49 | 29.24 |
| (13) | Operating ratio* | 78.00 | 75.80 | 74.70 | 77.40 | 79.90 | 77.50 |
| (14) | Capital at charge | 1,682.98 | 1,896.81 | 2,159.93 | 2,389.40 | 2,411.55 | 2,651.55 |
| (15) | Ratio of net revenue to capital-at-charge | 5.90 | 6.50 | 6.70 | 5.60 | 4.90 | 5.50 |

* Ratio of working expenses to gross traffic receipts.

**Financing of Railway Investment**

*(Rs crores)*

| | 1961-62 Actual | 1962-63 Actual | 1963-64 Actual | 1964-65 Revised Estimate | 1965-66 Budget Estimate | Total Third Plan | Total Second Plan | Total First Plan |
|---|---|---|---|---|---|---|---|---|
| **Investment** | 233.88 | 324.38 | 374.30 | 365.00 | 345.00 | 1,642.56 | 1,043.69 | 423.23 |
| ***Financed from*** | | | | | | | | |
| **Railway funds** | 102.08 | 123.67 | 145.04 | 121.38 | 140.95 | 633.12 | 390.80 | 282.37 |
| **Government of India funds** | 144.90 | 214.89 | 260.52 | 251.92 | 240.00 | 1,112.23 | 598.67 | 143.16 |
| **Change in Railway funds' balance** | +13.10 | +14.18 | +31.26 | +8.30 | +35.95 | +102.79 | −74.22 | +2.30 |

to an extent offset by what the Railway Minister describes as "economy measures" and by the level of traffic being below anticipation, to give a net increase of Rs 18 crores in working expenses.

After paying Rs 104.5 crores to General Reserves, which is about Rs 1 crore higher than the Budget estimate, the surplus in 1964-65 is estimated at Rs 12.5 crores compared with the Budget estimate of Rs 30.9 crores and the 1963-64 actual figure of Rs 49.2 crores. At existing levels of freight rates and passenger fares and given the estimated increase in goods traffic by 10 million tonnes and in passenger traffic by 4 per cent, the surplus in 1965-66 would dwindle further to about Rs 8.8 crores. It is this dismal prospect which the Railway Minister adduces to justify increase in freight rates and fares.

Passenger traffic will contribute Rs 13.5 crores of the increase while higher freight rates will fetch Rs *6,9* crores. The impact of the fare increases has been *to* make fares slightly more telescopic over distances longer than 800 kilometers for third and second class travel and over 1,000 kilometers and 1,200 kilometers for first class and air conditioned travel. The Railway Minister has been at pains to point out that the increase in fares has been well spread out and that it will be only marginal for all individual journeys. Yet the fact remains that the travelling public as a Whole will be paying some Rs 14 crores more on account of the higher fares and it is only to be expected that in view of the general rise in prices this burden will hardly be accepted without demur. The Railway Minister has shrewdly let the highly vocal suburban commuter traffic get off relatively lightly, though it is well known that while passenger traffic as a whole does not pay its way, suburban traffic does so even less. Indeed the rise in the proportion of suburban traffic in total passenger traffic in recent years has been one of the developments with disconcerting implications for railway finances.

The other development is the growth of the so-called low-rated goods traffic as a proportion of total goods traffic. In 1964-65, it is possible, the trend may have been halted or even reversed as a result of the large shortfall in traffic in such commodities as coal and mineral ores, but this is almost certain to prove a temporary aberration from the trend which has been clear. Between 1956-57 and 1961-62 the proportion of low-rated traffic to total traffic increased from 63 per cent to 73 per cent with a corresponding fall in that of high-rated traffic.

The railway administration has been acutely aware of this trend and recent changes in freight rates have been in the direction of narrowing the difference between the low and high rates. Only last year the rates for coal moving over distances longer than 300 kilometers were raised and this was accompanied by a downward adjustment in the classification of certain high-rated goods. The freight increases this year follow the same pattern. Rates have been raised on heavy merchandise like iron and steel, cement, stone, limestone, ores, petroleum products, etc. The conspicuous exceptions are coal, on the ground that the rates for coal have been raised more than once in recent years, foodgrains, kerosene and iron ore for export. like last year, higher rates for low-rated commodities are accompanied by a reduction in rates for certain high-rated goods — mainly manufactured' goods including cotton piecegoods.

These changes reflect the need to preserve the financial viability of the railways in the face of the continuous rise in the proportion of low-rated traffic and fall in that of high-rated traffic — some of it as a result of competition from road transport. Without statistics of the average unit cost of carrying different commodity groups, however, it is not possible to say which pay their way and which do not. For instance, it is certainly not true that low-rated traffic is necessarily unremunerative. Haulage of low-rated materials to steel plants over short to medium distances is not uneconomic as is seen from the financial results of the Eastern and South-Eastern railways which rely on these commodities for a good proportion of their revenue, but are able to make intensive use of available facilities. In fact these two railways are more profitable than most other zonal railways. Even low-rated traffic comprising bulky and heavy materials like coal, ores, etc, may pay if movement is organised in full train loads and at fast speeds.

Reliable estimates of average unit costs are necessary, for only then will it be possible to identify commodities which are subsidised and those Which are charged in excess of costs. With such information a more rational freight structure can be evolved, on the basis of deliberate decisions about which commodities to subsidise and how much.