Privatizing Indian Railways

drishtiias.com/current-affairs-news-analysis-editorials/news-editorials/07-07-2020/print

This editorial is based on **"A different track"** which was published in The Indian Express on 04/07/2020. It talks about the pros and cons related to privatisation of Indian railways.

Recently, the Indian Railways initiated the process to allow private firms to operate passenger trains on its network through 151 new trains. While these trains will form a minuscule portion of the entire railway network, this marks the beginning of private sector participation in passenger train operations.

The privatization of Indian railways has been recommended for many decades, by the erstwhile Planning Commission of India and now by Niti Aayog.

Liberalising the entry of new operators in the public transport that remains a government monopoly, may be the path for improving services, and facilitating growth of the sector. However, the idea of privatisation has its own merits and demerits.

Pros of Privatization of Indian Railways

Improved Infrastructure

- **Niti Aayog's strategy for New India @75** envisages many targets in railway infrastructure such as increasing the speed of infrastructure creation from the present 7 km/day to 19 km/day, 100% electrification of broad gauge track by 2022-23.
- Given this, a strong argument in favour of privatization is that it will lead to better infrastructure which in turn would lead to improved safety, reduction in travel time, etc.

Improved Quality of Services

- Indian Railway services are marred by issues like lack of punctuality, mismanagement in the form of stinking washrooms, lack of water supply and dirty platforms.
- Privatisation may solve these issues, as the move would foster competition and hence lead to overall betterment in the quality of services.

Technology Infusion

> The privatization will also help in accommodating the latest technology in railways coaches, safety and travelling experience. Thereby, it may help Indian Railways to become a world-class network.

Cons Related to Privatization of Indian Railways

Coverage Limited to Lucrative Sectors

- An advantage of Indian Railways being government- owned is that it provides nation-wide connectivity to bring regional development.
- This would not be possible with privatisation since routes which are less popular may be neglected, thus having a negative impact on connectivity.
- It may also render some parts of the country virtually inaccessible and omit them from the process of development.
    - For example, regions with rugged terrain and low population density like Himalayan states and North eastern states.

Increased Fares

- Given that a private enterprise runs on profit, thus it may be assumed that the easiest way of accruing profits in Indian Railways would be to hike fares.
- This would render the service out of reach for lower income groups.
- Also, this would defeat the purpose of the Indian railways which is meant to serve the entire population of the country irrespective of the level of income.

Issue of Cross-Subsidisation

- Indian Railways tend to cross-subsidise passenger fares through freight revenue.
- This translates to below cost pricing, which will make it difficult for private players to compete.

Conflict of Interest

- Currently, the Ministry of Railways is effectively the policy maker, regulator and service provider.

- This, as the Bibek Debroy committee pointed out, is a clear conflict of interest and would undermine the fair competition between private and government railway operations and impede the efficient privatisation process of Indian Railways.

Social Welfare Concerns

- As the Indian Railways plays a vital role in transportation of goods in the country, it provides a low cost of transportation of many final and intermediate goods.
- Thus, the privatization of the system motivated by profit making, will have an inflationary effect and thereby affect the common people.

Way Forward

- **Sustainable Pricing:** There is a need to revisit Indian Railways pricing model to make the passenger and freight segments sustainable. The tariffs should be competitive with the cost of road transportation.
- **Independent Regulator:** Setting up an independent regulator will be critical for creating a level playing field for private players.
    - In this pursuit, there is a need to expedite the process of establishing the **Rail Development Authority**, as it is already approved by the government.
- **Modernization of Railways:** There is a need to implement the **recommendations of the Bibek Debroy committee**, such as expansion of Indian Railways manufacturing company, Corporatization of core functions of railways, etc.

Conclusion

The need of the hour is to find a balanced solution that would incorporate the pros of both private and government enterprises and enhance the image of Indian Railways as it continues to serve the world's largest democracy.

	Privatisation	Nationalisation
Ownership	Firm owned by private sector	Firm owned and managed by government
Incentives	Profit motive acts as incentive for owners and mangers	Workers *may* feel motivated if they feel company belongs to them.
Externalities	Private firm may ignore external costs (pollution) and external benefits	Government can put social benefits above profit motive.
Efficiency	Incentive to introduce new technology and increase labour productivity	Nationalised firms may find it hard to sack surplus workers
Knowledge	Private firms employ managers with best skills.	Politicians may interfere based on political motives
Natural monopolies	Private monopolies, e.g. water / trains may charge high prices.	Government can set prices based on social factors.
Depends on industry	Worked well for BT, BA	Natural monopolies, like trains /water. Non-profit services like health care.

Drishti Mains Question

"India should have a rail network that is not only efficient, reliable and safe, but is also cost-effective and accessible". Critically analyse the statement in the context of privatisation of railways.

Watch Video At:

https://youtu.be/KQmDJW1q8Rs

This editorial is based on **"Lessons for India: On Italian marines case"** which was published in The Hindu on July 4th, 2020. Now watch this on our Youtube channel.