

ENTREPRENEURSHIP AND TENDERING IN LOCAL PUBLIC TRANSPORT SERVICES

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INTRODUCTION

While competition *on* the road gives to operators the possibility to develop services as they like, most systems using competition *off* the road prescribe strictly which services have to be produced. If route by route tendering systems as used in Scandinavia and London have indeed shown their adequacy in ensuring productive efficiency, they have however not led to significantly more passengers, even if their performance in this respect seem, at a macro level, to be better than that of free competition as implemented in the rest of Great-Britain.

Without refuting the importance of the tackling of productive inefficiencies – which themselves often result from regulatory failure – one should however pay more attention to the revelation of true market demand. This is often forgotten, and as regulatory reform in public transport mostly arises from political concern about growing deficits, this can easily result in a wrong discussion where competition *off* the road is seen to be ‘the’ alternative to competition *on* the road. Things are more complex than this. Unfortunately mutual knowledge of organisational systems across Europe is limited, both at the level of the authorities and at that of the operators¹, this combined with a lack of truly comparable data about performances hampers the mutual learning process. With this defective source of inspiration and a largely unfavourable perception of the British deregulation (often based on scant information), most regulatory reform processes in which European countries have embarked lately have not moved towards deregulation but rather towards regulatory *reform* and even towards *more* regulation. In almost all cases however, a larger involvement from the private sector and some elements of strictly controlled competition *off* the road have been introduced. This is the reason for which these reform processes have been called – often unduly – ‘deregulation’ (e.g. in Sweden). When talking about competition *off* the road there is furthermore, e.g. in the Netherlands, a misconception of the nature of competition in what is being called ‘the Scandinavian model’ (route-by-route tendering) and ‘the French model’ (urban network management contracts). These models are seen to be alternatives to each other while they in fact pertain to different aims and levels of decision as will become clear further in this paper. A closer look at the evolution in contractual forms in Scandinavia and in France – two countries with extensive experience in the contracting out of public transport services – show however that some authorities feel the need to give more responsibilities to the operators (a suggestion which is also made for London). Yet, a regime which both achieves productive efficiency and reveals true market demand by means of market processes remains to be found.

¹ The European Commission, recognising this problem, is attempting to ease it by the publication of a Green Book which – with its sibylline title “The Citizen’s Network” – is aiming at the exchange of successful practices. This move, resulting partly from the Commission’s concern that the quality of its Trans-European Networks (TEN’s) will depend on the quality of local transport at the nodes and terminals, is however seen by some as an infringement upon the principle of subsidiarity formulated in the European Union (Maastricht) Treaty.

This paper will focus on the place of demand revelation in various organisational forms and will try to summarise the elements of the discussion. A number of classification tools will be presented as organisational forms differ drastically from country to country in Europe and as the role played by competition as a tool is also quite different.

RIGHT OF INITIATIVE: MARKET VS. AUTHORITY

The tree-diagram below gives a global classification of organisational forms as can be encountered in local public transport in Europe. As entrepreneurship is an important element in the analysis of markets and in the achievement of allocative efficiency, the first distinction used is whether entrepreneurial initiative finds its source in a market process or in a one-sided initiative from an authority. It should be noted that *all* systems presented in this diagram can make use of competitive tendering to contract out parts or whole of their operations; which illustrates that franchising, regulation and competition are not simply alternatives to competitive tendering.

Market initiative: free market vs. regulated market

The 'private' initiative systems in the tree-diagram have as common characteristic that commercially viable services are meant to appear out of autonomous market processes. The authority, which is meant to be only a watchdog, can grant concessionary fares and compensate fuel duties, but it can also play a role of second-order entrepreneur by initiating additional non-profitable but socially desirable services on the basis of own (social) policy aims by means of competitive tendering.

