



ISSN 2278 – 0211 (Online)

Indian Railways: A Monopoly Organisation

Suruchi Agarwal

Visiting/ Empanelled Faculty, National Institute of Financial Management
Ministry of Finance, Govt. of India

Abstract:

This article deals in depth in the functioning and features of the Indian Railways, the advantages and disadvantages of being a monopoly organisation. The arrogant attitude and inefficiency that creeps in as soon as the word monopoly is attached and why in today's world competition is necessary for efficient functioning of the organisation

Indian Railways is the biggest monopoly organization in India. Having a budget of few thousand crores, the organization has 1.6 million employees, the largest employer in India.

The Railway network was started in 1853, to cater to the needs of the defence forces, which had to travel all over India. Initially the network was controlled by a number of companies, which were later joined together after independence to form a single system. In the first few years after independence, a few of the state railways, such as Jodhpur Railways, Kutch Railways etc. were also merged in the same system. The whole system is under the ministry of railways, also called the Railway Board. The system is so big, that a separate budget is presented in the parliament.

Indian Railways is the biggest transportation system in India, and has the second biggest rail network in the whole world, next only to China. It carries twenty one million passengers per day, out of which about eleven million are on suburban system. For suburban traffic, especially in Mumbai, rail traffic is the main lifeline, accounting for about eighty percent of the whole suburban traffic. Any failure of the suburban network in Mumbai has very serious ramifications on the overall city life.

Indian Railways are the major carrier for bulk goods like steel, cement, coal, fertilizers etc. It carries more than nine hundred million tons of freight traffic per year. It can thus be seen that it is the lifeline for movement of bulk goods in the country. With a budget of approx. One lac crore of rupees, it is a vast network spread over more than sixty thousand km. with a staff strength of more than 13.2 lacs, with an average wage bill of more than four lacs per employee. The problems involved in managing such a large system can be imagined, especially when the whole system is under the central government.

The whole system has been divided in sixteen zones, besides one zone for metro Kolkata, each headed by a general manager for running of trains. Besides there are eight more units each headed by a general manager to look after research, electrification, construction, and manufacturing units for locomotives, passenger coaches, wheels and axles etc. Besides this there are sixteen public sector undertakings/organizations to look after other work like consultancy, construction, catering, finance, and container services etc. This gives a rough idea of the vastness of the system.

Because of the large staff strength, the unions are very powerful. The top people of the two unions also interact with the cabinet secretary, the senior most civil servant of the central government, besides co-ordinating with the railway minister and chairman Railway Board.

Because of govt. control, the system remained independent, and private sector was not allowed to participate in it. Efforts are now being made to allow private sector in limited areas, but the overall progress is negligible. One of the major reasons for the same is that it is highly capital intensive, with a low profitability.

The Railways is a mixture of opposites. While it is supposed to be financially viable, at the same time, the fares are kept low, so that the common man can freely travel on the same. On the one hand, all principles of commercial working are applicable, at the same time; the fares are being kept very low. A situation has arisen where the bus fare is six to seven times more than the railway fare in passenger trains, over the same distance.

In the railway system, friction is between steel and steel and as such, tractive effort required to pull the trains is much lower. In case only business principles are followed, the railways can be a highly profitable organisation. However, the decisions are not on business principles, but popular demands of the masses, thereby finishing off the viability of the system. A few of the non-business decisions being taken are

- Decisions on construction of new railway lines. Instances are galore, where after spending hundreds of crores on the construction of a new railway line, there is not enough traffic even to run the system. We spend a lot of money to construct a railway line, and pay for running the line, for all subsequent years. This is unthinkable in any business proposition.
- Because of public pressure, we continue to run trains where it results in massive losses, what to talk of recovering interest on the capital employed.
- In suburban travel, the monthly pass, is only of six single journey tickets, making it so low, that the public only travels by train, bringing the system under strain.

