

Still a long journey for railways

Lalu wasn't an under-achiever. But
much more could have been done



RAJESH
CHAKRABARTI

As China zooms into the record books with a train linking Wuhan and Guangzhou, over 1,000 km apart, in less than three hours, in India the much-vaunted Indian Railways transformation story of Lalu Yadav is being questioned by his successor Mamata Banerjee. She has sought to ascribe much of the transformation to creative accounting changes. Political equations aside, the tactical incentives for Mamata to downplay her predecessor's accomplishments are obvious—they lower the base against which her own achievements in office will be seen.

About the same time that Mamata's White Paper hit Parliament, an in-depth, independent study* hit the stands. Reading it together with the White Paper gives an interesting insight into the Indian Railways story.

Giving a lucid and gripping account of the change process, the book concludes that indeed there has been a major transformation in the Indian Railways and credits Lalu with giving senior bureaucrats and technocrats freedom to do what they thought was right, and a team of innovative top managers, led by Sudhir Kumar, IAS, officer on special duty in the ministry of railways, for actually coming up with the changes that made the difference.

There is little doubt that at the turn of the century, Indian Railways was in trouble—deep trouble. Rattled by a series of accidents and near-bankruptcy, an expert committee headed by the future RBI deputy governor Rakesh Mohan had suggested 'radical surgery'—downsizing the 1.4 million workforce, restructuring top management, outsourcing non-core activities and increasing passenger fares. Unsurprisingly perhaps, the report was shelved. By 2008 Indian Railways has been resuscitated without doing any of the above.

The book carefully sketches the organisational nature of the railways, with all its challenges of size, bureaucracy and political interference, and the finesse with which the key players pushed change effectively in such a complex setting. It attributes the turnaround story to three basic thrusts—increasing the permitted load of freight trains, speeding up train movements to reduce the turnaround times and what the authors call 'developing business savvy'. This last includes a host of management decisions that built on the underutilised potential of railways from rationalising freight rates to tapping advertis-

ing revenue potential. Much of these three thrusts, particularly the first two, were feasible largely because of the investment in railway safety and other areas made by Lalu's predecessor and archrival, Nitish Kumar, between 2001 and 2004.

Mamata's White Paper, on the other hand, contends that the growth was hardly surprising. First, it was just pillion-riding on the great Indian growth story during the period and actually didn't reach its potential if one accepted the World Bank's estimate of an elasticity of 1.25 for railway GDP to economy GDP. Second, it is not as if freight rates have not risen; they have actually risen significantly, as high as 44% in food grains and 35% in fertilisers over the period. Finally, much of financial results stemmed from two accounting changes—capitalising of principal repayment lease charges to IRFC and marking the reimbursement from government for building strategic non-commercial lines as an income.

From the big picture view of the railways story, this looks a bit unfair. It is easy to question

Until 2000, Indian Railways was in deep trouble

why even more was not achieved. The report itself admits that the long-run elasticity for India is below 0.8. As for freight rate changes, a careful look does not seem to suggest that the railways was gorging, only using a multi-part pricing strategy, that, at its unlikely worst, could seem complex to customers. As for the accounting changes, first these are publicly notified and audited by multiple agencies. If the changes were not made, and if the effect of the Sixth Pay Commission was evenly distributed (the worst-case scenario for the 2004-09 period), the average annual cash surplus before dividend would have dropped from Rs 17,734 crore to Rs 12,473 crore. Significant drop, but compare this with the 2001 figure of Rs 4,790 crore, and even after accounting for inflation, the change is undeniable.

White Papers are always great for transparency. In this case, it does a good job of scaling down the financial feat, but there is no way of denying that a transformation did happen. As a tactical ploy, however, this report may backfire later. Mamata would be ill-advised to assume that she herself will not be judged in time by the same standards she is now applying. But then again she may be counting on a job change very soon.

The author teaches at the Indian School of Business, Hyderabad

** V Nilakant & S Ramnarayan, Changing Tracks: Reinventing The Spirit of Indian Railways, Collins Business, New Delhi, 2009*