

INCREASING AIR SERVICE TO SMALLER COMMUNITIES

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At various times public policy at different levels has been directed to supporting transportation infrastructure enhancement and expansion outside the main urban centres. Clearly, the benefits which attend this type of development stimulus have both private and public components. Hence, they are prone to agency costs which arise from the conflict of interests surrounding contracts in which the assignment of benefits and costs are not fully congruent.

Since 1998 a contract mechanism called the airline travel bank (ATB) has emerged as a means of encouraging additional air service to smaller municipalities by transferring risk from the airline to the community being served. Moreover, the ATB spreads the financial burden between public and private members of the community*.

In this paper we examine the agency costs associated with expanding airline service as a means of regional development. A simple simulation illustrates the relative magnitudes of the effects.

* Nolan, J., P. Ritchie and J. Rowcroft. Small Market Air Service and Regional Policy. *Journal of Transport Economics and Policy*, v 39 Part 3 (September 2005) 363-378.

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