Railway Finances and the Plan

THE White Paper on Railway Budget for 1957-58 contains some interesting information (scattered, of course, over a length of 82 pages) on the railway finances which can enable one to form an idea of the ability of the railways to contribute to the financing of the Second Plan. It will be recalled that the amount of gross investment in the railways considered necessary to cope with the development in the rest of the economy was placed by the Railway Board at Rs 1700-1800 crores. The target for railway investment had to be reduced to Rs 1125 crores in the final version of the Second Plan "after taking into consideration foreign exchange requirements, uncertainties concerning the supply of steel, priorities within the railway plan and the claims of other sectors." Of this sum of Rs 1125 crores, the railways are to provide Rs 375 crores from their own revenues. The balance of Rs 750 crores has got to be made up by the Government from out of its general revenues.

In the first year of the Second Plan i. e. 1956-57, the railways expect to spend Rs 178 crores on their investment schemes. The budget estimate puts the corresponding figure for 1957-58 at Rs 225 crores. This brings the total for the first two years of the Second Plan to Rs 403 crores, which is about 36 per cent of the Plan target Now as to the financing of this sum, the railways are going to provide Rs 140 crores, which is slightly over 37 per cent of the Plan figure in respect of the railways' contribution to their plan. This should mean that in so far as the railways are concerned, the Plan is proceeding at the projected pace and that therefore there is no reason to worry about this sector of the economy at least.

Unfortunately, the position is not as simple as that. Firstly, there is a general consensus of opinion that the railway expansion targeted for in the Second Plan is inadequate, taking the expansion of the other sectors into account and that unless railway targets are raised and expansion speeded up, development in the other sectors will be slowed down very much. Secondly, the upward revision of the cost estimates of the original Plan targets (including those in the railway Plan) is likely to impinge on the railway plan in two ways: (a) the expense involved in achieving the targets set for the five year period would be greater than Rs 1125 crores and (b) the resources available from the general revenues of the Government would be below Rs 750 crores. This means that the railways have got to shoulder a greater financial burden towards their plan than was originally provided for.

Would the railways be in a position to meet the increased financial burden? The answer to this question will be attempted in two parts. First, we shall assume that the passenger fares and freight rates are pegged at the existing levels and examine the scope for expansion in railway receipts. Second, we shall assume that there is scope for a reasonable upward revision of passenger fares and freight rates and see how far this rise in rates would carry us' in the achievement of Plan target.

The accompanying table shows receipts accruing to the railways under different heads as from 1953-54. If will be observed that the total receipts rose by 5 per cent in 1954-55, 10 per cent in 1955-5(3 and 14 per cent in 1956-57. But the rise provided for in the budget, for 1957-58 is only of the order of 5 per cent in terms of absolute amount. The receipts rose annually by Rs 12.4 crores, Rs 29.6 crores and Rs 43.7 crores between 1954-55 and 1956-57 but the increase in 1957-58 has been budgetted for at only Rs 18.5 crores, inspite of the fact that investment in the railways has been continuously on the increase.

Let us make the above point clear. The gross investment in 1956-57 is to be Rs 178 crores, and in 1957-58 Rs 225 crores. Now, unless the rate of obsolescence is assumed to be greater in 1957-58 than in 1956-57, it is safe to assume that net addition to capacity will be greater in 1957-58. Given the same rate of increase in the demand for railway services in the year 1957-58 as in the year 1956-57, the rate of utilisation should be no less in one year than in the other. If these assumptions are granted, the rise in receipts in 1957-58 should not, in absolute terms, be less than Us 44 crores the figure indicating the increase in 1956-57. On this reasoning, the receipts for 1957-38 appear to have been under-estimated to the extent of at least Rs 26 crores. The only objection to which the above reasoning is open is that the rate at which the railways are able to meet demand is a function not of new investment alone but also of the excess capacity existing at any time. But we wonder if between 1956-57 and 1957-58 there was much difference between the levels of excess capacity. Also, it cannot, we believe, be argued that the pattern of investment in the two years is so different as to affect the above rate of increase.

The two assumptions implicit in the above line of argument are: (a) that, the rate of obsolescence does not increase, and (b) that the rate of increase of demand for railway services is the same. The first assumption seems to be borne out by the fact that at this rate of investment, the Plan (1) expected to reduce the percentage of over-aged stock to total stock on line. This means that the rate at. which replacement is envisaged in the Plan is faster than the rate at which the existing stock is expected to over-

(1) c.f. Second Five Year Plan, P 467.

Table Showing Railway Receipts (Rupees crores)

	1953-54	54-55	55-56	56-57*	57-58†
i) Passenger Earnings	100.0	102.6	107.7	115.5	119.0
ii) Other Coaching Earnings	18.0	19.2	20.9	21.4	24.0
iii) Goods Earning	147.2	158.7	180.3	206.5	218.0
iv) Other Earnings (including suspense)	9.1	6.2	7.4	6.6	7.5
	274.3	286.7	316.3	350.0	368.5
Approximate rate of rise (calculated on chain basis)	..	5%	10%	14%	5%

*Revised †Budget

age. As regards demand, the assumption of the same rate of increase inclines, in our view, on the conservative side indeed.

Following the above line of argument, it should be possible to secure an increase in receipts in the current year of Rs 26 crores over and above the budget figure. All this amount should be available for financing development because the estimate of working expenses is likely to remain in the region of the budget figure. A look at the figures for the past few years (including those for railways) will show that it has become almost customary with the budgeting authorities to overstate their expenses and to under-state their receipts. Assuming that the working expenses of the railways increase at the same rate as in the two years of the Plan (i.e. from 1955-56 to 1956-57 and from 1956-57 to 1957-58), the railways should be able to have with them resources of the order of Rs 100-150 crores in addition to those already accounted for in the plan estimates.

Now we come to the second case wherein we relax our assumption regarding the fixity of the existing fares and freight, rates. The Freight Structure Enquiry Committee was appointed sometime back to report on freight rates and it is very likely that some upward revision in these rates will take place during the course of this year. The point which needs to be emphasised at this stage is that it is erroneous to argue against a rise in freight rates on the score that it will lead to & rise in costs of production. The rise in freight rates is necessary precisely because the existing rates are not in line with the general level of prices prevailing in the rest of the economy. No less important argument in favour of this rise is that it is a dis-infiationary source of finance for development.

A stronger case could be made in favour of a rise in passenger fares because fares are much less directly related to costs of production. We hope that when the freight rates are revised upwards, the passenger fares will also be advanced suitably. A 7.5 per cent rise (on average) in freight rates and say, a 10 per cent rise in passenger fares (inspite of a rise in fares of this order they would still be less than 200 per cent of the pre-war fares) should yield over Rs 30 crores per annum i e Rs 120 crores for the remaining four years of the Second Plan. This is, of course, on the assumption that the demand for railway services is price-inelastic over the range of rise envisaged. To the extent, this is not so, the receipts may be affected adversely. Assuming a certain fall in demand, the net rise in receipts may be around Rs 20-25 crores per year, or Rs, 80-100 crores for the remaining Plan-period.

Thus given this modest increase in freight rates and passenger fares, the railways should be able to raise finance internally to the extent of Rs 200-250 crores in addition to the Plan estimates. This should go a long way towards reducing the strain on the general finances of the Government.