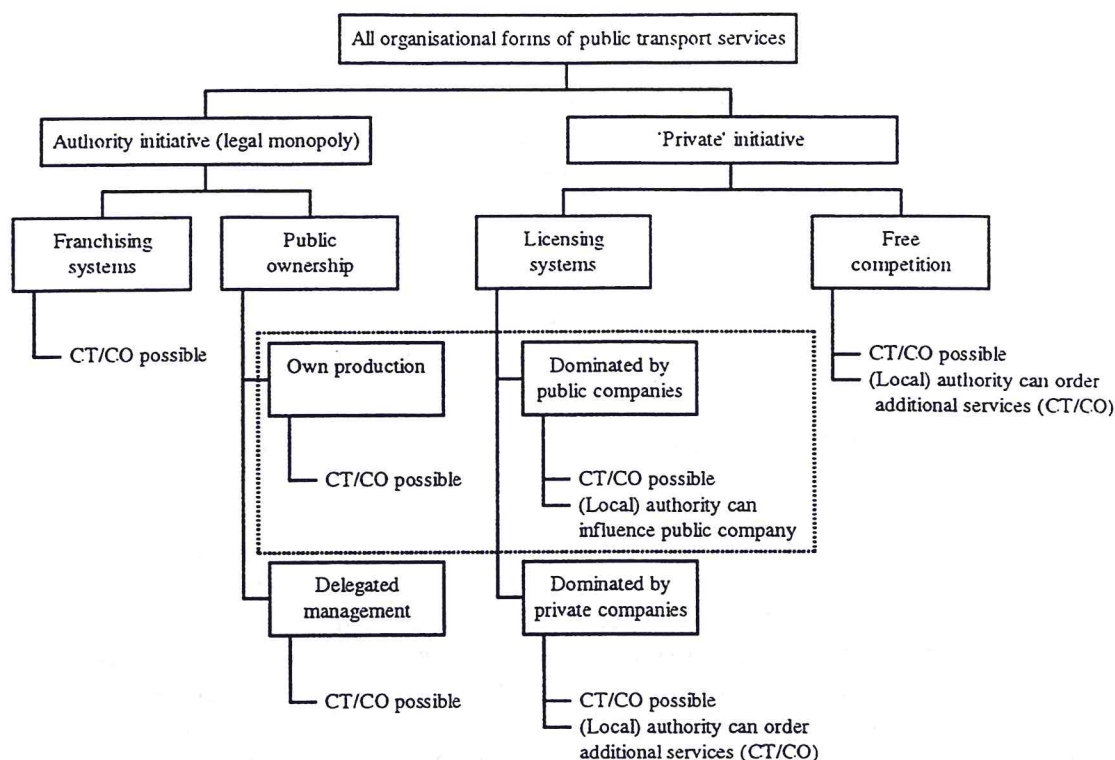


Figure 1 Organisational forms of public transport services

Free competition models, which are only optimal in the absence of market failures, can be based on various reference frameworks (pure and perfect competition, contestable markets or monopolistic competition). These lead to first or to second best equilibria, the latter can be acceptable when the alternative regulatory costs to reach a first best equilibrium are taken into account. British public transport is supposed to work according to this model in the contestability reference framework. Compared to the previous licensing system, it has certainly led to significant productive efficiency improvements but it has not managed to stop the drop in usage, as can be seen in Table 1 for England. Contracting out sometimes also appears in this regime (see, e.g., the experience of Southern Vectis, House of Commons, 1995, p. 227).

In the licensing systems (regulated markets), the market is also the initiator but qualified transport companies have to apply for a licence which protects them from competition that is thought to be undesirable. In general regulations state that entry is only allowed when it improves services (e.g. increased frequency while retaining co-ordination). The general danger of this model, as could be seen in the Netherlands and Germany, is that the regulations and protections become so extensive that firms are no longer disciplined by market forces and/or that regulatory capture takes place. Within this model a further distinction can be made between those models where autonomous private companies still dominate the market (as in Norway) but this model tends to become exceptional nowadays outside some more rural areas and those models where publicly owned companies dominate the market (a common situation in the Netherlands and Germany, especially in the urban areas, but also in Britain before deregulation). This last form of organisation is often confused with authority initiative models (see dotted line in the tree diagram). Operating within this model, the Netherlands have during the period 1985-93 achieved some reduction in subsidisation (which nowadays still represents about 60% of

total costs) while some increase in ridership has been achieved with fare increases similar to England and lower than London.

Table 1 Some statistics on London, England and the Netherlands

(index)	Passenger journeys			Fares (constant prices)			Subsidies [§] (constant prices)		
	NL	London	England	NL	London	England	NL	London	England
1985*	100	100	100	100	100	100	100	100	100
1993*	114/123*	97	78	119	129	123	95	56	72

Source: own calculations based on Bus & Coach statistics Great-Britain. KNV.

