

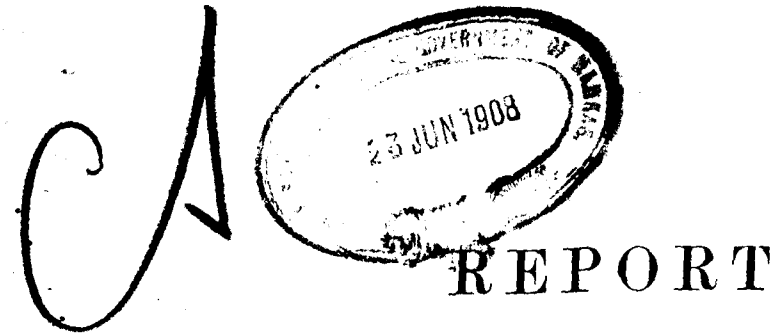
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EAST INDIA (RAILWAYS).

17.7.08



REPORT

OF THE

COMMITTEE ON
INDIAN RAILWAY FINANCE
AND ADMINISTRATION.



Presented to both Houses of Parliament by Command of His Majesty.



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DESPATCH from the Secretary of State for India to the Governor-General of India in Council, No. 57 (Railway), dated 24th May 1907.

India Office, London,

24th May 1907.

MY LORD,

On the 12th March last I received two deputations, from the Indian Railway Companies and from East India Merchants respectively, on the subject of the alleged inadequacy of the existing arrangements for railway traffic in India.

2. Copies of the report of the proceedings at this deputation have already been communicated to your Government and to the Railway Board.

3. I have now to report, for the information of Your Excellency's

* SIR JAMES LYLE MACKAY, G.C.M.G., K.C.I.E. Government, that I have, in accordance with the promise made to the deputation, appointed a Committee, consisting of the gentlemen named in the

(Chairman).
SIR WALTER ROPER LAWRENCE, Bart., G.C.I.E.
SIR FELIX SCHUSTER, Bart.
SIR DAVID MILLER BARBOUR, K.C.S.I., K.C.M.G.
L. ABRAHAMS, Esq.

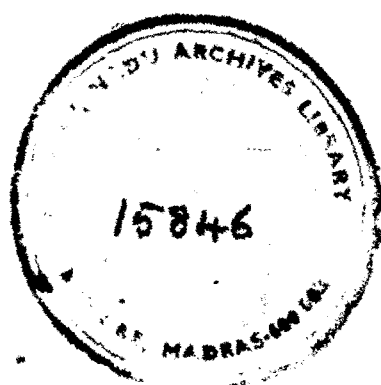
margin* to enquire and report—

- (1.) Whether the amounts allotted in recent years for railway construction and equipment in India are sufficient for the needs of the country and for the development of its trade; and, if not, then
- (2.) What additional amounts may properly and advantageously be raised for this purpose;
- (3.) Within what limits of time, and by what methods they should be raised;
- (4.) Towards what objects should they be applied; and
- (5.) Whether the system under which the Railway Board now works is satisfactory, or is capable of improvement, and to make recommendations.

I have, &c.,

(Signed) JOHN MORLEY.

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REPORT
OF THE
COMMITTEE ON INDIAN RAILWAY FINANCE
AND ADMINISTRATION.

To the RIGHT HONOURABLE JOHN MORLEY, O.M., M.P., Secretary
of State for India.

India Office,
5th March 1908.

1. The reference made to us was "to inquire and report—

- " (1.) Whether the amounts allotted in recent years for railway construction and equipment in India are sufficient for the needs of the country and for the development of its trade; and, if not, then—
- " (2.) What additional amounts may properly and advantageously be raised for this purpose;
- " (3.) Within what limits of time and by what methods they should be raised;
- " (4.) Towards what objects they should be applied; and
- " (5.) Whether the system under which the Railway Board now works is satisfactory, or is capable of improvement;

"and to make recommendations."

We have held 18 meetings and have examined 34 witnesses, representing commercial, railway, financial, and official views, and have also had the benefit of opinions and suggestions from members of the Government of India, the Chairman of the Railway Board, and certain of the Chambers of Commerce in India. Having now carefully considered the evidence taken and the information furnished from different sources, we are in a position to state the conclusions at which we have arrived; but before doing so we think it advisable to draw attention to the following brief summary of the history of the past relations of the Government with the Indian railway system and of the present position.

2. Railway construction was first started in India in 1850, when the Great Indian Peninsula Railway Company commenced a line from Bombay inland under a contract with the Government, which guaranteed to the company five per cent. interest on its capital. Between that date and 1869 a number of lines were constructed by companies under contracts similar to that with the Great Indian Peninsula Railway Company. The main financial provisions were that the necessary capital should be raised by the company, that the Government should guarantee interest on that capital at five per cent. per annum in sterling, and that any surplus profits earned by the railways in excess of the guaranteed interest should be divided equally between the companies and the Government. For many years, however, the earnings of the companies fell short of the interest guaranteed, and the deficit was a charge on the revenues of India.

Under all these contracts the Government reserved the power to purchase the lines at the end of 25 or 50 years. At one or other of these periods the Government has exercised this power in every case, and has in this way come into possession of the following railways:—

The East Indian.

The Eastern Bengal.

The Scinde, Punjab and Delhi (now a part of the North-Western State Railway).

The Oudh and Rohilkhand.

The South Indian.

The Great Indian Peninsula.

The Bombay, Baroda and Central India.

The Madras.

In some cases (the East Indian, Eastern Bengal, Scinde, Punjab and Delhi, Great Indian Peninsula, and Madras Railways) the purchase price is being paid in the form of terminable annuities, all of which are still running; in the remaining cases the payment was made in cash or in India stock.

Three of the lines mentioned (the Eastern Bengal, Scinde Punjab and Delhi, and Oudh and Rohilkhund) were, on purchase, taken over absolutely by the Government, and have since been worked under direct State management. The Madras Railway was divided between the South Indian and the Southern Mahratta Railway systems. The other lines (East Indian, South Indian, Great Indian Peninsula, and Bombay Baroda and Central India) were leased for working to the companies which had formerly owned them, under contracts providing that the companies should supply in some form or other a small amount of capital, on which they were to receive a certain rate of interest guaranteed by the Government, together with a share of any surplus profits. These companies, and also the Southern Mahratta, the Indian Midland, the Bengal-Nagpur, the Assam-Bengal, and the Burma Companies, which are of more recent origin, have no rights of property in the lines which they administer, but are in the position merely of working agents for the Government.

In 1869 the State first undertook the construction of railways by Government officers, and for the next 10 years all new lines were constructed in this manner. In 1879, however, companies were again allowed to enter the field, and from that year till the present time the construction of railways has been carried on partly by the State and partly by companies. Most of these modern companies have received financial assistance from the Government, and in practically every case they have been provided with land free of cost.

3. The following table shows how the railways in British India (omitting lines constructed under the Tramways Act and one or two others of small importance) were owned and worked on 31st December 1906:—

(1) Lines owned and worked by the State :—	Miles.
North-Western	3,569
Eastern Bengal	1,271
Oudh and Rohilkhund	1,292
Jorhat	32
Total	6,164

(2) Lines owned by the State and worked by Companies :—

East Indian	2,165
Great Indian Peninsula	1,562
Bombay, Baroda and Central India, and Rajputana-Malwa	2,437
South Indian and branches	1,161
Southern Mahratta and branches	1,539
Indian Midland and branches	949
Bengal-Nagpur	1,996
Assam-Bengal	775
Burma	1,340
Madras and branches	1,518
Tirhoot	614
Lucknow-Bareilly	237
Bezwada Extension	21
Jodhpur-Hyderabad (British section)*	124
TOTAL	16,458

* Worked by the Jodhpur (Native) State Railway Administration.

(3) Lines owned by Guaranteed Companies :—

	Miles.
Delhi-Umballa-Kalka, worked by the East Indian Railway Company	162
Hardwar-Delhra, worked by the Oudh and Rohilkhund State Railway Administration	32
TOTAL	194

(4) Lines owned by Rebate-aided* Companies :—

Southern Punjab, worked by the North-Western State Railway Administration	580
Tapti Valley	155½
Ahmedabad-Parantij	55
Ahmedabad-Dholka	33½
Amritsar-Patti, worked by the North-Western State Railway Administration	27½
Mymensing-Jagannathganj, worked by the Eastern Bengal State Railway Administration	53
TOTAL	904½

(5) Lines owned by Subsidised Companies :—

Darjeeling Himalayan, worked independently	51
South Behar (originally a rebate-aided line), worked by the East Indian Railway Company	79
TOTAL	130

(6) Lines owned by Companies which do not receive financial assistance from the Government :—

Barsi	78½	worked independently
Bengal and North-Western	932	
Bengal Doonars	153	
Deoghur	4½	
Dibru-Sadiya (originally subsidised)	86	
Rohilkhund and Kumaon (originally subsidised)	118	
Tarkessur, worked by the East Indian Railway Company	22	
TOTAL	1,394½	

Thus the only lines of any magnitude which are not owned by the Government are the Southern Punjab and the Bengal and North-Western. Moreover, in the case of every one of the lines not already owned by it the Government holds a right of purchase at certain dates, and within the next 25 years all the railways now existing in British India (with one or two trifling exceptions) may, if the Government should so desire, become State property.

* "Rebate" is a payment to a branch line by the parent line from the earnings of the latter from traffic interchanged with the branch. It is limited to (1) a specified proportion of those earnings, and (2) the amount which, when added to the net earnings of the branch, will make up a certain fixed dividend on the capital of the branch.

4. The financial results of the working of the State and Guaranteed Railways during each of the last five years, are shown in the following table:—

Year.	Capital at Charge at end of Year (Open Lines).	Gross Earnings.	Working Expenses.	Net Earnings.	
				Amount.	Percentage on Capital Outlay.
	£	£	£	£	
1902-03	226,630,374	21,022,090	10,471,870	10,550,220	4.65
1903-04	232,736,736	22,570,010	11,099,399	11,470,611	4.93
1904-05	238,714,090	25,054,547	12,018,304	13,036,243	5.46
1905-06	244,141,381	25,505,357	12,201,573	13,303,784	5.45
1906-07	253,702,160	26,834,860	13,493,522	13,341,338	5.26

The net profit to the State, after meeting all charges for interest on capital, annuities for the purchase of lines from Companies, shares of surplus profits payable to Companies, &c., was in each year as follows:—

	£
1902-03	228,949
1903-04	860,669
1904-05	2,105,438
1905-06	2,001,966
1906-07	2,313,541

These figures understate the true net revenue derived by the State from the railways, inasmuch as a portion of the charge under the head of "annuities for the purchase of railways" represents repayment of capital. The amount of capital redeemed in this way by a charge against the earnings of the railways is shown in the accounts of the Government of India to have been as follows during the last five years:—

	£
1902-03	610,151
1903-04	630,997
1904-05	633,452
1905-06	727,695
1906-07	752,135

The real net profit to the State, after meeting all charges properly attributable to revenue, was, therefore, in 1906-07 upwards of 3 millions sterling.

