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# A BETTER WAY TO REGULATE RURAL BUS SERVICES IN JAPAN

by

*Ushio Chujoh*

## **Foreword**

In order to ameliorate rural bus problems in Japan, related systems need to be reformed in such way as will: 1) enable local governments to work out their local structure plan and local transport policy with autonomy, and 2) enable a variety of new unconventional transport services to make use of their merits. Concerning item 1), emphasis should be placed on improvement of the subsidy system as discussed in another of my papers<sup>1)</sup>, and as to item 2), deregulation of the present rural bus regulatory policy would take on an important role. This paper is to present a proposal for the reform of the existing Japanese regulatory policy for rural bus services.

## **I. Bus Licencing System**

### **[1] A Plan for Improvement of Japanese Bus Licensing System**

The Road Transport Act<sup>2)</sup> in Japan is strict in general, however, the Act has elastic clauses respectively which enable the flexible operation of licensing; these clauses in fact suffice some cases<sup>3)</sup> in which other countries like Britain must revise a related law.

Under the provisoes in Sections 24.2 and 101 of the Road Transport Act, the Transport Minister may approve, if he deems it necessary for the welfare of the local people concerned, the operation of stage services with permit instead of licence. Owing to the exemptions the operation of stage bus services by rural municipal bodies or taxi companies as alternatives to the ones abolished by conventional bus carriers have been authorized on the grounds that regulations governing stage road licence need not be applied to the case.

The flexible attitude of the licensing authority deserves appreciation, but it can not be said that the objectives of the exempt clauses has been fully achieved

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1) Chujoh, U., "Review of Rural Bus Policy in Japan," a paper for the 8th Annual Seminar on Rural Public Transport, Polytechnic of Central London, Nov., 1979.

2) For the summary of the Act, see *ibid.*

3) For details see Chujoh, U., *ibid.*, Appendix.

because the exempt clause in Section 101 is applied only to the operation by rural local authority (the exempt clause provides that private cars or buses can be used for hire or reward through not the stage licence but the Minister's permit if the welfare of local residents would be hampered without the intended service. Up to the present the exempt has been applied only the cases where the intended services are operated by rural local authorities. Car sharing has not been benefited). Further as a result of the government posture in favor of conventional bus carriers, smaller or newly established bus companies are not in a position to display their efficient operation. It is therefore hoped that more flexible attitude will be held by the regulatory authority.

Clearly, however, it is not desirable to utilize the exempt clauses without any restriction, nor practical is to approve complete "free entry" of unconventional transport services. What is essential is to grant a kind of "citizenship" to unconventional services along with coordinating existing and unconventional bus services.

Britain has a tendency to deregulate its bus licensing regulations since the Mini bus Clauses of the Transport Act 1968, considering the positive effect of the relaxation of licensing restrictions. Denmark in contrast is inclined to control bus services other than conventional ones in consideration of the negative aspects caused by the easing of restrictions.

The difference between the two countries reflects the previous licensing system respectably. Behind the British transport policies is the fact that the Road Traffic Act 1960, which had provided basic laws on bus licensing system for twenty years, was relatively strict whereas the regulatory policy in Denmark reflects the fact that there has been no entry control on bus services other than conventional stage services. While Britain has relaxed the licensing system, it has not abolish completely its licensing system, rather, it set a condition that conventional network of bus services not be interrupted. Even the Transport Act 1980 deregulating excursion and tours and express services enforced by the conservative government represents a careful stance toward the liberalization of stage services. In Denmark, on the contrary, consideration is taken that newly formed regulating system would not depress unconventional services.

Both countries concentrate efforts on how to make use of merits of new services on condition that existing conventional network to be basically maintained, and to what extent should bus licensing regulations be eased or tightened to meet above objective. By doing so, they are seeking a practical point of compromise which, I believe, could make an important factor in dealing with the problem of maintaining unremunerative bus services through cross-subsidization in the rural transport sector.