[§] GB incl. concessionary fares and fuel duty rebate to be comparable with NL.

* 85/86 and 93/94 for Britain

* Own estimation based on CBS, 123 if free travel for students (since 1990) included. In contrast to passenger journeys, passenger-km remains constant (102 for 1993) and decreases when excluding free travel for students (rough estimation: 92).

Authority initiative: public vs. private ownership and management

For those systems which are initiated by transport authorities (e.g. by a legal public monopoly of initiative, as in France) a distinction can be made between those systems where vehicles and other installations are owned a private company which has been selected by the authority (franchising systems, as can sometimes be encountered in France) and those where these are owned by the authority (a more common situation in France, especially in urban networks). This latter type of organisation can then further be divided in those where a department or corporation of the authority operates the services and in those where the management of the existing 'network' (vehicles and installations) is delegated to a (private) manager (again a very common situation in French urban networks leading to a wide scope of contractual arrangement; see further). In general terms, the relationship between the transport authority and the public transport company in these models can be classified according to a definition of contract types as used by a World Bank study (1995, ch. 3) on contracts between government and state-owned enterprises, private managers of state assets or private monopoly. Table 2 makes the link between these contract types and the organisational forms presented here.

Table 2 Organisational form and contract between authority and operator

Ownership	Management	
	Public	Private
Public	(Own production) <i>Performance contract</i>	(Delegated management) <i>Management contract</i>
Private	—	(Franchising) <i>Regulatory contract</i>

According to the World Bank study (1995), the way in which the three problems of information asymmetry, rewards and penalties and commitment are solved in the contract is determinant for their success. The study states that *performance contract* rarely seem to improve incentives – and may even do more harm than good – mainly because the contracting process gives public managers the opportunity to capitalise on their informational advantage by negotiating multiple soft targets. This can indeed be observed in public transport as well but it would carry to far to show such examples here. As far as *management contracts* are concerned their success seems, according to the World Bank, to be dependent upon the usage of a competitive process (both competitive bidding for the management and/or competition in the market) but the large costs of obtaining the information needed to negotiate, monitor and enforce such contracts tend to confine them to such sectors where technology is relatively static and quality is easily compared. Such contracts can be observed in public transport in France mainly but the difficulty to compare quality makes that the services to be produced have to be defined quite statically in the

contracts which reduces their appeal. Finally, the success of *regulatory contracts* – which according to the World Bank result on average in the best performance – seems to be dependent upon careful design and, in some cases, of simultaneous usage of direct competition. Such direct competition is only realisable in public transport when multimodal competition is deemed to be sufficient. This will only be the case where few ‘captives’ are concerned, as in long distance markets (British intercity trains competing with express buses, airplanes and the private car). It will thus be more difficult to draw conclusions on the optimality of these three contract types in public transport and further analysis is required.

CONTRACTS, PLANNING AND OPERATIONS

In those organisational forms which have attracted a lot of attention in recent years (Scandinavia, London, France), contracts play an essential role as they distribute competencies and responsibilities between authority, planner and/or operators. To avoid confusions when comparing contracts and organisational forms, the contract classification presented above is however insufficient as a more structured view on levels of planning and control is needed to analyse and compare organisational forms in public transport. It will then appear that the question of contracting out is present at two different levels: for the link between the strategic and the tactical level and for the link between the tactical and the operational level.

Levels of planning and control

As for other economic activities, decision levels in public transport can be ordered hierarchically according to the scope of the planning issues addressed and the planning horizon. Based on various theoretical definitions (see e.g. Anthony, 1988, Hellriegel and Slocum, 1992) we use the following denominations in the rest of this paper:

- **Strategic level:** strategic management is involved in the formulation of general aims and in the determination in broad terms of the means that can be used to attain these.
In short: *what do we want to achieve?*
- **Tactical level:** makes decisions on acquiring means that can help reaching the aims, and on how to use these means most efficiently.
In short: *what product can help us to achieve the aims?*
- **Operational level:** makes sure the orders are carried out, and that this happens in an efficient way.
In short: *how do we produce that product?*

Translated to public transport, the following activities can be distinguished, as seen from the point of view of the economic actor initiating public transport services (i.e. a transport operator or a transport authority organising services) (see Table 3).