Indian Railways is a monopolistic organization controlled by the central government. Because of its being a ministry, it is not allowing any legislation to be passed, which will give it any competition. Since the earlier freight rates were much cheaper than the road freight, the administration because of populist measures raised the freight rates to compensate for the loss in passenger traffic, where the fares have been kept very low, to please the masses. A situation has arisen, where the road traffic is giving tough competition, which it was not supposed to do. On the other hand, the passenger fares are so low, that the masses want to travel by train, resulting in overcrowding in trains with its own safety implications.

Since there is no competitor, the railway has been dictating its own terms, thereby losing business. One of the worst examples is transportation of oil from the refineries to the petrol pumps. Sending by truck is not possible because of the logistics involved. All the refineries initially came to the Railways for transportation of finished goods such as petrol, diesel etc. to the destination. The railways hiked the freight rates abnormally high and also asked for compensation for extra facilities being created for transportation of oil.

As the oil companies had to transport oil, initially they accepted a lot of demands under duress. But the overall scenario was so tough that it became costlier than the pipe lines. Since the railways did not treat the oil companies as big customers, but as persons who needed them, the oil companies became sick of the entire arrangement and decided to go in for the pipe lines.

The railways being a ministry became aware of these plans when they came before central planning board, but the railways did not wake up, and as a result, lost the entire business to the pipe lines, resulting in a big loss to the railways. A situation arose when the railways started soliciting traffic to use their wagon fleet, but the oil companies gave only marginal traffic, which could not be carried by pipe line.

Since there is no competition, the unions bargained hard for extra facilities, lower output, and a number of other issues. Since there was no competition, the general feeling remained, that additional money could come out of increased fares, both passenger and freight.

The political class was against rising of passenger fares, therefore there was no alternative but to raise freight fares, which became so high that it lost in competition to the road traffic.

The above are a few examples, as how an organization, which if run on commercial lines could have minted money became financially bankrupt, requiring a lot of assistance from the central govt. Safety was also affected, as the railways were not able to purchase critical spare parts for want of funds.

Being a monopoly organization, the staff strength was much above the actual need. Various committees have recommended that the staff strength be reduced drastically, but the same could not be implemented because of stiff resistance of the two unions. Any major downsizing requires shifting of staff on a major scale, which the two unions are not prepared to agree. The staff cost is 54% of the total working expenses, a figure unheard of in any organization. In spite of these high figures, there is no serious effort to reduce staff strength, because of the reasons already given.

Being a government organization, all pay commission, recommendations become applicable on railways also, which the central government insists has to be financed by the railways from their own sources, which is not possible considering, the amount of money involved. The pension payments are also creating havoc, because of the numbers and the amount of pension being paid

High cost of staff is playing havoc with the maintenance of the infrastructure, such as locos, coaches' wagons, track, signaling equipment etc. Out of total money received, payment to staff, pensioners and fuel has to be made on priority, leaving little margin for purchase of spare parts, maintenance contracts etc. this severely affects the maintenance programme, affecting the working efficiency of the system and also affecting safety to some extent.

Situations arise when the minimum schedule of replacement of spare parts, as prescribed by the Railway Board, are not adhered to, when the coaches, locos, wagons etc. are sent for regular maintenance schedule. The reason for the same has already been mentioned earlier. Cases are also galore where the over aged locos, wagons, coaches etc. continue in service, against the norms laid down by the Railway Board, affecting safety.

Because of lack of competition, serious efforts are not made to bring in financially viable system. The import of technology depends on the views of the railway board members, who can be prejudiced, for one reason or the other. One such example is the freight corridor, on the Indian Railways, which was a very profitable item, especially on Delhi – Mumbai route, but has lost its profitability because some of the people at the top, have introduced specifications superior to high speed trains, forgetting that the corridor is meant to run goods trains.

In case there is fair competition in the rail transportation system, the staff and the management would wake up to the problems more seriously, and the efficiency would improve. The private sector has been asking for slots on the railway track to run their own trains, but so far the progress has been negligible. Some serious thought is required to introduce fair competition in the system.

References

1. Ministry of Railways.
2. Inputs by General Manager, Western Railway.
3. Details from Central Statistical Organisation