5. It will be seen from the foregoing sketch that the position of the Government of India with respect to railways is, and has always been, entirely different from that of the Government in this country. Several thousand miles of railway in India have been actually constructed by the Government, and with regard to the remainder it may be said that every company which has constructed a railway has received more or less assistance from the Government, varying from a guarantee of interest to the free grant of land only. The Government has thus been able, when arranging for the construction or working of railways by companies, to reserve to itself a considerable measure of control, and every company has entered into a contract which provides, *inter alia*, that the rates and fares charged shall be subject to the approval of the Government, and in most cases makes the sanction of the Government necessary to the raising of fresh capital.

6. In the case of the companies which work railways on behalf of the Government of India, the Government powers of control are specified in the contracts between the State and the Companies. The provisions contained in the contracts may be summarised as follows:—

1. The company is bound to keep the line in good repair, in good working condition, and fully supplied with rolling stock, plant, and

machinery; to keep the rolling stock in good repair and in good working condition; and to maintain a sufficient staff for the purposes of the line;—all to the satisfaction of the Secretary of State.

2. The Secretary of State may require the company to carry out any alteration or improvement in the line, or in the working, that he may think necessary for the safety of the public or for the effectual working of the line.
3. The train service is to be such as the Secretary of State may require, and the rates and fares are to be subject to his approval. (A certain amount of latitude is usually allowed to the company in fixing its rates, within maxima and minima laid down by the Government.)
4. The company has to keep such accounts as the Secretary of State may require, and these are subject to audit by the Secretary of State.
5. In all other matters relating to the line the company is made subject to the supervision and control of the Secretary of State, who may appoint such persons as he may think proper for the purpose of inspecting the line, auditing the accounts, or otherwise exercising the power of supervision and control reserved to him. In particular the Secretary of State has the right to appoint a Government Director to the Board of the company, with a power of veto in all proceedings of the Board.
6. All the moneys received by the company in respect of the undertaking, whether on capital or revenue account, have to be paid over to the Secretary of State.
7. All expenditure by the company has to be stated and submitted for the sanction of the Secretary of State.
8. The Secretary of State undertakes to supply the company with funds as required to meet sanctioned expenditure.
9. The raising by the company of a certain initial capital is provided for,* and no further capital can be raised without the sanction of the Secretary of State, who has the option of deciding whether he shall himself provide any additional capital required, or shall allow the company to raise it upon shares or debentures on terms to be agreed upon.
10. On the capital raised by the company, interest is guaranteed by the Secretary of State, and has to be paid by him at stated dates.*
11. In addition to the guaranteed interest, the company receives a share of any surplus profits, which are calculated as follows: From the amount of the gross earnings of the railway the following sums are deducted—
 - (i) the working expenses;
 - (ii) the guaranteed interest that has been paid by the Secretary of State;*
 - (iii) interest on the capital provided by the Secretary of State;
 and the amount remaining (if any) represents the surplus profits of the railway. Of such surplus profits a certain proportion (as fixed by the terms of the contract) is paid to the company, the remainder being retained by the Government.
12. The contract is terminable, either absolutely or at the option of the Secretary of State, after a certain period (in most cases about 25 years), when the share capital of the company is to be repaid at par by the Secretary of State,* who has to assume all outstanding liabilities of the company incurred with his sanction.

* This does not apply to the Bengal and North-Western Railway Company, which has raised no capital for the purposes of the Tirthoot State Railway. In the case of the East Indian Railway Company, the capital of the Company is represented by the capital value (6,550,000L.) of a portion (one-fifth) of the East Indian Railway annuity, payment of which is deferred, the holders receiving instead interest at 4 per cent. per annum on the capital value, with a share of the surplus profits of the railway. On the determination of the contract with the Company the deferred annuity will become payable.

In the case of most of the lines owned by companies, provisions similar to those stated in clauses 1, 2, 3, 4, and 5 above, though in some instances less stringent, are contained in the contracts.

Although the contracts are in the name of the Secretary of State, the greater part of the work of supervising the lines and the accounts is conducted by the Government of India. Before the institution of the Railway Board in 1905 this work was performed by the Public Works Secretariat of the Government of India, acting under the direct control of a Member of Council who took charge of Public Works business. On the formation of the Railway Board the functions of the Public Works Secretariat, so far as the Railway Branch was concerned, were transferred to it under a Resolution of the Government of India dated 18th February 1905, to which we shall refer in detail in a later part of our Report, and subsequent Resolutions.

7. The manner in which the provision of funds is made for lines owned or guaranteed by the Government is as follows:—Some time before the beginning of each financial year a statement is drawn up by the Government of India containing an estimate of the amount that can be made available for capital expenditure on railways during the year, and proposals as to the manner in which it shall be expended, whether for the improvement of existing systems, for progress on lines under construction, or for the commencement of new lines. The estimate of resources includes all sums expected to be provided by the State from whatever source, and all money expected to be raised by guaranteed companies; the scheme of expenditure includes expenditure on lines owned by the Government or by guaranteed companies (classes 1, 2, and 3 above). This scheme of expenditure, when sanctioned by the Secretary of State with such modifications as he thinks necessary, becomes the railway programme of the year. Since the institution of the Railway Board it has been customary for the Government of India to submit annually, not only a scheme for the coming year, but also schemes for the two following years; but the sanction given by the Secretary of State to the latter is purely provisional.

The programme system, as it is commonly designated, has often been criticised unfavourably, more especially on the ground that under it the rate of progress of any large work which requires some years for completion, such as a new line, is largely dependent on financial considerations and on considerations affecting other works, and is not necessarily the most economical rate. It is also said that insufficient time is allowed for the preparation of schemes, the purchase of materials, and so on. The justification of the programme system is that the Government, although it allocates to railways in each year the full amount that it expects to be able to provide consistently with financial prudence, is nevertheless unable in any year to provide funds for all the expenditure that would be profitable and advantageous. In these circumstances the procedure which we have described, which is practically a selection from among the possible objects of expenditure of those which are most immediately urgent, appears to be the one best calculated to minimise the disadvantages of a restricted supply of capital. If the conditions were different it might be wise for the Government not only to undertake to supply in each year the money required for the numerous minor works on which the bulk of the capital expenditure is incurred, but also, when beginning a new work on a large scale, to make definite arrangements to procure the money required for its completion, instead of merely providing year by year during its progress such instalments as can be spared. We recognise the advantage that would result from such a change of system, but it is impracticable in present conditions, and we therefore regard the programme system as necessary, provided the annual distribution is so arranged as to enable rapid and economical progress to be made with great works when once they have been undertaken.

8. Before concluding this preliminary survey of the policy pursued by the Government of India with respect to railways, we think it desirable to refer to the remarks that are frequently made as to the failure of the Government of India to encourage what is called "private enterprise"

in railway construction. When examined, the complaints under this head are generally found to be based on cases in which the Government of India has refused to grant to projected companies all the financial assistance for which the promoters have asked; in some instances the ground of complaint has been that the Government has insisted on restricting the extent to which the subscribed capital may be used to defray the expenses of promotion. It is open to question whether the promotion of schemes to which Government aid is considered essential is entitled to be called "private enterprise." We are not aware of any case in which true private enterprise, that is the construction of railways without financial assistance from the State, has ever failed to receive encouragement from the Government of India, provided that the proposed undertaking was one which would not enter into injurious competition with existing lines. Where assistance from the Government is asked for in the shape of a guarantee of interest, either direct or indirect, the responsibility of determining whether, and to what extent, such assistance shall be given must rest with the Government, and if, upon a consideration of all the circumstances, it decides that the balance of public advantage is against the grant of the assistance desired, it cannot fairly be charged with neglecting to encourage private enterprise. Any attempt to exploit the country for the benefit of the *concessionaire*, by means of schemes which would either compete unfairly with railways already in existence or be likely to prove disadvantageous for the taxpayer, has been consistently, and in our opinion rightly, resisted by the Government of India.

We now proceed to submit our observations and recommendations upon the several questions referred to us.

Question 1.—Whether the amounts allotted in recent years for railway construction and equipment in India are sufficient for the needs of the country and for the development of its trade?

9. At the end of 1906 the length of railway open in India (not taking account of double track or sidings) was 29,097 miles, on which the total capital expenditure, including outlay on construction, equipment, &c., was Rs. 3,79,20,73,000, approximately equivalent, at the various rates of exchange applicable in each case, to 286,500,000*l.* Of the total of 29,097 miles, lines aggregating 6,443 miles, or more than one-fifth, were owned by Native States or by companies not guaranteed by the Government of India; with respect to these lines the Government assumes no responsibility for the provision of capital, and their requirements (except in some cases for the supply of rolling stock) are not included in the annual programme of expenditure which the Government undertakes to meet. The lines which depend for the supply of capital on allotments made in the programme, *i.e.*, lines owned by the Government of India or by guaranteed companies, were 22,654 miles in length on 31st December 1906.

In addition to the lines open, 3,283 miles of new lines were under construction,—2,651 miles from funds provided under the programme, and 632 miles outside the programme.

The following remarks relate only to the lines which come into the Government programme.

10. During the seven years 1900–01 to 1906–07, the capital expenditure under the programme amounted to 50,247,630*l.*, of which 27,411,120*l.* was spent on additional rolling stock and improvements of open lines, and 22,836,510*l.* on the construction of new lines. The annual expenditure increased from 5,317,768*l.* in 1900–01 to 8,999,430*l.* in 1905–06 and 9,741,000*l.* in 1906–07.

Notwithstanding the large expenditure incurred since 1900 in increasing the facilities for traffic on open lines, the commercial and railway witnesses were practically unanimous in their opinion that in the years 1906 and 1907 the railways failed to deal satisfactorily with the traffic offering, and

we are satisfied that this was the case. The chief complaint has been regarding the inadequacy of the supply of rolling stock, but the necessity for improving the lines by the addition of crossing stations, sidings, &c., in order to fit them for the employment of additional stock has also been represented as pressing.