Table 3 Levels of planning and control in public transport

Decision level and term	General description	Decisions	
		(Software)	(Hardware)
STRATEGIC Long term (5 y)	What do we want to achieve?	General Aims Transport policy Market share Profitability General service characteristics Areas Target groups Intermodality	
TACTICAL Medium term (1-2 y)	Which services can help us to realise the aims?	Detailed service characteristics Fares Image Additional services Vehicles Routes Timetable	
OPERATIONAL Short term (1-6 m.)	How to produce these services?	Sales Selling activities Information to the public ...	Production Infrastructure management Vehicle rostering and maintenance Personnel rostering and management

Even if in reality, borderlines are not always as sharp, this structure and the broad divisions given by the double lines in the table can be recognised in real world systems. In contracting out these borderlines generally separate responsibilities of contracting parties.

Service planning: central vs. decentralised and fixed vs. flexible

While contracting out of the production by the 'tactical level' is well known (London and Scandinavia) and has proved under competitive tendering to lead to significant productive efficiency improvements, much less is known about the contracting out by the 'strategic level' of the 'tactical level' itself (possibly in combination with the 'operational level'). This is however the level at which franchising takes place and at which the Dutch government, e.g., wants to introduce competition and selection mechanisms akin to those used elsewhere for the operational level. The question thus is: *is it feasible and desirable to contract out the tactical level using a competition-based selection mechanism?* Delegated management systems used in most French urban networks could be put forward as example of such practice. However, when having a closer look at such contracts, one has to observe that operators often have pretty little freedom compared to 'franchising' as implemented in the British rail sector. To clarify this discussion a further distinction has to be made.

In the context of contracting out, decision making at the tactical level can be organised in different ways. The 'tactics' can be determined prior to the contracting out and the operators may have either no 'tactical' powers (London and Copenhagen) or some 'tactical' powers in the form of re-design incentives as regulated by a contract (as in Helsingborg or Adelaide). Alternatively, the 'tactics' can be determined during the contracting out (as suggested by the Dutch proposal) either simultaneously with the contracting out of the operational level or not, and here too contractual re-design incentives can be given. These various forms are ordered in Table 4 and Table 5 gives a graphical illustration of one of the many possible organisational forms resulting from the considerations above; here an example similar to Adelaide. Other examples and evaluations of various models are made in Van de Velde and Van Reeve (1996).

Table 4 Fixed planning vs. flexible planning

		'Tactics' determined by tendering	
		Yes	No
'Tactics' re-designed during the contract	Yes	Tendering for the design and realisation with re-design incentives	Tendering for the realisation with re-design incentives
	No	Tendering for the design and realisation (simultaneous or not)	Tendering for the realisation

When a choice has been made for decentralised planning (e.g. because the tendering authority is too far away from the markets considered or has no expertise to plan the services), a first considerations may lead to the conclusion that the 'tactics' should not be determined by the tendering process, i.e. *before* the contract. This is due to the informational advantage of the incumbent operator in terms of market knowledge. A second consideration may then lead to the conclusion that the 'tactics' should be determined, or at least be revisable, *during* the contract. This is due to the fact that markets evolve in time and that a competitive bidding procedure for the 'tactics' would result in a static network which would clearly not be adequate. Furthermore operators, especially new entrants, can only acquire market knowledge by operating in it and should thus be allowed to revise the 'tactics' during the contract.

To put it in other words, the knowledge required to tender for the realisation of pre-determined services can be assumed to be spread evenly amongst potential operators and can be used in various locations, competitive tendering will be efficient here. On the contrary, the knowledge required to tender for the design of a network is not spread evenly amongst potential operators (incumbent's advantage) and local market knowledge can not be used in various locations, competitive tendering will not necessarily be an efficient selection mechanism here. However it can still be desirable to give to an operator selected on other grounds (e.g. productive efficiency) some market-related incentives but this is better done by contractual incentives than by tendering incentives.