It may be said from the viewpoint of resource allocation that the regulation of a road passenger transport market with little scale merit should be by a combined method of the encouragement of competition and direct subsidizing to unremunerative bus services, rather than by that of entry control and cross-sub-

sidization. As already pointed out in my previous paper<sup>4)</sup>, there are many problems involving cross-subsidization and it is also true that it is no longer practicable to maintain unremunerative bus services by cross-subsidization because profitable routes which can cross-subsidize unremunerative routes are now limited. Yet, if free entry of unconventional and other new bus services is allowed and the subsequent creaming-off is conducted, it is likely that conventional bus carriers may not continue their rural unremunerative bus services unless adequate direct subsidies are granted to the carriers concerned. Furthermore, if newly entered carriers supply irresponsibly, cancel, or discontinue their bus services, after driving out conventional carriers, users may lose both traditional and new bus services. It cannot be allowed, or practical, to regard these unfavorable situations as the natural results in terms of economics.

To meet above conditions and yet to ensure some competitive incentives to operators which would be hampered in case of strict entry control, the following changes would be required on Japanese rural bus regulation.

1) Flexible operation of bus licensing system shall be necessary so that more efficient forms of services or carriers may easily replace unremunerative routes of conventional carriers ("unremunerative" means services where escapable costs of the service cannot be recovered).

2) When no alternative types of services or carriers are available, conventional unremunerative services shall be maintained to the extent that the maintenance through cross-subsidization does not worse-off the current situation of the users of profitable routes. In other words, current cross-subsidization may be allowed but shall not be expanded beyond the present level. This is of course groundless from the view point of resource allocation but would be accepted in terms of politics as a compromise. If there needs more cross-subsidization from now on, the unremunerative route shall be abolished or direct subsidy shall be granted from the local government concerned.

3) The rate of cross-subsidization shall be lowered gradually by upgrading the level of direct subsidies and through the measure 1) above. As a result, competition on the trunk routes shall be intensified and encouraged.

4) On the route involving more than one bus carrier, measures which encourage merger or curb competition shall not be taken. Instead, the introduction of common tickets available for more than one bus carrier shall be encouraged.

5) Tender system shall be adopted in approving entry of a bus carrier when the demand for bus services is so small that more than one carrier cannot pay. (For the operation of unremunerative services, the tenderer applying for minimum subsidies shall be accepted.) The licensing authority and the successful tenderer shall conclude a contract on security of tenure valid for a limited period of time.

6) The security for subsidies shall be issued by the local government to the

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4) Chujoh, U., *ibid.*

bus carrier when the carrier offers new or alternative services at the request of the local government.

7) If the new services or the alternative services under the measure 1) are offered by carriers' own free will, measures numbered 2) to 6) shall not be taken when there are no competitors.

8) Bus licensing procedures shall be simplified for the operation of bus services when there are no competitors.

9) A short-term or temporary licence shall be instituted.

10) A licence for experimental use shall be instituted.

Small bus carriers or unconventional ones replacing conventional carriers will be able to produce a practical effect in the field in which conventional carriers are discontinuing their services, or in the region there are no bus services available. Measures 1) and 7) aim at encouraging small and unconventional carriers to start such services. Measures for flexible operation of licensing regulations to serve this purpose would include: a) approving unconventional types of services or operators positively, b) approving the operation of bus services by a carrier having authorized aid and subsidy even if the carrier itself does not meet the managerial and financial requirements, c) a wider application of the exempt clause in Section 101 of the Road Transport Act, d) promotion of sub-contract operation under Section 38 of the Act, e) a wider application of the exempt clause in Section 24.2 of the Act.

I have presented item c) to enable the operation of school bus and patient transport bus owned by local authority for hire and reward, and social car service. Also, short-distance rural services by small private enterprises may be eligible to be covered by item c). Although new or substitute rural stage services operated by small private carriers or taxi companies are now covered by a permit under the exempt clause of Section 24.2 of the Act, the exempt clause requires the operator obtaining contract licence which is often difficult for a small applicant to get. My proposal is to accommodate such a case with the elastic clause in Section 101. For fair competition between ordinary stage carriers and unconventional smaller carriers, however, the extended application of Section 101 exemption should be limited to the case in which there is no competitor on the route concerned.

Measure 8) is designed to facilitate the operation of new and alternative bus services by simplifying bus licensing procedures when there is only one operator or applicant. When there are no competitors, all what licensing authorities should do are to examine whether there are no competitors, and to let the accepted company adequately meet safety standards. Thus, complex licensing formalities should be dispensed with. Such a measure would remove unnecessary objections by other surrounding carriers, facilitate and expedite the entry of the services, and thus reduce licensing costs. Moreover, the emergence of a new operator would put potential or indirect competitive pressure on other regions' carriers. In working for simplification of licensing procedures, Britain would

show us a good example.