Some of the witnesses have suggested that the existing rolling stock is not worked with the greatest efficiency, and there may be room for improvement in this respect. The attention of the Railway Board should be drawn to this point.

Although, however, some improvement may be possible in the method of working the existing stock, there appears to be little doubt that, largely owing to the activity of trade which prevailed in India in the last two or three years, more especially in coal, grain, and manganese ore, the equipment of the lines was unequal to the requirements of the traffic. The exceptional efforts which have been made since 1905 will, however, shortly effect a marked improvement in this direction, and it is not unlikely that there may also be some slackening in trade. The unusual conditions of trade and the measures which have been taken to increase railway facilities appear to have been overlooked by some of the witnesses. At the same time we are convinced that the trade of India will go on developing, and that timely preparations are necessary for a further increase in traffic.

The expenditure under the programme in 1905-06 was, as we have stated, 8,999,430*l.*, or nearly 2,000,000*l.* greater than in the preceding year, while in 1906-07 it was 9,741,100*l.* Of these sums 5,121,300*l.* in 1905-06, and 6,129,300*l.* in 1906-07, were expended on additional rolling stock and the improvement of open lines. In the present year, 1907-08, the amount at first allotted for capital expenditure on railways was fixed at the sum of 8,000,000*l.*, but this was subsequently raised to 10,000,000*l.*, of which upwards of 8,000,000*l.* was to be devoted to open line equipment and improvement. Thus, in the three years ending 31st March 1908, nearly 20,000,000*l.* will have been spent in increasing the capacity of open lines, and the result of this expenditure will no doubt for the time being have given much help towards bringing the existing railways up to a proper standard of efficiency.

It appears from the Administration Report on Indian Railways for 1906 that 4,316 wagons were added during the year to the stock on the several railways; also that an additional 8,733 wagons were under order at the end of the year, and that the provision of 2,888 more had been authorised, making a total addition of 11,521 wagons, or 10 per cent., to the number (115,686) in existence at the end of 1906. In accordance with the recommendation made by us in our Interim Report, dated 6th June 1907, a copy of which is annexed, further large additions have since been ordered, so that the stock of wagons on Indian railways in the spring of 1908 will probably be larger by some 13,000, or 11½ per cent., than it was at the end of 1906.

11. In connection with the supply of wagons for use on Indian railways, the question of the provision by colliery proprietors and other traders of their own wagons has been raised. This system is in extensive operation on the railways in this country, but it is regarded with great dissatisfaction by all the railway administrations here, who would be glad to see it abolished. The opinions of the executive officers of several of the leading English railways have been communicated to us. In the case of one line the opinion has been expressed that private wagons "are the greatest trial in the life of a traffic, goods, or mineral manager. They have nothing to recommend them. . . . The amount of shunting necessary is colossal, and the cost of this is enormous." The General Manager of another important line has stated that "the system of private wagons is fraught with inconvenience." A third Company has remarked:—"There are about 700,000 private wagons in use in this country. The relief from capital expenditure on the part of the railway is enormously over-balanced by the great additional cost of shunting involved by the necessity for sorting out these wagons. . . . Were it possible to remove from the public the right to own private wagons, every Company in the

"Kingdom would combine to such an end." In view of these opinions we see no reason to recommend that the system of the private ownership of wagons should be introduced into India.

Question 2.—What additional amounts may properly and advantageously be raised for railway construction and equipment?

12. We are satisfied that no definite limit could be assigned at the present time to the amount that could be remuneratively devoted to the development and expansion of the Indian railway system. Apart from the existing lines, improvements of which are continually demanded, there is wide scope for the construction of new lines which would not only be remunerative in themselves but would add materially to the prosperity of the population, greatly enhance the revenue, and largely develop the resources of the country. More than one witness looks forward to a time when the 30,000 miles of railway now open will have been increased to 100,000. We believe that even this estimate of mileage is short of that which will ultimately be found to be necessary in India, and we are convinced that there will be fruitful fields for large reproductive expenditure on railways in the country for many years to come.

It is, therefore, in our opinion, very desirable that the steady, and even rapid, development of the railway system of India should be regarded by the Government as one of its most important duties; but at the same time we recognise the financial difficulties that may be experienced when the Government commits itself to new and expensive schemes on a large scale. The danger which attends a policy of rapid development is that large projects, involving heavy annual expenditure over a long series of years, may be begun at a time when capital can be easily obtained, and may be still far from completion when capital has become comparatively scarce and dear. In such circumstances it is necessary to choose between two alternatives, viz., retardation of the work, and borrowing at unfavourable rates, so as to allow of speedy completion. The former alternative entails loss owing to the dispersal of labour that has been collected for the works, to the difficulty of making sudden reductions in the higher staff of trained engineers, of whom the majority are permanent Government employes, while the remainder are engaged for a term of years, and to the prolongation of the period during which capital remains unproductive. The latter alternative involves the risk of a fall in Indian securities relatively to others, which may lessen their popularity and prejudice the success of future loans.

13. In our opinion the prudent policy for the Government to adopt is to fix periodically a standard of annual expenditure. For this purpose two questions have to be considered:—

- (1.) What is the average of the annual expenditure that can be advantageously and profitably incurred?
- (2.) What is the average annual supply of capital that the Government can count on being able to procure?

14. On the first question there is considerable diversity of opinion. One witness (Colonel Gracey) stated that an expenditure of 15 crores of rupees, or 10,000,000*l.*, is insufficient to meet present requirements, and that 10 years hence 20 crores, or 13½ million pounds, will be needed. Another (Mr. Douglas) estimated the amount that ought to be expended annually at from 14 to 15 millions sterling for the next five years. Two others (Mr. Burt and Colonel Browne) think that the annual grant should be increased to 15,000,000*l.* A fourth (Mr. Brereton) gave an estimate of 32 crores, or over 21,000,000*l.*, as the amount that might profitably be spent annually, but admitted that some years of preparation would be necessary before such a programme could be worked up to.

We consider it is safe to assume that, for a good many years to come, the amount that might with advantage be spent on railways in India

will exceed the funds which will on the average be available, so that the effective limit of the amount to be spent in any year will be the amount that can be provided.

15. In any attempt to form an estimate, the most important factor is the amount which it may be assumed that the Secretary of State for India can borrow annually in London.

On this point we have had the advantage of hearing the opinions of Lord Rothschild, Lord Swaythling, and Mr. H. A. Daniell. Lord Rothschild, in reply to the question (1131)—“Then, in regard to the amount of money the Secretary of State can raise in any one year in London, you are inclined to think that an average of 8 or 10 millions would be about the figure?” remarked, “I think he might get it, especially if it were distinctly stated that it was for railway purposes.” Lord Swaythling considers that, in normal conditions, the Secretary of State would be able to raise 10,000,000£ annually in London for expenditure on reproductive public works. His Lordship remarked that borrowing for Indian railways, which are highly remunerative works, would be quite favourably received, as it is altogether different from borrowing, as many countries do, for such purposes as the construction of vessels of war and armaments. Mr. Daniell's estimate was lower than those of Lord Rothschild and Lord Swaythling.

A careful consideration of the evidence leads us to the conclusion that it would not be imprudent for the Secretary of State to contemplate raising in London, in normal years, as much as 9,000,000£.

16. The amount that in normal years may be expected to be provided in India for capital purposes may be estimated as follows:—

	Lakhs.
Revenue surplus	100
Annual appropriation from Revenue for reduction or avoidance of debt	75
Savings bank deposits	100
Rupee loan	325
Moiety of profits of coinage	150
	750 =
	5,000,000£.

17. The total amount that can be provided in England and India by or on the credit of the Secretary of State for capital purposes may thus be estimated for the present at 14,000,000£ a year. But a portion of this sum will not be available for outlay on railways. Provision must be made for expenditure on irrigation works, which may be estimated at 1,000,000£ a year, and other expenditure may have to be met from borrowed money; moreover, the money market may not always be favourable. We think it desirable to recommend an annual rate of expenditure on railways which there is a reasonable hope of maintaining, even in difficult times, and we accordingly advise that the Government of India be authorised to prepare their annual railway programme on the basis of a capital expenditure of 12,500,000£. This compares not unfavourably with the expenditure that has been incurred in the last 10 years, as shown in the following table:—

	£
1898-99	5,894,746
1899-1900	5,978,520
1900-01	5,317,768
1901-02	5,915,200
1902-03	6,705,064
1903-04	6,380,468
1904-05	7,188,600
1905-06	8,999,430
1906-07	9,741,100
1907-08 (grants allotted)	10,000,000

If our recommendation is adopted, 100 millions sterling will be spent on railway development in eight years, and, as finality is still a long way off, it will probably be deemed advisable to consider the whole question afresh before the expiry of the time mentioned.

18. We should have been glad if we had been able to recommend a still larger increase in the capital expenditure on railway development for which the State is responsible. But the rate of progress will be increased more than is shown in our figures if some lines now dependent on Government capital are transferred to companies supplying their own capital without Government intervention or assistance, and in a form, therefore, not likely to compete closely with Government issues. There is no reason why, if such transfers are made, the annual capital expenditure by the Government on the lines for which it remains responsible should not stand at the same amount as before the transfers; and this amount, being distributed over a smaller number of lines, would enable them to be developed more rapidly. We deal more fully with this question later on.

Question 3.—Within what limits of time and by what methods should additional funds be raised?

19. The question as to the limits of time within which funds should be raised has practically been answered above. We think that the annual expenditure on railways should be increased from 10,000,000£ to 12,500,000£, money being raised sufficient to enable this expenditure to be incurred. It may be possible in some years to obtain larger sums than are required to provide for expenditure at the annual rate which we contemplate, while in other years there may be strong reasons for reducing the loans. We assume that the Secretary of State will, as far as possible, take advantage of periods of easy money to raise funds in excess of his immediate requirements, thus minimising the risk of having to reduce the expenditure at a time of stringency.

20. In answering the question regarding the methods by which funds should be obtained, we shall deal first with the portion (7,500,000£) which, if our recommendations are adopted, will ordinarily be provided in England. There are four methods which may be employed for raising money in this country:—

1. Direct Government borrowing.
2. The issue of short term debenture bonds by companies with the guarantee of Government.
3. The issue of debenture stock by companies, also guaranteed by the Government, but only redeemable after a long period and at the option of the borrower.
4. The issue of share capital by companies, with a Government guarantee of interest and a share in surplus profits.