Table 5 Example of organisational form

Actor	Transport authority (TA)		Transport planner	Transport operators
Type	Political council	Transport service	Co. from TA	Private Co's
Relation	democratic control	subordinated to the council	management contract with TA	contract with planner after tendering
Strategic	General aims (transport and policy, budget...)	(discussion)		
	(discussion)	General char. (area, accessibility, target groups, mobility...)	(Suggestions)	
Tactical			Fares	
			Image	
			(Min. standard)	Additional services
			(Min. standard)	Routes
			(Min. standard)	Timetable
Operational			(Min. standard)	Vehicle type
			Sales	Sales
			Information	Information
				Vehicle rostering
				Personel rostering
				Personel management
				Maintenance

Contracts and risk division

As some allocations of risk can be more expensive than others (see, e.g., White en Tough, 1995), an important element in public transport contracts is the adequate allocation of financial risks between buyer and seller. These and additional financial incentives (such as bonuses and penalties related to perceived quality) are important elements to help realise the objectives of the buyer both at the strategic and at the tactical level.

Table 6 Contract type and risk division

		Production risk borne by			
Revenue risk borne by	Principal (PTA or PTE)	Principal (PTA or PTE)	Agent (operator)		
		MANAGEMENT (M) CONTRACT	M contract with productivity incentives	GC contract with shared production risk	GROSS COST (GC) CONTRACT
	Agent (operator)	M contract with revenue incentives	M contract with productivity and revenue incentives	GC contract with rev. incentives and shared prod. risk	GC contract with revenue incentives
				NC contract with shared revenue and production risk	NC contract with shared revenue risk
				NC contract with shared production risk	NET COST (NC) CONTRACT

Two main types of risks can be distinguished in a situation where a principal (authority, agency or company) orders the production of public transport services from an supplying agent: the production risk (associated with the production costs of a fixed capacity) and the revenue risk (associated to the sale of that capacity). These risks can be allocated in different ways to the various agents giving rise to numerous contract types and variants. Table 6 gives a simplified representation of the various possible contract forms. The practice in France gives an even richer variety of contractual relationships than what can be seen in this table with, e.g., risk sharing related to various levels of realisation of specific indicators.

FUNDAMENTAL CHOICES

Three fundamental choices have to be discussed: vertical integration vs. contracting out, direct negotiation vs. competitive bidding and tendering vs. franchising.

Vertical integration vs. contracting out

The hierarchical structure of planning and control presented above describes decision-making chains within a firm. These chains are principal-agent relationships and can in principle be either internal or external to the firm. A firm would typically decide to contract out some ac-

tivities when it is globally economical to do so; transaction costs and economies of scale in the production of the various activities² will play important roles here.

If under working free markets the profit aim will give strong inducements for the appearance of the cheapest possible organisation of production in terms of contracting out, this can however not be guaranteed when, in the presence of market failures, a choice is made for regulated competition or authority initiative; in other words, when a licensing system resulting in relatively strong monopoly positions exists or when a non-competitive authority initiative system has been put in place. In these situations, incentives appear to be weak: private companies enjoy their protected position and the same applies for the transport departments or companies owned by organising transport authorities unless these are subject to enough external 'competitive' pressure (such as clear and effective democratic control, tight financial constraints, etc.) to replace the shareholders' controlling function in private companies. Regulation will thus be needed to force the licensed companies or the organising authorities themselves to evaluate the advantages of contracting-out. In practice, this often boils down to the introduction of an obligation to contract out (such as the compulsory competitive tendering by the transport company of the transport authority in London and Copenhagen) as otherwise nothing would happen. Many other aspects than risk division have to be taken care of in such contracts (for further discussion of this topic see ,e.g., Van de Velde and Sleuwaegen, 1997). The remaining question, however, is: *what is the optimal form of contracting out: negotiation, tendering or franchising?*

Direct negotiation vs. competitive bidding

Broadly speaking, there are two ways to select 'agents': by negotiating directly with one or more agents of ones choice or by organising a competitive bidding process. This will have to depend upon *what* is being contracted out, most importantly whether the item is a standard input or a specialised item, and upon the existence of *information asymmetries* between potential bidders on the one hand and between potential bidders and the actor organising the bidding process on the other hand.

If a choice is made for competitive bidding, further choices will have to be made: using a pre-selection or not, using sealed bids or open auction, using qualitative not strictly quantifiable criteria or not, using additional negotiation after short-listing bidders or not, etc.