If above measures were carried out, the entry of new or alternative bus services by such a method and type as are suitable to the region concerned could be facilitated. But, clearly, the licensing authority should not approve any irresponsible operation after the entry. The exempt clauses in Sections 101 and 24.2 have played an important role in promoting flexible approval of entry, however, the operation of services approved in accordance with the clauses has not been adequately supervised. The authority therefore should require suppliers of services under the exempt clauses to grasp their transport and financial records, develop their accounting system and work out the operation plan.

Also attempts should be made to avoid irresponsible cancellation or discontinuation of bus services through measure 6). In this light, the security for subsidies, which I discussed in measure 6), is designed to require local governments to assume responsibility of execution of transport policies through guaranteeing subsidies.

Measure 3) deals with competition on the trunk route market, through which current situations of trunk routes passengers would be improved. Reducing the cross-subsidization ratio gradually by increasing direct subsidies to the unremunerative routes, transferring the unremunerative routes to efficient small operators, or cutting some of them would give allowance to approve new entrants or encourage competition on trunk routes.

Concerning the measure 4), an attempt at mergers and rearrangement of carriers was made in some routes where there were more than one carrier, and the Japanese Ministry of Transport promoted mergers through the MOT Rural Bus Grant system. The merger aimed at ceasing competition on competitive routes and allocating the monopolistic surplus to unremunerative services at the cost of the passengers of the previous competitive routes, and removing "evil influence" resulting from free competition. As I have already discussed, the former cannot be accepted because it will enlarge cross-subsidization more than now, and the "evil influence" of competition can be successfully solved by introduction of common tickets available for all carriers on a competitive route, issuance of uniform time table and efficient service connection among carriers. Measure 4) is proposed in this context. It is also undesirable to merge carriers operating on different routes, which I have referred to in another of my papers.<sup>5)</sup>

Measure 5) relates to the tender system which needs to be adopted in selecting a carrier, and after operation starts, the accepted carrier should be kept conscious of the pressure from latent competitors. Under the tender system, the tenderer presenting minimum fares and/or requiring minimum subsidies shall be accepted if other terms of tender are equal. But, this shall not necessarily be the absolute condition for acceptance. As the British CAA report on rural air transport suggests, "Experience, resources, past investment, regularity, punctu-

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5) Chujoh, U., *ibid.*

ality, flexibility in meeting the needs of the consumer and stability of service are all relevant factors and they should be taken into account".<sup>6)</sup>

The tender system if applied not only to new routes but to existing routes would also spur the latter into competition. Obviously, however, frequent tenders might result in instable operation of bus services and desrupt sound management, so there needs a proper interval between examinations for tenders during which time the carrier concerned shall be guaranteed its operation of services and shall be held responsible for service continuity. At least five years would be necessary as the interval between reexaminations in view of the depreciation period of vehicles. It is generally considered that the tender system might go against conventional carriers whose high level of personnel costs might make it difficult for them to carry out flexible management. But this is not always true because they can flexibly relocate vehicles and employees, or should deal only with escapable costs of the route which is put up for bidding.

Measure 9) aims at granting a temporary licence unconditionally in case that there are some questionable factors which can not be assessed in advance, by dispensing with ordinary licensing formalities. In due course, official licensing examinations shall be conducted. "The questionable factors" would include the effect of unconventional services which licensing authority cannot estimate due to its unfamiliarity, or the extent of support of the services by the local residents and governments, or the effect of the newly entered carrier on the conventional carriers and on the market as a whole.

Measure 10) is intended to relax present licensing regulations in a designated region where experiments shall be made in order to obtain information about the applicability of unconventional services and to study general effects of deregulation. The British government has conducted similar experiments called RUTEX in several regions for some years to examine the effect of unconventional services and relaxations of licensing regulations, the result of which has constituted a base of the nation's transport policy. In this connection, Britain enforced a law<sup>7)</sup> valid for experimental purpose which made legal such experiments as would run counter to the then licensing system. In addition, the new Conservative government authorized by the Transport Act 1980 the establishment of the experimental regions for trial removal of the licensing system for stage services to study the effect of deregulation of licensing system on the stage bus market. Some scholars doubt that there is any such a method of experiment as will indicate clear difference in market performance or question the reality of the experiments,<sup>8)</sup> though, it is undeniable that this is an innovative attempt. In

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6) Civil Aviation Authority "Air Transport in the Scottish Highlands and Islands," CAA, Feb. 1974, para. 358.