1. *Direct Government borrowing.*—(a) *India stock.*—Direct borrowing has hitherto been effected by the issue of India stock, although through this channel only 38,000,000£ has been raised for railway construction during the last 20 years.

This is unquestionably the cheapest method of raising money, and if sufficient can be thus obtained without materially lowering the price of the stock, there is little reason to look to other methods. But it is necessary to bear in mind the possibility that in some years it may be thought inadvisable to issue in England a single loan of the amount required to enable the capital expenditure on railways to be maintained at the desired level. This may occur when the amount required does not exceed 9,000,000£, and it is, of course, more likely to occur when the cost of famine, military operations, the purchase of lines, or the discharge of terminable obligations of an exceptional amount, has to be provided for from borrowed funds. One method of dealing with such a situation is to issue India bills, to be paid off gradually; but this is an expedient which should

be avoided as far as possible, and it is advisable that the Secretary of State should have in reserve methods of supplementing the resources that can be procured by the issue of India stock.

(b) *Special railway stock.*—One witness (Mr. L. L. Cohen) suggests the creation of a consolidated four per cent. railway stock secured on the revenues from the railways, and having in addition the guarantee of the Government of India. A new stock of this description would, in our opinion, be, for a considerable time at least, more expensive to the Government than India stock, for which, owing to the large amount of various denominations already in existence, there is a large and free market. Its creation might, nevertheless, be justified if there were good reason to believe that its greater popularity would allow of larger annual issues than can be made of India stock; but we are not convinced that this would be the case. It is necessary, moreover, to bear in mind that the surplus revenues of the railways, on which the proposed new stock would be secured, are merely a part of the general revenues of India, which constitute the security for ordinary India stock. It is open to question whether the hypothecation of a portion of the revenues of India to the service of a new class of stock would be consistent with the Secretary of State's obligations to holders of India stock.

It has also been suggested that an Indian railway stock, carrying a fixed rate of interest and taking in addition a share of the surplus profits of the railways as a whole, should be created. Such a stock, like the consolidated four per cent. railway stock suggested by Mr. Cohen, would almost certainly be more expensive to the Government than the issue of ordinary stock; it would be hampered by complicated conditions relating to the division of surplus profits, which would affect its popularity; and the holders of it might advance inadmissible claims to be allowed to interfere in the administration of the railways.

We do not recommend the adoption of either of these two suggestions.

2. *Short-term Debentures.*—There is a consensus of opinion among the financial witnesses that this form of raising money should be employed sparingly, and only to meet temporary emergencies. The amount of debentures guaranteed by the Secretary of State now outstanding is 16,903,500*l.* Although these short-term debentures have been a convenient and, for the time being, an economical means of obtaining funds in the past, we consider that it is desirable to avoid adding to those now existing, and to discharge them as opportunity arises, as undoubtedly, if they have to be renewed in times of monetary stringency, they have their disadvantages.

3. *Debenture Stock.*—The objections to the issue of short term debentures do not apply to the issue by companies of debenture stock guaranteed by the Government, and only redeemable at some distant date at the option of the companies. The raising of capital by this method is more expensive than by the issue of India stock because the debenture stock is less popular. Nevertheless, the issue of debenture stock by companies may at times offer a useful alternative to direct borrowing by the Government, and we would suggest that the popularity of this debenture stock would be increased if arrangements were made to compound for stamp duty on transfers.

4. *Issue by Companies of Guaranteed Share Capital, with a share of Surplus Profits.*—This method of raising capital may be said to have been in abeyance since the Burma Railways Company was formed 10 years ago. It is more expensive than direct Government borrowing, but it is said to possess the advantage that it appeals to a different class of investors, and to interfere but little, if at all, with the issue of India stock. In present circumstances endeavours might, we think, be made to revive this method of supplying capital for railways. To give to the working companies a greater and more direct interest in the success of the railways, and also in the raising of capital, would, in our opinion, be attended with great administrative advantage. The provisions of the existing contracts with companies in many cases offer some impediment to the issue of additional share capital, but the necessary modifications could doubtless be arranged. The Secretary of State has recently taken action in this direction in settling

the terms of the new contract to be entered into with the Southern Mahratta Railway Company, and we understand that he is negotiating arrangements on a similar basis with the Great Indian Peninsula and Burma Railway Companies.

We hope that it may be found possible, by the use of method 1 (a), supplemented, if necessary, by methods 3 and 4, to borrow in London for railway purposes an average amount of 7,500,000*l.* a year, which, together with 5,000,000*l.* a year to be provided in India, will in ordinary years enable the Government to spend 12,500,000*l.* on fresh railway construction and improvement.

In our opinion no hard and fast rule can safely be laid down that one particular method of raising money in London should be adopted in all circumstances. Much must depend on the condition of the money market from time to time, and we are satisfied that the views expressed to us by Lord Rothschild on this subject are sound. His Lordship said:—"When the moment arrives for appealing for further funds, then will be the time to decide in what form borrowing is to take place The only advice I think I am entitled to give the Indian Government is to make no fixed and unchangeable law for future policy. It is always best to have more than one string to one's bow, and if, when the time comes, it is found impracticable or impolitic to act in a certain way, recourse can be had to any one of the methods sketched out in the memorandum which has been given to me. . . . I should be excessively sorry to tie the Secretary of State down to raising money in any one particular way."

21. A modification of the practice in regard to the provision of capital in England has been suggested in a joint memorandum by the Honourable Mr. E. N. Baker, C.S.I., and the Honourable Mr. J. F. Finlay, C.S.I., members of the Governor-General's Council. At present the annual railway programme includes (as mentioned in paragraph 7 above) the capital expenditure proposed to be incurred on all lines worked by the State and by companies which have a State guarantee, and the forecast of ways and means for railway purposes includes all sums estimated to be provided for capital outlay by the State or to be raised by guaranteed companies. In the event of the companies not raising the sums estimated, the deficiency is made good by the State, to the extent of its resources. Mr. Baker and Mr. Finlay propose that the lines of which the transactions are included in the programme shall in future be divided into two classes:—

Class A. including the lines which are worked by the State and those which have been purchased by the State and are worked by guaranteed companies.

Class B. including other lines worked by guaranteed companies.

It is suggested that no change should be made in existing arrangements in respect of lines in Class A., but that companies working lines in Class B. should cease to deposit with the Government the capital which they raise, and should be informed that they will not in future receive advances from the Government towards meeting capital expenditure. They would thus be completely responsible for finding the money which they required; and if they failed to raise it, expenditure would be reduced, or would cease.

The increase of the financial responsibility of companies, which is one object of this scheme, is certainly desirable; but we think that the same result can be better attained by the other method which we have recommended in paragraph 24. The adoption of the proposal of Mr. Baker and Mr. Finlay would be attended with considerable practical difficulties, which we need not specify in detail, and we do not see our way to recommend it.

22. A recommendation was made by Lord Rothschild which, in our opinion, deserves careful consideration. In reply to questions put to him (1143 and 1144), he said that he would advocate raising money when the times were favourable, even although the programme of works might not be such as to require the whole to be spent in any one year, and that he.

would not hesitate, if the moment were favourable, to bring out a larger loan than might be necessary for that particular year. Mr. Alexander Wallace, late Governor of the Bank of England, expressed views similar to those of Lord Rothschild on this point. We have assumed above that these views will be carried into effect.

23. In regard to the amount to be provided in India for railway construction and development, we have accepted the sum of 5,000,000*l.* as that which may be available at the present time. We have not taken account of sums that may be provided by Native States and by District Boards in British India for the construction of lines in districts in which they are specially interested. Such resources may enable useful additions to be made to the Indian railway system; but they are too uncertain and too limited in amount to be included in any calculations relating to the annual expenditure on railways which should be undertaken by the Government of India. We think that, for practical purposes, our enumeration in paragraph 16 above of the methods by which the Government of India can obtain a regular supply of money in India for capital expenditure on railways may be regarded as exhaustive. But it may be possible in future to obtain a larger amount by certain of these methods. In the first place we think that, in view of the direct and immediate benefit conferred by railway extension on the Indian producers, from whom a very large part of the Government revenue is obtained, and also having regard to the importance of checking the growth of the external debt of India, it would be greatly to the ultimate advantage of the taxpayers, and sound policy for the Government of India, to endeavour to realise a larger average annual surplus than 100 lakhs (667,000*l.*), to be applied to supplement the other resources available for capital expenditure on railways. Secondly, it may also be found possible to issue rupee loans of a larger annual amount on the average than 325 lakhs (2,167,000*l.*), the figure that we have used above. Finally, we anticipate that it may ultimately be possible to use the whole of the profits on coinage for capital expenditure. From 1900-01 to 1906-07 the profits were invested so as to build up a gold standard reserve, to be used, when necessary, for the maintenance of the exchange value of the rupee. In 1907-08, after considering our Interim Report, dated 6th June 1907, in which we recommended that 1,000,000*l.* of the profits on coinage in that year should be invested in Indian railways, the Secretary of State decided that in future years one half of the profits should be so invested. Until the reserve has increased considerably beyond its present amount, we think that no larger proportion should be used in this way. But as it is estimated that by 31st March 1908 14,360,000*l.* will have been invested on behalf of the reserve in sterling securities, while 4,000,000*l.*, derived from the profits on coinage, is held in rupees in India, and 6,500,000*l.* is held in gold in the Paper Currency Reserve, it may be hoped that in course of time the Secretary of State will be able to go beyond his recent decision, and to use the whole of the profits for railway purposes. When the money can be obtained, we do not think that a railway programme of even 20 millions sterling will be excessive.

24. We pointed out in paragraph 18 above that the development of the Indian railway system would be expedited if arrangements were made that some lines now dependent on Government capital should in future supply their capital requirements without Government intervention or assistance. A scheme with this object has been suggested by several witnesses (Colonel Gracey, Sir H. Kimber, and Sir W. Bisset). In broad outline it is—

- (1.) That the net earnings of a railway owned by the Government shall be capitalised at, say, 25 years' purchase.
- (2.) That the amount thus arrived at shall be treated as Government capital in the undertaking.
- (3.) That a company shall then be formed to work the line, and that this company shall raise additional capital on the security of the railway alone, without any guarantee from the Government.

