



# Spatial Economics Research Centre

Monday, 8 August 2011

## More supermarket bashing

In the latest round of (non-violent) supermarket bashing, Labour are calling on the government to 'confront Tesco'. [According to the Guardian](#), they wait for the Portas' review of the high street to 'recommend a competition test to prevent grocery retailers acquiring a dominant position'. Perhaps this a useful moment to re-hash some of the arguments.

Back in May, while writing about whether we should save the high street I discussed the [fundamental problem](#): 'There is a serious issue to consider here - high streets generate 'externalities' that individual shoppers do not take in to account when making their decisions. Some of these externalities are positive (e.g. the sense of community generated) while some are negative (e.g. extra congestion from having people drive in to the centre of town). Market forces don't deal well with externalities so it's possible that policy makers should intervene.'

People writing on this (who are usually anti-supermarket) put strong emphasis on the positive benefits restricting supermarkets, while downplaying the costs. As explained by my colleague Paul Cheshire [a few weeks ago](#), however, the costs can be substantial: "a recent SERC study (summarised [here](#)), estimates that [planning policies combine to reduce productivity in supermarkets by more than 20 percent.](#)"

The major costs come from town centre first policies that sought to protect the high street. As I have discussed before, however, an unintended consequence has been ['metro' type stores that are worse for independent retailers](#). The anti-supermarket brigade are finally recognising this 'contradiction' hence the call for yet more regulation to restrict supermarkets. Change of [use restrictions are one mechanism](#), local competition tests another.

Change of use mechanisms are messy and could be used to [prevent competition as well as encourage it](#). In principle, I am more sympathetic to the idea of local competition tests but I am not sure how well they would work in practice - especially when placed on top of the current planning restrictions which do so much to prevent competition: Town centre first policies strongly restrict the supply of land. Sequential needs tests then mean that a new entrant may not be able to get planning permission for new development if the local authority have already identified enough land for supermarkets - even if the land identified is owned by a rival supermarket chain and currently vacant! It is these planning restrictions that make land-banking so incredibly valuable (leading some to joke that in the UK, Tesco's is a highly successful land developer with a side arm in retail). If local competition tests were to be introduced, then the 'local' part of this should only apply to the market area over which the tests are applied, not to who gets to make the decisions. This certainly shouldn't be 'interpreted' by local planners or politicians nor aimed at one particular retailer.

Let me finish with one area of common ground with those who are anti-supermarket. In this area it is important that the government doesn't allow itself to be strongly influenced by existing retailers. Any one of the big four has huge vested interests in certain aspects of the land planning system because it creates so many distortions. Large land holdings + many centre city sites = in favour of section 106 (they can afford to pay) plus most town centre first restrictions (keeps up the value of their land and existing stores portfolio). Independent retailer = against supermarkets + pro anything that restricts competition. New entrant = against town centre first policy + less restrictions on change of use.

A final point: tighter regulation, especially if operating via the planning system would increase costs further. In other words, saving the high street costs not going to be cheap so we better be very sure that it is truly a price worth paying.

Posted by [Prof Henry G. Overman](#) on [Monday, August 08, 2011](#)

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