7) The Passenger Vehicle (Experimental Areas) Act.

8) White, P. R., "A Review of Rural Transport and Policy Development 1978/79," 8th Annual Seminar on Rural Public Transport, Nov. 1979, Polytechnic of Central London.

Japan, however, few experiments to be effective and useful for policy making or no feasibility study have been conducted yet. Measure 10) would help facilitate such experiments. Whether those experiments are promoted or not depends on, however, intention of shaping effective transport policy rather than current licensing limitation.

## [2] Bus Licensing System and the Role of Local Governments

The implementation of many of the measures I have discussed above require local governments' participation in the licensing policy. Local governments themselves also would prefer to take part in licensing system to coincide it with their own transport policy. This is in the course of decentralization. We need, however, a kind of neutral supervising body covering wide area to coordinate conflict of interests over licensing system among local authorities. This is especially necessary to adjust the interests of those using trunk routes or urban routes and of the ones using unremunerative routes. It would be realistic therefore that the final right to licensing shall be preserved with the M O T District Bureau, which is now responsible for local and regional transport affairs, while supplementary measures by which transport policy of local governments can be taken into account shall be taken.

Among measures I have already proposed, measures 2), 3), 5) and 6) in particular relate to subsidy system; which I believe, would enable local governments to participate in the licensing system. One of my proposals<sup>9)</sup> as to the subsidy system is that documents such as a local transport plan and subsidy allocation plan by local authority should be submitted as requirements for application for central government grant. If this system were put in practice, the M O T District Bureau could have a good chance to become familiar with local governments transport policy in the course of negotiating with local governments which are preparing those documents required. What is important then is that local governments should discuss in detail with the M O T bureau instead of merely explaining their transport planning. If more adequate system is necessary, it may be possible, as Britain did under the provisions of the Transport Acts 1978, to let the licensing authority to observe such clause as "the authority shall have regard to any transport policies which have been made by the local authorities concerned." (Obviously, this clause does not mean that the licensing authority should absolutely comply with local transport policies.)

It is reasonable that local governments participate in the licensing administration in such an indirect way in principle, however, a more direct approach would be possible in dealing with short-distance services within a single district government. In this case there are lesser conflict of interests. By making use of their experience in operating stage bus services under the exempt clause of Section 101, school bus and patient transport bus, and in supporting private bus operators district local governments will in the near future become capable of

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9) See Chujoh, U., *ibid.*



dealing with such matters as co-ordination among different transport modes or among different villages. Licensing and other regulatory matters regarding single district government may be, therefore, administrated by the district government concerned, while the M O T Regional Bureau shall preserve the right to final decision, and provide guidance on sound administration for local governments.

## *II. Safety Standards and Insurance System*

Among defects of Japanese transport safety standards are that safety control is not considered separately from quantity control and that provisions governing transport safety includes matters such as confortability. Safety regulations should cover factors solely for safety sake. The inclusion of safety standards in quantity control intends to encourage a specific company to invest monopolistic profit resulting from entry control in safety. The fact of the matter is, however, neither research on how much such profit is invested in safety nor study on which strict entry results in higher safety has been conducted. Quantity control should be applied only from the view points of economic welfare.

Uniform nation-wide regulations governing transport safety is not recommendable as there are many factors which affect road traffic safety. Among them are: (1) improvement of road and road safety facilities, (2) road traffic volume, (3) performance of drivers and carriers, (4) maintenance of vehicles, and (5) service frequency and volume of passengers carried. (item (5) relates not to the accident rate in terms of number of accidents per vehicle mile but to the absolute number of accidents and persons dead or injured, however, this factor should be considered important because society pays attention not only to the accident rate but also to the fact that a large number of people are in potential danger.) In case of short-distance traffic in rural districts, where road traffic volume (item (2)), service frequency and volume of passengers (item (5)) are small, it is not appropriate to adopt the same safety standards in rural areas as those in urban areas. Rigid safety standards will suppress rural operators and thus result low service level. In Scotland, low safety standards are adapted to air services of Orkney Islands which makes Loganair, the local airline, to be capable of offering low cost services. This seems to be a guide to our search for the transport operation in rural areas. Also in Japan, stage bus services operated by rural local authority under the exempt clause of section 101 of the Road Transport Act are authorized to use private vehicles (not psv, in British term) and to be driven by drivers without the commercial driver's licence since the services do not intend to gain profit and they are short-distance services. The Section 101 stage bus case shows us the possibility that my proposals on safety standards will be accepted seems great if appropriate measures on safety supervision are taken by local authorities.