The alternative is to choose for direct negotiation. A major drawback of direct negotiation is that the buyer may have only limited bargaining power. If potential suppliers know that either the buyer has limited professional experience (the political authority negotiating with large private companies) or that the buyer has no or only a non-vital budget constraint (the publicly owned company negotiating with sub-contractors and vehicle manufacturers) then it may allow suppliers to capture part of the monopoly rent of the buyer. Even worse, such system can allow suppliers to obtain contracts by paying bribes to transport authority officials. France, e.g., has introduced an anti-corruption law in 1994 to avoid such problems (a transparent selection procedure is now required whereafter direct negotiations are however allowed). The Dutch gov-

² A company may want to contract out some tasks because of its small scale compared to the existing economies of scale. Contracting out to several smaller companies can also be envisaged when required production exceeds the optimal scale of production of one company. In this case contracting out results in avoiding inefficiencies due to problems in the *span-of-control*, i.e. diseconomies of scale.

ernment wants to go even further by forcing transport authorities to use pure competitive tendering without negotiation.

There are however possibilities to increase bargaining power, e.g. by dual or multiple sourcing. When this is realisable it allows for some level of indirect competition by allowing the buyer to compare performances. Longer term co-operations with multiple suppliers can help to solve some incentive and information asymmetry problems which exist when non-standard items are being purchased while still allowing for indirect competition. This would be useful in the case where operators have to design the services but not in the case of the production of pre-determined services (London case). Such dual sourcing arrangements can be found in industrial production which is submitted to direct competition (e.g. Japanese car manufacturers) but public transport is a service and direct competition or contestable markets are not always realisable, in other words the incentives to organise dual sourcing are absent as the initiator of the public transport services is not himself submitted to competition. The merits of such an organisational form should however be investigated.

Tendering vs. franchising

Within competitive bidding, the main choice is that between a *tendering* procedure and a *franchising* procedure³. Baldwin and Cave (1996, p. 42-43) identify, on the basis of their study, circumstances favourable to franchising by defining a number of criteria (openness to competition for the market, restriction on competition in the market, a duration allowing for competition in the future, an adequate specification of the service, a clear allocation of risks, observability, enforceability, transferability of assets, etc.). While many of these criteria would not cause too much difficulty in local public transport, the issue of the specification of the services is however likely to cause trouble both in the call-for-tender and in the contract. As Baldwin and Cave (1996, p. 23) note: *Where service specification involves the making of judgements, the advantages of franchising may be called into question. A supposed strength of franchising lies [...] in its allowing private sector providers, rather than regulating bureaucrats, to be the judge of consumer and market preferences. Insofar as service specification involves the making of judgements by franchise authorities, and insofar as the franchise authority selects the best menu of services for the consumer, this advantage of franchising diminishes and franchising approximates to a system of classical-style regulation.*

This is probably too negative as an advantage of franchising might still be that more productively efficient operators are chosen and that clear(er) contractual incentives are given than under public monopoly, but this would indeed boil down to a tendering system with re-design incentives as suggested above (see e.g. the British rail franchises which by their 'Passenger Service Requirements' given by OPRAF specify a 'minimum' service which approximates past services; there is however in this system more scope for negotiation than in pure competitive tendering systems).

³ Using the definitions given by Baldwin and Cave (1996, p. 5-6), *franchising* is a system in which the course of operation is tendered by the franchisee in a competitive context while in *competitive tendering/contracting out (CT/CO)* a service is rendered by the provider to the contracting body – and not directly to the public as in franchising – and revenue risks are borne by the contracting body, not the service provider.

TOWARDS FRANCHISING IN THE NETHERLANDS

The Dutch government is planning, after a long period of discussion, to introduce a kind of franchising in local public transport which is meant to give to potential operators the possibility to tender for the whole design and operations of (bus) networks. One of the main aims of this reform is to stimulate a more demand-responsive supply – and hopefully reduce car traffic – by giving transport companies the possibility to (re)design services without however allowing free competition. This move is motivated by the observation that state intervention in local public transport in the past did not result in the expected increase in modal share for public transport and by the firm belief that transport companies, being closer to the passengers, are better able to 'reveal' market demand than bureaucrats. Regional transport authorities, after delineating bidding guidelines related to their transport policy aims, will thus have to select the best bidder on the basis of sealed-bid procedures without negotiations.

