

# The effects of LCCs subsidies on the tourism industry

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*This paper studies the relationship between air transportation, tourist flows and subsidies to LCCs, a policy used by many national and local governments to stimulate tourist arrivals. To test it empirically, we use a two-stage model: in the first stage we estimate a structural model applied to air transport; in the second stage we link passenger arrivals to regional tourism flows. In this way we use exogenous shocks (subsidies to LCCs) in airline supply to analyze the causal link with tourist arrivals. This model is applied to tourist flows from European regions to Italian regions during 2016-2018. Our counterfactual analyses consider two regimes for implementing subsidies to LCCs, following the literature coming from Oates (1993, 1999) contributions: a centralized, uniform policy for all regions, and a decentralized one in which subsidies are adopted by a single region. Our simulations reveal that subsidies to LCCs are effective in stimulating tourism, and that a centralized regime is more effective than a decentralized one. In fact, the latter generates externalities on regions that do not implement the subsidy, which makes it sub-optimal both as economic efficiency and policy sustainability.*