I, of course, neither state that safety measures are unnecessary nor that

safety standards for both conventional and unconventional bus services should be the same as those for ordinary private cars. For operation of any institutionalized transport services for the public, proper consideration in safety and insurance system should be given to enjoy the confidence of users. However, it is likely that above factors affecting transport safety would differ depending on regions and on types of services involved. One fundamental problem to discuss in this paper is establishment of safety standards which are suitable to regional situations and type of transport services, together with balancing mobility and safety.

It is anticipated that if safety standards are held low, carriers offering services for commercial purpose might neglect to achieve safety, being busy seeking as much profit as possible (this does not, of course, justify that quantity control should be included in safety standards). Transport services on a commercial basis also mean more frequency and volume of passengers carried, and thus exposing a larger number of people to possible danger than those only to meet social needs without profit. The latter point does not mean commercial service may show higher accident rate in terms of the number of accidents per vehicle mile than private vehicle. But the more passengers carried, the higher the accident rate in terms of the number of injuries and deaths per vehicle mile, and the society pays more attention to the latter accident rate or to the absolute number of injuries and deaths. Safety standards therefore might differ depending on whether services are on a commercial basis or not. Even so, services on a commercial basis in rural areas where traffic volume is thin need not satisfy the same standards as those for vehicles and drivers employed for commercial operation in urban areas. This "rural commercial" safety standards should be applied to all commercial services in rural areas irrespective of being conventional or unconventional. This standards should also be applied to section 101 exempt stage buses, school buses, patient transport buses which are now regarded as same as private cars. The reason is that they carry a large number of passengers though these services operated by local authorities do not intend to gain profits. Concerning the standards for the social car services, it would suffice to remove risky drivers and vehicles not in good maintenance.

I have thus presented a rough guide to safety standards above. But actual standards should differ depending on road situations of each region and local transport policy developed by each local authority. A point to be stressed is that local authorities should, in consultation with local police and the M O T Regional Bureau, work out safety standards suitable to local situations based on their transport policies. This would be especially true with the operation of short-distance bus services in rural areas. (Though may be necessary to establish the minimum safety standards throughout Japan). Also vital is that local authorities or related local organization should make efforts to facilitate the introduction of social car schemes and small carriers by linking their own safety standards with automobile insurance system. Risk involved in social car schemes or other

voluntary systems would be offset by local governments buying insurance against accidents. It might be also desirable that, instead of local government, such organization as the Association of Rural Local Authorities take out insurance on the services.

### ***III. Fare Regulatory System***

#### **[1] Fare Regulatory Authority**

As dicussed in another my paper,<sup>10)</sup> the central and local governments are making effort to secure public transport services as a way of maintaining national or local minimum. In deciding fares, they approve neither fares leading to break-even nor those producing maximum profits, but rather, they usually implement a policy to suppress fares. This best illustrates the fact that governments are maintaining national or local minimum in consideration of poor people, and placing emphasis on income redistribution policy. As already pointed out, however, national minimum may be guaranteed through other than transport policy; it would be necessary for local governments themselves to work for maintaining local minimum in a way suitable to local situations, reviewing the stereotype argument that cheap fares contribute the welfare of the public.

