Recent Transport Crises in India – Lessons to Learn

Mains: *GS III - Infrastructure: Energy, Ports, Roads, Airports, And Railways etc.*

Why in News?

Recently, India has recently faced two major transport disruptions that highlight important economic lessons.

What are the recent issues?

- **Overcrowded Trains of Bihar – T**he severe rush for Bihar-bound trains during October and November occurred because migrant workers travelled home for Chhath Puja and the Bihar elections.
- This sudden increase in demand, without a corresponding increase in supply, created a textbook *demand shock.*
- Since Indian Railways maintains low and fixed ticket prices for public welfare, fares did not rise even though demand shot up.
- As a result, travellers were forced into dangerously overcrowded trains, especially in unreserved compartments.
- According to standard economic theory, prices should rise when demand increases so that only those willing to pay the higher price would travel.
- While this might create market equilibrium, it would also deny essential travel to people who cannot afford expensive fares.
- **The IndiGo Crisis –** In contrast to the railway crisis, the mass cancellation of IndiGo flights in December was a classic *supply shock.*
- IndiGo cancelled a large number of flights due to regulatory non-compliance.
- This sudden reduction in supply occurred while normal demand for flights continued.
- Because IndiGo controls over 60% of the Indian aviation market, the withdrawal of so many flights created immense disruption.
- Ticket prices on other airlines skyrocketed, passengers were stranded, and consumers suffered significant financial losses.
- Such extreme market-wide effects occur only when a single private company dominates the sector.

What are the reasons argued for transport crisis in India?

- **Debate of low Prices and inefficiency –** Critics often claim that low railway prices create inefficiency because excess demand results in overcrowding.
- However, this criticism ignores the real issue.
- The core problem is not low fares, but the *insufficient supply* of trains and seats.

- Essential services such as rail travel, healthcare, and education must remain affordable to ensure social welfare.
- Therefore, the correct solution is not to raise prices but to *expand supply through greater public investment.*
- Significant government investment is needed to increase the number of trains, improve infrastructure, and meet predictable seasonal demands. However, this becomes difficult in a neo-liberal framework that sets strict limits on fiscal deficits and discourages large-scale public spending.
- **Limited government investment –** The Indian state is often unable to expand public services because fiscal deficit rules prevent substantial investment.
- Although higher spending could improve welfare, governments avoid it due to pressure from global financial institutions and credit-rating agencies.
- One way to increase spending without raising the deficit is through *greater taxation of the wealthy.*
- Economists such as Thomas Piketty have shown that modest taxes on the top 1% could significantly strengthen India's welfare services.
- However, such taxation is politically difficult because it is opposed by both domestic elites and global capital.
- As a result, public services remain underfunded despite being essential.
- **Effects of monopolies –** If India's aviation market were genuinely competitive, the cancellation of one airline's flights would not have caused such severe disruption.
- Other airlines would have replaced the cancelled flights and stabilised prices.
- However, IndiGo's near-monopoly status meant that its withdrawal affected the entire market.
- This situation reflects a broader global trend. In the United States, supply disruptions during Joe Biden's presidency contributed to high inflation.
- Large corporations used their **pricing power** to increase prices far beyond their cost increases.
- These examples show that flexible pricing only works in a truly competitive market, and such competition can exist only when governments enforce strong anti-monopoly rules.
- **Outcomes of the Neo-Liberal Model –** Although the railway and aviation crises appear different, both are outcomes of India's neo-liberal economic model.
- This model restricts the state's ability to invest in essential services but encourages the deregulation of private markets.
- Because the state is constrained by fiscal deficit rules, it cannot invest adequately in transport infrastructure.
- Because private markets are deregulated, monopolies grow unchecked and gain enormous pricing power.
- The result is predictable:
  Public services become overcrowded and under-funded, and private services become expensive and unreliable.
- **Failure of Public and private sectors –** The overcrowding of trains and the flight cancellations reveal a dual failure:
  - **Public Sector Failure** – It is caused by low investment, not low prices.
  - **Private Sector Failure** – It is caused by monopoly power, not regulation.
- In both cases, ordinary citizens bear the burden. Travellers either endure unsafe and

overcrowded conditions or face extremely high prices when private monopolies reduce supply.

What lies ahead?

- India needs a balanced economic approach that strengthens the public sector while regulating private monopolies.
- Welfare cannot be achieved by simply keeping public prices low or by allowing private markets to operate without oversight. Real welfare requires:
    - Adequate public investment in infrastructure.
    - Fair taxation of high-income groups.
    - Strong anti-monopoly regulations.
    - A competitive marketplace that protects consumers.
- Without such reforms, India will continue to face repeated transport crises.
- Unless India strengthens its public infrastructure and prevents the rise of monopolies, such crises will continue to repeat.

Reference

The Hindu| Transport Crises in India