But franchising of services which are difficult to specify, and this according to a strict competitive tendering procedure by authorities which have little expertise yet, is quite a challenge. The idea is good but the selection method that has been chosen is problematic: the authority has to judge which potential operator achieves the best revelation of demand, this is paradoxical as the motive of the reform was the observation that authorities do not know demand (see also the citation of Baldwin and Cave above).

If this type franchising is introduced in the Netherlands, and even if the intention is to 'deregulate', the implementation of this type of franchising system will result in more rather than less regulation of the transport companies (the companies are presently almost totally free of formal regulation on their services). For a part, this will be good as the present regulation is terms of, e.g., 'social' services is non-existent or at most inadequate. This will help transport companies to understand what the real aims of the subsidisation are, and more importantly it will force the subsidising authorities to state clearly the real aims of the subsidisation. Before this leads to a better realisation of the policy aims (most importantly a larger modal share for public transport), it will require that the (local) franchising authorities indeed become active and expert partners in the development of public transport services; a role for which they have almost no experience up till now. And as there are almost no local taxes in the Netherlands the urge for them to become such experts will largely depend upon the regulatory control that central government will be able to develop in the context of their financing.

One thing seems to be clear out of the discussions in the Netherlands, franchising resulting in detailed specification of services to be offered (e.g. in the British railway franchising, not even to speak of London Buses or of Copenhagen) go much further than what Dutch authorities and transport companies would consider appropriate for both bus and rail. In the end one might come to the conclusion that what they would actually prefer is a version of the existing licensing system with however less protection than nowadays.

CONCLUSIONS: BEYOND TENDERING

Competitive tendering has been successful in terms of gains in productive efficiency and it certainly has to play an important role in public transport. However, it has probably received too much attention when discussing the future of public transport as it is in fact not more than an instrument which is essentially 'internal' to the transport department or transport company initiating the services. It is an instrument to guarantee productive efficiency there where

economies of scale are of another nature than what the transport company itself can achieve (pecuniary economies of scale in vehicle procurement) and there where totally integrated operations would result in diseconomies of scale due to a problem of span of control.

The main problem for the future of public transport is that of the finding of an adequate method to reveal true market demand. The choice is between on the one hand free competition and licensing systems and, on the other hand, franchising by the authority and production by the authority.

The British deregulation assumed that free markets would be contestable and would lead to the revelation of market demand but these markets were only partially contestable while the resulting competition appeared to be excessive. If such free markets do not work, then either more regulation or authority initiative is required. The recommendations of the British House of Commons Transport Committee (1995, e.g. §§ 144 and 151) also go in the direction of a limited form of market entry regulation in order to enhance service quality and, amongst other, to avoid some form of predatory behaviour. This is in fact a move towards a light variant of models existing elsewhere in Europe (and in Britain before deregulation) resulting in a 'light' licensing system. The main advantage of such models is of course that services can appear without the authorities having to initiate them. But this only works as long as things are profitable (including concessionary fares and fuel duty rebates). The challenge then is to reach enough efficiency and to reorganise the subsidisation in such a way that profitability becomes possible (commercial services in Britain outside London, some British railway franchises within a few years); a long way to go for many continental regimes.

As soon as an authority organises some form of selection of operator, the authority becomes the entrepreneur as it will have to determine a strategy. This is the case both in the pure authority initiative systems where the authority is or chooses an operator, but also in the licensing systems dominated by publicly-owned companies.

Our opinion is that the main problem here is the lack of incentive for the (transport) authorities to carry out effective actions, either as regulator or as organiser of public transport services. This point does not get enough attention in most reform processes. This is in itself not surprising as it is simpler and more convenient for authorities to blame companies rather than to come to the conclusion they are themselves not in a position to deliver good performance as their own incentives to do so are too weak. The danger then is that behaviours such as the development of new prestigious transport systems (metros, tramways, etc.) take the lead and are presented to the public opinion as the panacea while it is not clear whether these systems will both contribute to the policy aims and do so in the most cost-effective way. Worse even, and this can often be observed when analysing the details of public transport organisation at the local level, policy aims often do not even exist or only in vague words which are not translated into clear criteria, actions and incentives for the various actors involved. Under such circumstances, little can be said about the outcome except that it often results into conservatism (keeping the present level of service at all cost), which is in fact not an aim but an aimless tactic.

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