One problem facing local governments is that they are unable to carry out independently their own fare system since the regulatory power on fares is vested in the central government (the MOT Regional Bureau, in practice) holding a cheap fare policy as a means of securing national minimum. In order to correct the situation, however, it is not necessary nor preferable to delegate the power on fare decision from the central to local governments because the MOT Regional Bureau is responsible for a number of transport affairs involving more than one local government. In light of above factors, the fundamental measures required for improvement of fare regulatory system shall be follows:

1. Local governments shall be able to request the revision of fares filed by carriers.
2. The request in item 1 shall be in line with the local transport policy and local structure plan developed by the local government concerned.
3. Local governments shall hold talks with the carriers on fares before requesting fare revision. If approved revision would aggravate the financial position of the carriers, the formers shall conclude a compensatory contract with the latters.
4. The MOT Regional Bureau shall, in full consideration of the request and compensatory contract above, approve such fares unless they will have severe adverse effect on other local governments or specific residents within the local government.
5. "Local governments" in above items mean both district councils (city,

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10) Chujoh, U., *ibid.*

town or village councils) and prefectural councils. In addition to those local governments, a designated regional authority for the wide area transport administration shall be regarded as a local government.

Above are draft proposals which require elaboration. In support of free competition of fares among carriers, it might be necessary to set a clause that prohibits local governments from requesting revision for higher fares than applied by carriers. Also in order to co-ordinate bus fares with the fare standards of the Japan National Railways, a more powerful organization might need to be established to support the M O T Regional Bureau which is merely responsible for road transport.

## [2] Some Issues on Fare Regulatory Policy

There will remain some other factors to be improved in the present fare regulation policy whether above measures should enable local governments to actively participate in establishing fare level and system or the central government will continue to exert its leadership under the present system.

### (1) Problems concerning cheap fare policy

It is usual that many bus services in rural districts are unremunerative. However, it is true, as a director of the Japan Bus Carriers Association has criticized, that some of unremunerative lines in rural areas could be break-even were the fare increased. In other words, the M O T sets fare lower than the break-even level. It seems that there is still room for examining the possibility of establishing the fare level based on market need and of increasing fares for the operation of services on a paying basis in rural areas, so the flexible attitude of the M O T Regional Office toward approving fares is desired. When the central and/or local governments will adopt cheap fare policy as a means of guaranteeing national minimum or from the viewpoint of local planning, they should conclude contract with carriers involved to compensate the loss resulting from the cheap fare policy, instead of merely urging them to accept low fares.

### (2) Super-peak and tri-part tariff

I have proposed to introduce tri-part tariff<sup>11)</sup> in the field of local transport to deal with "stand-by capacity", which has been supported by the Senior Lecturer P. R. White of the Polytechnic of Central London. The tri-part tariff has already been employed in some parts of Europe, according to him. It seems necessary for us to study the possibility of tri-part tariff in dealing with super-peak of rural transport services.

### (3) Fare system for securing "availability" in a narrow sense

The super-peak can be regarded as kind of so-called "availability", "unexercised use", or "option demand". The super-peak involves a number of optional users who are irregular but actual users, so the possibility is great that the tri-part tariff, as a variety of the peak-load pricing, will apply to the super-peak. On the contrary, in the case of the "availability in a narrow sense" which includes

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11) Chujoh, U., *ibid.*

latent users who regards the service as a "means of transport in time or emergency" or are satisfied with the "existence of service", it is often impossible to make the latent users pay the charge to maintain the service through the normal market mechanism. In other words, "availability" has a characteristic of "public goods" defined by P. A. Samuelson. Therefore cases occur that a local government need to maintain local transport service as a regional "public goods". However, differing from ensuring national minimum, maintaining availability by a local government fund does not mean subsidies to local residents but a substitute for a bus user club. This means residents pay (a part of) local rates instead of the club fee. Therefore, when the beneficiaries of the service live within a certain community, it would be possible to place the responsibility for the service on the community without having them rely on financial resources of local governments. Also possible for a small community as in a rural district is "user club bus" under the open system, which is usually considered to be unsuccessful since availability has an aspect of public goods—unexcludability principle. The bus club of Horncastle in Norfolk is a good example of this open type club. It is thus possible, to some extent, to maintain the "availability in a narrow sense" by the community's aid and assistance including club membership fees, contributions, or offer of labor force as in the cases of the Community Buses in Britain or construction of aerofields in the Shetland Islands. Voluntary labors or contribution at bazaar would be regarded as not only charity to the transportation poor but also alternatives to club fees to achieve availability. Thus it may be said club fee or other alternatives constitute multi-part tariff together with bus fare paid at actual use. This possible "multi-part tariff" for the "availability in a narrow sense" needs to be applied from the viewpoint of either resource allocation or reduction of deficit. It is hoped that the fare regulatory authority will positively recognize such flexible fare systems.