- (4.) That the net earnings of the line after the formation of the company shall be divided between the Government and the company in proportion to the capital of each.

As an illustration, let it be supposed that before the formation of the company the line to be dealt with is yielding net earnings equal to 1,000,000*l.* per annum:—

	£
The assumed Government capital would be	= 25,000,000
1,000,000 <i>l.</i> × 25	5,000,000
Capital raised by company (say)	
Total	<u>30,000,000</u>

After the expenditure of the additional 5,000,000*l.* of capital, the net earnings would be divided in the proportions of $\frac{2}{3}$ ths to the Government and $\frac{1}{3}$ ths to the company, thus—

	Government Share.	Company's Share.
	£	£
With net earnings of 1,200,000 <i>l.</i>	1,000,000	200,000
	(4 % on 25,000,000 <i>l.</i>)	(4 % on 5,000,000 <i>l.</i>)
With net earnings of 1,500,000 <i>l.</i>	1,250,000	250,000
	(5 % on 25,000,000 <i>l.</i>)	(5 % on 5,000,000 <i>l.</i>)

The rate of dividend on the assumed Government capital and on the company's capital would always be the same.

This scheme, with modifications in detail, has been proposed by Sir W. Bisset for application to the Bombay, Baroda, and Central India Railway Company, and by Sir H. Kimber for application to the South Indian Railway Company when the first period of the existing contract comes to an end in 1910. It appears in its general outlines to offer a means by which the Government may, with regard to some of the railways owned by it, gradually relieve itself of the responsibility of either providing or guaranteeing capital, and we recommend it for consideration.

25. The lines at present worked directly by the Government of India are:—

	Miles.
North-Western	3,569
Eastern Bengal	1,271
Oudh and Rohilkhand	1,292
Jorhat	32
	<u>6,164</u>

Large capital expenditure for development must be incurred on these lines in the near future, and direct working by the State is not without its disadvantages. The consistent policy of the Government of India for many years has been to arrange for the railways in India, while remaining State property, to be leased to companies which work them on behalf of the Government on a profit-sharing basis. There is no disposition on the part of the Government to depart from this policy, which has worked satisfactorily. We would therefore suggest that one or more of the State lines above mentioned might be leased to companies on the basis above described.

Should, however, any scheme of the kind suggested be adopted, we strongly advise that the Government should retain the right to acquire at stated times, and on fixed and explicit terms, the capital held by the shareholders. In granting leases of improving properties, such as

most Indian railways are, it is obviously desirable for the Government to provide itself with opportunities for revising the conditions from time to time; but, in order to make the interests of the companies as nearly as possible identical with those of the Government, we would recommend that a contract should be given for a long period, even up to 50 years.

26. Another scheme has been proposed by Sir F. Upcott, Chairman of the Indian Railway Board, who suggests that, after the capitalisation of the net earnings as in the scheme described above, a portion of the Government capital might be transferred to the company for a cash payment, thus placing the Government in possession of funds which could be utilized for railway purposes elsewhere. Under this scheme the Government would sell outright a portion of its property in the railway to the company. Such a sale should, in our opinion, be avoided. One grave objection to it is that, while the returns from the line would, no doubt, following the normal course in the case of Indian railways, show a continual improvement, the State would, in respect of the share of the capital transferred to the company, lose the benefit of this improvement for all time, and it would be found ultimately that the Government was practically paying an extravagant rate of interest on the money obtained from the company. Of course it might be possible for the Government to obtain a price for the whole or a portion of the line which would be an inducement to make a sale and alienate an improving property in perpetuity, but this is by no means likely. We do not recommend the adoption of this scheme.

27. As one method of supplying the immediate requirements of the railways, Sir Alexander Henderson, Chairman of the Great Central Railway Company, explained to us how a Rolling Stock Trust could supply the Government of India with funds for the purchase of rolling stock, such funds being repayable by instalments, and in the meantime carrying interest at an agreed rate. This method of obtaining money, Sir Alexander stated, was adopted with much advantage by the Great Central Railway Company at a time when it had exhausted its capital powers and found itself in urgent need of rolling stock before further powers could be obtained, and in similar cases, no doubt, it might be found to be extremely useful. The case of the Indian railways, however, does not appear to be on the same footing, and we do not recommend calling in the aid of a Rolling Stock Trust, as such a course could not fail to be a more expensive mode of raising money than direct borrowing.

28. Reference may here be made to the subject of the construction of branch lines. On this we heard a good deal from some of the witnesses, who were disposed to blame the Government of India for its indisposition to give concessions for such lines to syndicates on terms desired by the promoters. While it may on occasion be desirable to encourage such syndicates to provide the capital to build branch lines which are reported to be urgently needed, and likely to prove remunerative, but which cannot be included in the Government programme, we would record the opinion that this method of obtaining capital for railways is not only expensive but often results in trouble. As a rule a promoter requires rebate terms which will ensure a higher rate of interest than that at which money can be borrowed either by the Secretary of State or by the trunk line company by which the branch will be constructed and worked; moreover, a considerable amount of money is spent on promotion and preliminary expenses, and a board of directors, a secretary, and an office staff and premises have to be paid for out of the revenues of the line, although the chief duties to be performed by the branch line company consist in receiving the earnings of the line from the Government and distributing them to the shareholders. In a number of cases it has happened that branch lines have not fulfilled the expectations of their promoters, and the Government has been compelled either to grant improved terms or to take over the lines. We recommend that as far as possible the trunk lines should own, as well as construct and work, their branches.

29. Before passing from the question of the methods by which capital may be raised, we desire to refer to the suggestion that has been made on more than one occasion, and was repeated by some of the witnesses, that Indian railway finance should be kept entirely separate from the general finances of the Government of India. This is understood to mean that the capital to be provided for railway purposes should be determined solely with reference to the requirements of the railways, and that the decision should not be influenced by considerations relating to the general financial position of the Government of India. This does not appear to us to be practicable. As long as the money required for railway purposes has to be provided by or on the credit of the Government, so long must the supply of money depend on the Government's general financial situation at the time. The Government must of necessity regard its obligations as a whole, and, in determining to what extent it will allow its credit to be pledged in order to raise capital for railways, it must take account of its present and future requirements for other purposes, and the probable effect of the increase in its liabilities on its power to meet those requirements. The only way in which the separation of railway finance from the general finance of the State could be effected would be to sell all the State railways, and thus relieve the Government from all liability in connection with the raising of capital for them. This would not be possible for many years, owing to the numerous contracts existing between the Government and the working agencies. It would, moreover, in our opinion, be an unwise policy, since it would transfer to the purchasing companies in perpetuity a growing source of revenue, instead of allowing the Government, and through the Government the taxpayer, to enjoy a due proportion of the increasing yield. But certain of the advantages of the suggested separation would be obtained if, in accordance with the recommendation which we have made in paragraphs 24 and 25 above, some of the State lines were transferred to companies raising capital without any direct financial aid from the Government, the right of the State to resume the lines being reserved. Before leaving this subject we would point out that the Bombay Chamber of Commerce, in their representation dated 20th December 1907, say that they "do not recommend the separation of railway finance from the general budget estimates, because it is realised that for some time to come the railways will not be able to borrow all they require on the security of their net revenues, and that, therefore, grants must necessarily still be looked for from Government."

Question 4.—Towards what objects should additional funds be applied?

30. Several of the witnesses representing particular railways submitted to us lists of works which they considered necessary on their respective systems. We do not think it possible to deal with this question in any detail, and we confine ourselves to emphasising the principle that the equipment and improvement of existing lines should take precedence of the construction of new lines. All the witnesses agreed as to the soundness of this principle.

It will be convenient here, however, to refer to the proposal made by the Government of India that a sum of 3,000,000*l.* should be spent in the years 1907-08, 1908-09, and 1909-10, on the formation of a central reserve of wagons for use on Indian railways as required. This proposal was dealt with partially in our Interim Report, dated 6th June last, in which we expressed the opinion that for the present year it would be more advantageous to allot any extra funds that might be available to the different railway administrations in accordance with their individual requirements, rather than to apply them towards creating a wagon reserve, as suggested by the Government of India. The question of the policy of maintaining such a reserve was left over for future deliberation. After giving the matter full consideration, we are of opinion that, so long as the individual railways are not fully equipped with rolling stock, it would not be advisable to divert any funds to the establishment by the Government of a reserve of wagons, and it is obvious that, when every railway has been provided with sufficient

equipment, the proposed reserve will be unnecessary. We consider it desirable that each railway should possess a sufficient stock of wagons of its own to meet all its probable requirements, and we deprecate a measure which would tend to encourage a railway to hold an inadequate stock and to rely on receiving help from outside at any time of pressure. The maintenance of a central reserve does not appear to be favoured by the railway managers. Moreover, to set up a wagon department of the Government of India under the management and control of the Railway Board would involve a separate and executive, as apart from the administrative, branch of the Railway Board, an innovation which we consider that it would be unwise to introduce.

Question 5.—Whether the system under which the Railway Board now works is satisfactory or is capable of improvement?

31. The evidence which we have collected on this question has led us to the conclusion that the system under which the Railway Board has hitherto been working is not satisfactory, and is capable of improvement.

32. The Railway Board was constituted by a Resolution of the Government of India, dated 18th February 1905, of which the terms were as follows:—

“1. The Government of India have had under consideration the recommendations made in his Report on the Administration and Working of Indian Railways by Mr. Thomas Robertson, C.V.O., Special Commissioner for Indian Railways, with regard to the constitution of a Railway Board to control the railway system in India and its extensions, in place of the Public Works Department, Railway Branch, of the Government of India.

“2. The conception of a Railway Board is not new; it has been advocated and considered on various occasions for many years past. Its central idea is that there should be a body of practical business men entrusted with full authority to manage the railways of India on commercial principles, and freed from all non-essential restrictions, or needlessly inelastic rules. In view of the great expansion that has taken place in the railway system of India, and of the necessity which has in consequence arisen for providing more powerful and efficient machinery for the rapid disposal of the increasing business, the Government of India placed before His Majesty's Secretary of State for India certain proposals for the constitution of a Railway Board, which, with some modification, have now received his sanction.

“3. There are two distinct classes of duties with which the new authority will have to deal. The first is deliberative, and includes the preparation of the railway programme and the greater questions of railway policy and finance affecting all lines. The ultimate decision on such questions must of necessity rest with the Government of India. The second class of duties is administrative, and includes such matters as the construction of new lines by State Agency, the carrying out of new works on open lines, the improvement of railway management with regard both to economy and public convenience, the arrangements for through traffic, and the settlement of disputes between railways. It is in respect to these duties that the greatest advantage in the establishment of an authority outside the Government of India is looked for.

