Privatisation of Indian Railways

This article is based on “Railway privatisation: India must hasten slowly” that was published on 16/10/2019 in The Hindu Business Line. It talks about the privatisation of Indian railways.

After privatisation of the Tejas Express (to be run by the IRCTC), the government is currently in the process of forming a task force to draw a blueprint for handing over operations of as many as 150 trains and a total of 50 railway stations to private operators.

The Bibek Debroy committee recommended that the rail industry needs to be liberalized by allowing the entry of private operators to provide services.

Need for the Privatisation of Railways

- **Low Quality of Service, Catering and Punctuality:** Indian Railways deserves the credit for serving the largest democracy in the world, but it faces criticism, particularly in case of aspects like service, catering, and punctuality.

- **Low Internal Revenue:** The problem of cross-subsidization has severely affected the internal revenue generation of the Indian Railways.

  **Cross subsidization:** Money earned through freight traffic is diverted to meet the shortfalls in passenger revenue, and thus the development of freight traffic infrastructure suffers.

- **Increasing Number of Accidents:** Repeated railway accidents have further raised questions on government ownership of railways.

Therefore, for long privatisation of railways has been projected as a possible solution to these issues.

Advantages of Privatisation of Railways
Improved Infrastructure: Privatisation will lead to better infrastructure which in turn would result in improved amenities for travelers. Currently, Indian Railways is marred by mismanagement in the form of stinking washrooms, lack of water supply and dirty platforms, it is expected that a private company will ensure better amenities.

Normalization of prices due to the competition: Improvement in quality of services has to be matched up by a rise in charges paid by the travelers. However, the issue of price rise will be solved when private players are allowed to enter the sector since the move would foster competition and hence lead to overall betterment in the quality of services.

Improved Security: Private participation can lead to better accountability and monitoring, which can keep a check on rising accidents in railways.

Better Technological Innovation: Private participation can lead to the infusion of modern technology and capacity building of Indian railways.

Disadvantages of Privatisation of Indian Railways

Limited Coverage: An advantage of Indian Railways being government-owned is that it provides nation-wide connectivity irrespective of profit.
- Privatisation of railways would mean the railways will become a profit-making enterprise, this would lead to the elimination of railways routes that are less popular.
- Thus, the privatisation of railways can have a negative impact on connectivity and further increase the rural-urban divide.

Lesser Inclusive: Hike in fares can render the railways out of reach for lower-income groups.

Issue of Accountability: The privatisation of Indian Railways is not easy, as it covers every part of India and runs for 24×7 hours. The whole railway system cannot be handled by a single party or coordination will be very difficult if area wise given to private parties.

Impact on the Economy: Indian Railways is the backbone of India, it provides low fare transportation to agricultural and industrial trade. Therefore, privatisation of Indian railways shall definitely affect the Indian economy at large.

It is difficult to privatize a portion of the railways’ operations as it is strongly vertically integrated.
- Vertical integration of railways means ownership and maintenance of the rail and associated infrastructure, all is vested under the Ministry of Railways.

Note: In Britain, the railways are privatized but there is no much effectiveness, so Britain is again planning to re-nationalize the railways.
Way Forward

- The Tejas Express that will be run by IRCTC, is a kind of Pseudo-privatisation.
  - Since IRCTC is a subsidiary of the Indian Railways.
  - Hence, there is not much real privatisation there, to begin with.
- Therefore, real privatisation will happen when full-fledged private firms bid for various tasks.
- Privatisation of railways operations will require a new institutional framework where infrastructure will remain as a government's monopoly while there would be a market of service providers.
- It is important to modernize the railways, so measures must be taken to reimburse the social costs speedily so that resources of the railways is better allocated and facilities are upgraded from time to time.
- Core Railways functions can be Corporatized rather than privatized.
  - Corporatization refers to the restructuring or transformation of a state-owned asset or organization into a corporation. These organizations typically have a board of directors, management, and shareholders.
  - However, unlike publicly traded companies, the government is the company’s only shareholder, and the shares in the company are not publicly traded.
- The peripheral function of railways (cleanliness, ticket disposal, traveler's amenities), must be privatized.

Some Recommendations of the Bibek Debroy Committee

- Transition to commercial accounting: The process of accounting in Indian Railways is very complicated.
  - The financial statements of Indian Railways need to be re-drawn, consistent with principles and norms nationally and internationally accepted.
- The non-core function of railways must be privatized: These activities include running hospitals and schools, catering, real estate development, including housing, construction and maintenance of infrastructure, manufacturing locomotives, coaches, wagons and their parts.
- Expansion of Indian Railways Manufacturing Company: According to Debroy, wagons are already produced by the private sector. Coaches and locomotives could follow. Unless they are freed from 59 their constraints, the existing production units will be unable to face this competition.
- Encouraging private entry: Private entry into running both freight and passenger trains in competition with Indian railways should be allowed and private participation.
- Independent regulator: Shift regulatory responsibility from the government to an independent regulator as the private sector will only come in if there is fair and open access to railway infrastructure.
Drishti Mains Question

Analyse the advantages and disadvantages of privatisation of Indian Railways.