



Spatial Economics Research Centre

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Protectionism and the High Street

In response to comments about the negative productivity effects that supermarkets suffer as a result of planning constraints someone points me to this [debate about new supermarkets in Wells](#) (Somerset) and asks: "Restrictive planning will increase the costs of supermarket development but if a supermarket isn't built can you quantify how much money stays in the local economy?"

The BBC report spells out the estimated losses: "A planning report for the Conservative-run council concluded that if the supermarkets were given approval, there would be a 10% drop in trade which would have amounted to a £5m-a-year loss for the city centre."

I don't know anything about the accuracy of these specific figures but it's worth reflecting on the principles involved. I have already discussed the issue raised by [supermarkets in terms of externalities](#) (i.e. the unintended consequences - which may be positive or negative). I won't repeat those argument here, but instead raise a slightly different issue which has some interesting parallels with international trade.

When new supermarkets open, the profits of existing retailers suffer but local consumers benefit. In the international context, for many reasons, policy makers have decided that overall, the benefits to consumers outweigh the costs to producers. This is why they have signed up to the WTO to ensure that local producers aren't protected by local governments. One of the benefits of signing up to the WTO is that it forces governments to ignore the lobbying activities of incumbents who have a strong vested interest in ensuring that new foreign firms do not enter their market.

For some reason, with local planning, the arguments (about benefits to consumers) are discounted and incumbents protected. Some of this may have to do with externalities, but I also suspect it reflects the very strong incentives that local firms have to lobby against entry (it may help to think Timothy Dalton's character in [Hot Fuzz](#) rather than Ronnie Barker in [Open All Hours](#)). Of course, we shouldn't forget that supermarkets lobby too and that the outcome goes in their favour in some places. In short, strong vested interests plus hard to quantify externalities make these decisions difficult. But it is interesting that in the area of international trade we have decided to deal with this by establishing clear rules in favour of openness, while in local planning the general trend appears to be protectionist.

Posted by [Prof Henry G. Overman](#) on [Friday, May 27, 2011](#)

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