“4. The Railway Branch of the Public Works Department of the Government of India will be abolished, and the control of the railway system in India is hereby entrusted to a Railway Board consisting of three persons—a Chairman and two Members. In the Chairman of the Board is vested the general control of all questions committed to the Railway Board, and the power to act on his own responsibility, subject to the confirmation of the

Board. The Railway Board are also authorised to delegate to the Chairman or a Member the power of settling questions which may arise on any tour of inspection, such decision to be recorded subsequently as an act of the Railway Board.

“5. The Railway Board will be provided with a Secretary and such establishment as may be considered necessary for the conduct of their business. All correspondence hitherto addressed to the Secretary, Public Works Department, Railway Branch, Government of India, and to the Directors of Railway Traffic and Construction, will in future be addressed to the Secretary to the Railway Board. Communications from public bodies interested in railway questions should also be addressed to the Board, either direct or through the Local Government concerned.

“6. The Government of India desire that all orders which the Railway Board may issue shall be accepted as the orders of the Government of India. Separate orders will issue investing the Railway Board with certain of the functions of the Governor-General in Council under the Indian Railways Act (IX. of 1890), as soon as the necessary legislation has been carried out. The responsibility of acting in accordance with the policy desired by the Government of India rests with the Board and their advisers.

“7. The head-quarters of the Railway Board will be at the head-quarters for the time being of the Government of India.”

By subsequent Orders of the Government of India large specific powers of independent action were delegated to the Railway Board.

33. It is clear from the Resolution dated 18th February 1905 that the object of the Government of India in constituting the Board was to establish a body which should dispose of business with greater expedition and efficiency than the Department which it superseded. The witnesses whom we have examined are, however, practically unanimous in expressing the opinion that this object has been imperfectly attained, and that for various reasons the result of the Board's work has, up to now, been regarded with some disappointment by a considerable portion of the public. We attribute this disappointment to four causes:—

- (1.) The excessive expectations raised in the public mind by the establishment of the Railway Board.
- (2.) The friction which has arisen in practice between the Board and the Government of India.
- (3.) Defects in the scheme of the Board's constitution.
- (4.) The attention given by the Board to matters which should be left to be managed by individual railways.

(1.) When the Board was constituted, its duties were divided, as will be seen from the Resolution quoted in the preceding paragraph, into two classes. The first included the consideration of questions on which it was said that the ultimate decision must of necessity rest with the Government of India. The second was described as including a very large number of important matters, in dealing with which the Board would be “an authority outside the Government of India.” The matters enumerated were as follows:—“the construction of new lines by State agency, the carrying out of new works on open lines, the improvement of railway management with regard both to economy and public convenience, the arrangements for through traffic, and the settlement of disputes between railways.” We believe that, when the Resolution was published, the public erroneously inferred that the new body was to enjoy much more independent powers than those which had hitherto been possessed by the Public Works Department of the Government of India, and that the change in administration would thus secure more rapid progress in such matters as the construction of new lines by State agency, and the carrying out of new works on open lines.

As a matter of fact it was impossible that the change of administration, unless carried to the extent of creating a body absolutely free from the control of the Government of India, a wholly impracticable measure, could confer on the Railway Board greater independence than was enjoyed by the authority previously responsible for railway administration. That authority was a member of the Council of the Governor-General, assisted by a Secretary and a staff of officers collectively known as the Public Works Secretariat. In many matters the Member of Council could issue orders which were expressed as being, and had the force of, orders of the Government of India. In matters requiring the sanction of the Government of India as a whole, he, being a member of the Government of India, was in the best possible position for obtaining it. A body "outside the Government of India," whose proposals on important questions are subject to the approval of that Government, cannot possibly be more independent than the authority just described. Its action must necessarily be limited by precisely the same considerations of financial and general policy as limited the action of the Public Works Department in railway matters.

(2.) When the Railway Board communicates with the Government of India on matters which it cannot settle on its own authority, it addresses the Department of Commerce and Industry. According to the ordinary practice in the Departments of the Government of India, letters from outside bodies are first considered by various members of the Secretariat, and then submitted to the Member in charge of the Department, unless they relate to matters of mere routine, which may be disposed of by the Secretary or one of his subordinates. Notes written by members of the Secretariat are submitted to the Member together with the original communication. The question at issue is either decided by the Member in charge of the Department or laid before the Governor-General, who may submit it to the Executive Council. The decision is communicated to the outside body in a letter signed by a member of the Secretariat. This procedure is, in our opinion, not in all cases an appropriate one for dealing with communications between the Railway Board and the Government of India.

Various suggestions have been made for a reform of procedure :—

(i) It has been suggested that the Chairman of the Board should be made a Member of the Governor-General's Council. If this were done, he would necessarily be required to take a responsible part in the general business of the Government, and to occupy himself with work quite foreign to that which he was specially qualified and appointed to perform. The administration of the Indian Railway system offers a sufficiently wide field of action to demand his undivided attention and energy, and it is highly undesirable that extraneous duties should be imposed upon him. A further objection lies in the fact that the Board exercises wide administrative powers, and that appeals against its action must necessarily be made to the Government of India. This makes it obviously unsuitable that the Chairman of the Board should be a Member of the Government of India. The suggestion, therefore, does not commend itself to us. We think that the arrangement by which the Member for Commerce and Industry takes charge of the railway business brought before the Council may well be maintained.

(ii) Another suggestion put forward is that the Secretary to the Railway Board should be appointed Secretary to the Government of India for railway business, and that he should be the channel for the communication of the orders of the Government to the Board. An obvious objection to this proposal is that it would place the Secretary in a position of undue authority with respect to the Board, whose subordinate he is, and we do not recommend it.

(iii) A third suggestion is that the Chairman of the Railway Board should himself be *ex officio* Secretary to the Government of India for Railways. It is considered that under this arrangement the Chairman of the Board would be in close and constant association with the Government of India, and would be able to

submit direct to the Member of Council taking charge of railway business any cases requiring the orders of the Governor-General in Council, receiving those orders direct. The intervention of a Secretariat between the Board and the Member of Council in charge of railway business would be removed, and the Board through its Chairman would be brought into immediate touch with the Member. After careful consideration we are unable to advise the adoption of this suggestion. We do not think that the position of the Chairman of the Board, who is an administrative officer possessed of large powers of independent action, is compatible with that of a Secretary to the Government. Moreover, as we have already stated, we consider that the Chairman of the Board should find full scope for his energies in the administration of the Indian Railway system, and that it would be undesirable for him to devote any portion of his time to secretarial work.

While, however, we are unable to recommend the adoption of any of the three proposals mentioned above, we are of opinion that a considerable improvement is called for, and is possible, in the procedure by which the relations of the Railway Board with the Government of India have hitherto been regulated. Having regard to the responsible position held by the Board, and to the special knowledge and experience which its members possess, we think that, as a general rule, the Government of India should interfere as little as possible with the action of the Board in technical matters and matters of detail, and that, in matters of importance, when such interference is unavoidable, the opinions of the Board should be treated, both in substance and in form, with special consideration. The Chairman should also be in the closest possible communication with the Government of India. For this reason we consider :—

- (1.) That, whenever he thinks it necessary or desirable to bring a railway case directly before the Member in charge of railway business, he should have the right to do so, either by means of a memorandum to be communicated direct to the Member, or at a personal interview, whichever method he considers the more suitable.
- (2.) That he should have the right of access to the Governor-General at stated times, and should attend Council when required to do so by the Government of India.

We also think :—

- (3.) That no recommendation of the Railway Board should be overruled, nor any blame imputed to it, without the matter having been previously brought to the notice of the Governor-General.
- (4.) That the Government of India should not, unless in very exceptional circumstances, interfere with the independent exercise by the Railway Board of the powers delegated to it under the Orders mentioned at the end of paragraph 32.
- (5.) That the Board should have the right of direct communication with any Department of the Government of India, or with any Local Government.

It may, perhaps, be said that, even under the arrangement proposed, the Board would still not be "an authority outside the Government," but we do not regard this as an objection. In view of the fact that practically the whole railway system of India, with a capital value of something like 290,000,000*l.*, is the property of the Government, that great financial, political, economic, and military questions are involved in the administration of that system, and that the important rights and obligations of the Government in relation to the various agencies to which it has entrusted the working of a number of its lines are governed by formal contracts, it is manifestly impossible that the ultimate decision of large questions can ever be delegated to any authority "outside the Government of India." Even the Local Governments which directly administer the great Provinces of India are not in this sense authorities "outside the Government of India," and by the scheme we propose the Railway Board will be to some extent in the position of a Local Government.

(3.) The Board, as originally and at present constituted, consists of three members, a Chairman and two others. In the Chairman is vested the general control of all questions committed to the Board; he is held to be individually answerable to the Government for the acts of the Board; and he has the power to act on his own responsibility, but only subject to the confirmation of the Board as a whole. The Board may delegate to the Chairman or a member the power of settling questions which may arise on any tour of inspection, such decision to be recorded subsequently as an act of the Board. Apart from these special provisions, each member of the Board has an equal voice in its decisions, and it is obvious that these decisions must either be agreed upon by all three members or represent the opinion of two of them. It is doubtless usually the case that agreement is secured among the members, but it must sometimes happen that one member dissents from the view taken by his colleagues. The dissentient member, even though he may be the Chairman, must either defer to the opinion of the others or submit to be overruled by them. It is evident that in these circumstances the authority and responsibility of the Chairman are nugatory. We apprehend that the system described cannot be conducive to either efficiency or rapidity of action, and we learn from an extract from a recent letter from the Government of India which has been laid before us that its disadvantages have become apparent in the practical working of the Board. The Government remark: "The experience which has now been acquired of the working of the Railway Board points clearly to the desirability of conferring upon the Chairman the power to overrule his colleagues in cases where he is unable to accept their views. We are convinced that this power, if conferred, would do much to promote smooth working, and would materially facilitate the despatch of business."

We are strongly of opinion that the power and responsibility of the Board should be concentrated in one man, and we recommend that the constitution of the Board should be a President, whose decisions on the questions with which the Board is empowered by the Government to deal should be absolute, and two members, whose position should be that of assistants and advisers of the President. It is desirable that one of the two members should have had wide experience in railway construction and the other in the management of railway traffic, and possibly, as railway business increases in India, it may be found desirable to strengthen the Board by adding other members with special qualifications to deal with particular branches of the business. In the event of the two members of the Board disagreeing with the decision of the President, they should be given the right to represent their views in writing to the Government of India. We anticipate that, if the constitution of the Board is changed in the manner suggested, the business will be conducted with much greater celerity and efficiency than under the present system. We would add that we consider it of much importance that the Board should have a thoroughly adequate and efficient office and head-quarters staff.

(4.) Evidence given by some of the officers concerned with the management of particular railways in India tends to show that the Board has occupied itself more closely than would appear to be either necessary or desirable with details of the management of individual railways.

The Board has made a practice of proceeding on periodical tours of inspection of the railways and making suggestions or passing orders in connection with details of the working, &c. It appears to us that whatever advantage there may be in such inspections must be more than counterbalanced by the disadvantage arising from the interruption of the administrative work of the Board during its absence from headquarters. It is not improbable that the delays in the disposal of business of which some of the witnesses complained are partly due to this practice. We are of opinion that the true function of the Board should be to carry on at headquarters the general business connected with the administration of the Indian Railway system, and that the inspection of individual railways should, as a rule, be left to officers appointed by the Board for that duty. We do not question that it may sometimes, in special circumstances, be desirable for the Board to depute one of its members to investigate a particular question on the spot,

but it should seldom, if ever, be necessary for the Board as a whole to leave its headquarters, which should be with the Government of India.

We would recommend that the Board, in exercising its control over the railway system, should act on the principle of leaving a wide discretion to the managers and Agents of the different railway systems, so far as regards all details of working. It was brought to our notice that, whereas before the institution of the Board the manager of each of the three State-worked lines had power to contract for the coal and sleepers which he required, the Board has withdrawn this power, and has itself entered into contracts for supplies of this description for use on the State lines. While it is of course necessary that the Board should exercise supervision, we think it desirable that, except for very special reasons, it should not undertake to deal with matters of detail such as we have mentioned. In the case especially of lines worked by companies, while it should be the business of the Board, acting through its inspecting and audit officers, to see that the lines are maintained in a proper manner and that the provisions of the contracts are fully complied with, in all other respects it appears advisable that the responsibility for the efficient working of the lines should be left in the hands of the companies and their Agents. From this point of view we have learned with much satisfaction that the Secretary of State has already sanctioned the abolition of the Consulting Engineers and the delegation to the Railway Companies of larger powers of independent action. The evidence given by several of the witnesses suggested that the system of exercising Government control over the companies through the Consulting Engineers frequently caused delay in the disposal of business and dissatisfaction in other respects.

34. Many of the witnesses expressed themselves strongly as to the disadvantages of what is known as the "lapse" of that portion of a grant for expenditure on a railway which is not actually spent within the year to which the grant relates. On this point, however, we believe there is a good deal of misconception. Let it be supposed that a grant of 100 lakhs of rupees is made to a particular railway for the year 1907-08, of which 20 lakhs is for purchase of new rolling stock. Owing to various delays, and to the length of time often occupied in manufacture when trade is active, it may happen that, although the orders for its construction are given within the year 1907-08, the stock is not delivered, and therefore cannot be paid for, until the year 1908-09. In that case the grant of 20 lakhs for rolling stock is commonly supposed to lapse, because the actual expenditure for the year is only 80 lakhs (supposing the remainder of the grant is spent within the year). As the stock has been ordered, it must of course be paid for in 1908-09, and the allotment for that year is thus charged with a payment which in ordinary course would have been made in the previous year. Assuming that in the autumn of 1907-08 the Manager of the railway had applied for an allotment of 100 lakhs for 1908-09 to meet his contemplated expenditure for that year,—when he found that 20 lakhs which would in ordinary course have been spent in 1907-08 could not be spent until 1908-09, he would at once apply for an allotment of 120 instead of 100 lakhs for 1908-09, and the Government of India, if its finances admitted, would allot the 120 lakhs. In the event of its allotting only 100 lakhs, the Manager would assume that he had lost his "lapse" of 20 lakhs, but this by no means follows, because the resources of the Government of India for 1908-09 are increased by the amount of the lapses for 1907-08, and the greater the lapses for this year the more is the Government able to allot for the next; but for the lapses, it is to be presumed that the grant for 1908-09 would have fallen short of 100 lakhs. It has been further observed by certain witnesses that they have lost their lapses through the amounts short spent having been placed at the disposal of other railways which could spend them, but this again works out in the same way, because money spent in 1907-08 goes to reduce the amount required in 1908-09 by the railway which has spent it. The whole arrangement works back to the fundamental principle that the Government of India provides as much

money in each year as it possibly can, all things considered, for expenditure on railways, and distributes that money in the way which it conceives to be most advantageous for the country as a whole.

We may mention that some years ago the rules governing the financial relations between the Secretary of State and the Government of India were specially relaxed for the express purpose of facilitating the regrant of portions of the amount allotted for capital expenditure in any year, when it is found at the last moment, after the Budget arrangements of the coming year have been approved by the Secretary of State, that the amount allotted in the expiring year has not been fully spent. In this event the Government of India have standing authority, subject to certain prescribed conditions, to add the unspent amount, up to a maximum of 50 lakhs, to the grants already sanctioned by the Secretary of State for inclusion in the Budget of the coming year. Beyond the maximum of 50 lakhs the Secretary of State's sanction is required to any alteration of the Budget arrangements which he has approved; but we have no reason to believe that this sanction would ever be refused unless the general financial position had deteriorated since approval was given to the Budget arrangements. A refusal on other grounds would be a departure from the principle described above, by which the State expenditure on railways is regulated.

35. We have given careful consideration to notes by the Honourable Mr. Finlay, Member for Commerce and Industry on the Council of the Governor-General, and the Honourable Mr. Baker, Financial Member of the Council, suggesting methods by which the lapse of grants may be obviated.

The essential feature of Mr. Finlay's proposal is that the grants (except the portion for new lines) should be allotted, not, as at present, immediately before the commencement of the year in which they are to be spent, but twelve months earlier; that is to say, that the grants for expenditure in 1909-10 should be allotted in March 1908 instead of in March 1909. This would enable the different railway administrations so to arrange their orders for rolling stock and other stores as to ensure that the payments for them should fall within the year in which the grant for the necessary provision was originally made.

The proposal would certainly effect the desired result of preventing to a large extent the lapses that now take place. It raises, however, a very important financial question. Mr. Finlay recognises that it would commit the Secretary of State to undertake a full year beforehand, viz., in March 1908, to raise the greater part of the money required during the year ending 31st March 1910, but he considers that this position should be accepted. He argues that at present the Secretary of State, in sanctioning provisionally an expenditure of 15 crores of rupees in the second year of a triennial programme, is practically committed to an expenditure of, say, 12 crores, and that his proposal does not, therefore, require the acceptance of any new principle.

We regret that, while fully appreciating the force of Mr. Finlay's reasoning, we find ourselves unable to recommend the adoption of his proposal. It appears to us that it would be very imprudent for the Secretary of State to pledge himself absolutely so far ahead to raise the large sums of money which the Indian railway system now provision of 12,500,000% per annum on the liability of the State which we have recommended, may be maintained, but we recognise that circumstances might occur in any year which would necessitate a reduction of this amount. It is very unlikely that any such emergency it arose, the Secretary of State was committed to great works and compelled to raise any particular sum for their construction, he might find himself in a position of embarrassment. The financial conditions of the world during the past year furnish a lesson that should not be neglected.

36. In view of the objection to Mr. Finlay's proposal arising from the impossibility of at any time anticipating what the financial position will be twelve to eighteen months later, Mr. Baker proposes an alternative scheme. He suggests—

- (1.) That the amount to be expended in each year (called the programme grant for the year) be fixed.
- (2.) That a reserve fund of 5,000,000% be formed, without delay, by increased borrowing if possible, but if not, by accumulating so much of the moiety of the profits on coinage that is available for making up the programme grant of the year as is not required for that purpose, together with the whole or a part of any excess of the actual revenue surplus of the year over the estimated surplus.
- (3.) That this reserve be drawn upon to make up the programme grant in years in which the funds that can be provided by the Secretary of State fall short of that grant.

If it were found possible to build up and maintain a considerable balance at the credit of the proposed reserve fund, this scheme would no doubt have the result of ensuring a regular allotment of money year by year for railway purposes; but in existing conditions, when by fully utilising the funds available from all sources it is difficult to meet the pressing requirements of the railway system, it is impracticable to create such a reserve fund as Mr. Baker proposes. To do so would be to set aside money urgently needed for immediate expenditure in order to form a fund for use in future eventualities, and this course appears to us to be one which it would be very difficult to justify. Mr. Baker's idea might, however, to some extent be carried out when market conditions permit of unusually large loans being raised on favourable terms, as suggested by Lord Rothschild and Mr. Alexander Wallace.

37. In connection with our enquiry into the system under which the Railway Board works, our attention has been directed, as desired by the Secretary of State, to several cases in which expenditure largely in excess of the amount of the original estimates has been incurred on the construction of railways in India. While it will probably never be possible to secure complete accuracy in estimates of the cost of a railway in India, we are of opinion that the actual expenditure should approximate more closely to the estimated cost than was the case with the railways referred to, and we recommend that the Railway Board should be instructed to give consideration to this question. With regard to the excesses in connection with the extension of the Bengal-Nagpur Railway, there appears to have been great laxity on the part of the audit officers; we observe, however, that the Secretary of State has already addressed the Government of India on this point.

38. Our main conclusions and recommendations may now be summarised as follows:—

QUESTION 1.

We find that the equipment of the Indian railways has been unequal to the requirements of trade in the last two or three years (paragraph 10), and we recommend that the allotments for railway construction and equipment should be increased beyond those of recent years (paragraph 19).

QUESTION 2.

- (i.) We are unable to assign a definite limit to the amount that could be remuneratively devoted to the development and expansion of the Indian railway system (paragraph 12).
- (ii.) We consider that the prudent policy for the Government to adopt is to fix periodically a standard of annual expenditure (paragraph 13).
- (iii.) We think that for some years to come the effective limit of the amount to be spent in any year will be the amount that can be provided (paragraph 14).

- (iv.) We think that it would not be imprudent for the Secretary of State to contemplate raising in London in normal years 9,000,000*l.*, making, with 5,000,000*l.* usually obtainable in India, a total provision of 14,000,000*l.* for all capital purposes, of which all but about 1,500,000*l.* will be available for capital outlay on railways (paragraphs 15 to 17).
- (v.) We accordingly recommend that the programme of annual expenditure on railway construction and development in India be, for the present, fixed at 12,500,000*l.*, equal to 100,000,000*l.* in the next eight years (paragraph 17).

QUESTION 3.

- (i.) We recommend that the portion of the above-mentioned sum of 12,500,000*l.* per annum which will be obtained in England, shall be raised by the issue of ordinary India stock and by the issue of debenture stock and share capital by guaranteed companies (paragraph 20).
- (ii.) With regard to short-term debenture bonds issued by guaranteed companies, we consider that it is desirable to avoid adding to those now existing, and to discharge them as opportunity arises (*ibid*).
- (iii.) We think that, in view of the profit to be derived from investing in railways and the direct and immediate benefit conferred on the country by railway extension, and having regard to the importance of checking the growth of the external debt, it would be advantageous were the Government to endeavour to realize a larger annual surplus than has been customary, to supplement the other resources available for capital expenditure on railways. It may also be found possible to raise larger rupee loans than it has hitherto been usual to place on the Indian market, and we suggest that, in course of time, when the gold standard reserve has reached an amount beyond which it may be considered unnecessary to go, the whole of the profit derived from coinage might with advantage be utilized for expenditure on railways (paragraph 23).
- (iv.) We recommend for consideration, as a means of increasing the total annual capital expenditure on railways beyond the sum of 12,500,000*l.* to be provided by or on the credit of the State, a scheme under which the capital requirements of lines now dependent on Government capital may be supplied without Government intervention or assistance (paragraph 24).
- (v.) We suggest that one or more of the State lines worked directly by the Government of India should be leased to companies formed under this scheme (paragraph 25).
- (vi.) We advise that the Government should retain the right to resume at stated times, and on fixed and explicit terms, any lines the working of which may be placed in the hands of such companies, but we recommend that the contracts with the companies should be for a long period, even up to 50 years (*ibid*).

QUESTION 4.

- (i.) We recommend that the equipment and improvement of existing lines should take precedence of the construction of new lines (paragraph 30).
- (ii.) We do not think it advisable to establish a central reserve of wagons, as proposed by the Government of India (*ibid*).

QUESTION 5.

We are of opinion that the system under which the Railway Board now works is not satisfactory (paragraph 31), and we think (paragraph 33 (2))—

(i.) That, as a general rule, the Government of India should interfere as little as possible with the action of the Board in technical

matters and matters of detail, and that, in matters of importance, when such interference is unavoidable, the opinions of the Board should be treated, both in substance and in form, with special consideration.

- (ii.) That the Board should be brought into closer connection with the Government of India—
- (a) by giving the Chairman of the Board the right to submit a memorandum direct to the Member of Council in charge of railway business, and to claim a personal interview with him;
- (b) by giving the Chairman the right of access to the Governor-General at stated times, and of attendance at the Council when his presence there is required by the Government of India.
- (iii.) That no recommendation of the Board should be overruled, nor any blame imputed to it, without the matter having been previously brought to the notice of the Governor-General.
- (iv.) That the Government of India should not, unless in very exceptional circumstances, interfere with the independent exercise by the Railway Board of the powers specially delegated to it.
- (v.) That the Railway Board should be allowed to communicate direct with any Department of the Government of India, or with any Local Government.

We recommend further (paragraph 33 (3))—

- (vi.) That the constitution of the Board should be modified, and that it should consist of a President and two members, one experienced in railway construction and the other in railway traffic, whose position should be that of assistants and advisers of the President.
- (vii.) That the President's decision on questions with which the Board is empowered to deal should be absolute, but that the two members, in the event of their disagreeing with the President, should have the right of representing their views in writing to the Government of India.
- (viii.) That the Board should have a thoroughly adequate and efficient office and headquarters staff.

Lastly, we recommend (paragraph 33 (4))—

- (ix.) That the Board should refrain from occupying itself with matters of detail in connection with the management of individual railways, and should confine itself, as far as possible, to the general supervision and administration of the railway system.

On certain points which have come before us in the course of our enquiry, but which do not fall strictly within the terms of the questions put to us, we have made the following recommendations:—

- (1.) That the attention of the Railway Board should be drawn to the question of the possibility of improving the working of the existing rolling stock on Indian railways (paragraph 10).
- (2.) That, when possible, advantage should be taken of periods of easy money to raise funds in excess of immediate requirements (paragraph 22).
- (3.) That as far as possible trunk lines should own, as well as construct and work, all branch lines (paragraph 28).
- (4.) That the Railway Board should be instructed to give consideration to the question of ensuring closer correspondence between the estimated and the actual cost of railway construction than was shown by several cases brought to our notice (paragraph 37).

39. We desire, in conclusion, to acknowledge the value of the information and suggestions that have been placed before us in the evidence which we have taken, and in the memoranda which have been submitted for our consideration. We would draw special attention to the instructive series of tables prepared by Mr. Badock, the Accountant-General of the India Office, which contain in effect a history of Indian railway finance since 1886.

We have also to express our sense of the advantage that we have enjoyed in having as our Secretary Mr. W. Stantiall, of the India Office, whose zeal, ability, and exceptional knowledge of the subject have been of the greatest assistance to us.

(Signed) JAS. L. MACKAY (*Chairman*).

W. R. LAWRENCE.
FELIX O. SCHUSTER.
D. BARBOUR.
LIONEL ABRAHAM.

W. STANTIALL,
Secretary.

INTERIM REPORT OF THE COMMITTEE ON INDIAN RAILWAY FINANCE, &c.
(Submitted in June 1907.)

The Committee have considered the letter from the Government of India, No. 28 (Railway), dated 25th April 1907, proposing the formation of a central reserve of wagons for use on railways in India, which has been referred to them by the Secretary of State for India. In view of the urgency attached to the matter by the Government of India, the Committee have judged it advisable to deal with the letter without delay, and they accordingly submit the following recommendations.

The proposal of the Government of India, briefly stated, is that, in addition to the expenditure provided for in the Railway Programme, a sum of 3,000,000*l.* should be spent within the next two or three years in the purchase by the State of 12,000 wagons, to be held as a reserve from which the loan of vehicles to any railway requiring additional stock could be made. The reasons given for this proposal are that it has been demonstrated that the Indian railways are at present unable to carry traffic which is offered, that it will be some time before each railway can be fully equipped to meet normal demands, and that it is moreover desirable to provide against extraordinary demands for wagons, which may always be expected to arise at different seasons.

Enquiries already made by the Committee confirm the conclusion of the Government of India that the existing equipment of Indian railways is inadequate, and they consider it essential that efforts should be made to improve the position as rapidly as possible. But the following reasons prevent them from recommending the adoption of the particular method proposed by the Government of India: (1) A central reserve of wagons would be a new departure; and it is therefore probable that before it could be established and fully utilised, delay would occur owing to the necessity for settling important questions requiring mature deliberation; (2) the Committee have reason to believe that the Railway Companies would prefer that any extra funds which can be made available for railway purposes this year should be allotted to the railway administrations in accordance with their requirements. The Committee are of opinion that the latter course is the more advantageous, and recommend its adoption.

With regard to the method by which it may be possible to obtain additional funds beyond those already arranged for under the Railway Programme, it is evident, from figures which have been placed at the disposal of the Committee by the Financial Department of the India Office, that it will not be safe to anticipate that the sum which can be borrowed by the Secretary of State for India in this country during the present year is capable of being increased beyond the amount entered in the Budget estimate, viz., 7,675,000*l.* (leaving out of account the liability in respect of debentures for 2,500,000*l.* maturing during the year). But they have had under consideration the question of the advisability of using a portion of the current year's profit on the coinage of silver for capital expenditure on Indian railways instead of investing it in British Government securities.

The object of the Gold Standard Reserve, to which the profit on coinage is credited, is to enable the Government of India and the Secretary of State to meet their sterling obligations in the event of a falling off in the demand for Council Bills. This Reserve at the present time consists of sterling securities of the market value of 12,310,629*l.*, together with a sum of six crores of rupees (equivalent to 4,000,000*l.*) which is held in silver in India to meet any sudden demand for coinage. In addition to the Gold Standard Reserve, there is a large amount of gold (11,066,000*l.*, of which 7,705,000*l.* is held in London and 3,361,000*l.* in India), in the Paper Currency Reserve, which could be applied to the same object. Apart, therefore, from the six crores of rupees in silver, there is at the present

moment a fund of upwards of 23,000,000*l.* in sterling securities and gold bullion which could be drawn upon in case of necessity.

The interest received on investments on account of the Gold Standard Reserve between the present time and the 5th January 1908 will, it is estimated, be about 270,000*l.*, while the profit on the coinage of silver up to the 31st December next is provisionally estimated at 1,850,000*l.* The addition to the Reserve by the beginning of next year would, therefore, in ordinary course amount to considerably over 2,000,000*l.*, bringing up the total amount of gold and sterling securities held in the Gold Standard Reserve and the Paper Currency Reserve to more than 25,000,000*l.*

Having regard to the satisfactory position which the gold reserves have now attained, as shown by the foregoing figures, the Committee are of opinion that it could not be regarded as imprudent to invest 1,000,000*l.* of the profit on coinage for the present financial year in Indian railways, and they therefore recommend this course to the Secretary of State.

It is a matter of urgency that any additional funds which are available should be immediately placed at the disposal of the railways, and the Committee would therefore suggest that a telegram be sent to the Government of India, in reply to their letter of the 25th April last, informing them that the consideration of the question of the creation of a wagon reserve is postponed for the present, but that a further sum of 1,000,000*l.* may be at once allotted to the several railways in such proportions as the Government may deem desirable, either for the provision of additional rolling stock or for the improvement of open lines to enable them to deal with traffic more expeditiously, thus bringing the total allotment for 1907-08 up to 10,000,000*l.* sterling. If this is done, the Government of India should be informed that the additional million which it is decided to allot will be supplied from the profit on coinage during the current year, and will be treated in account as an investment for the Gold Standard Reserve.

(Signed) J. L. MACKAY (*Chairman*).

W. R. LAWRENCE.
F. O. SCHUSTER.
D. M. BARBOUR.
L. ABRAHAMS.

6th June 1907.



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