# Can It Be Economically Rational to Restrict Big Box Retailers?

## Introduction

Conventional wisdom from committed "free market" economists would have it that moves to ban "big box" retailers such as Walmart from certain localities are rebellions against consumer sovereignty and must hurt consumer welfare. After all, if consumers did not want to shop at the big box retailer, they would simply not do so, correct? The fact that they switch their shopping to the big box and away from "mom-and-pop" stores shows they prefer the big box.

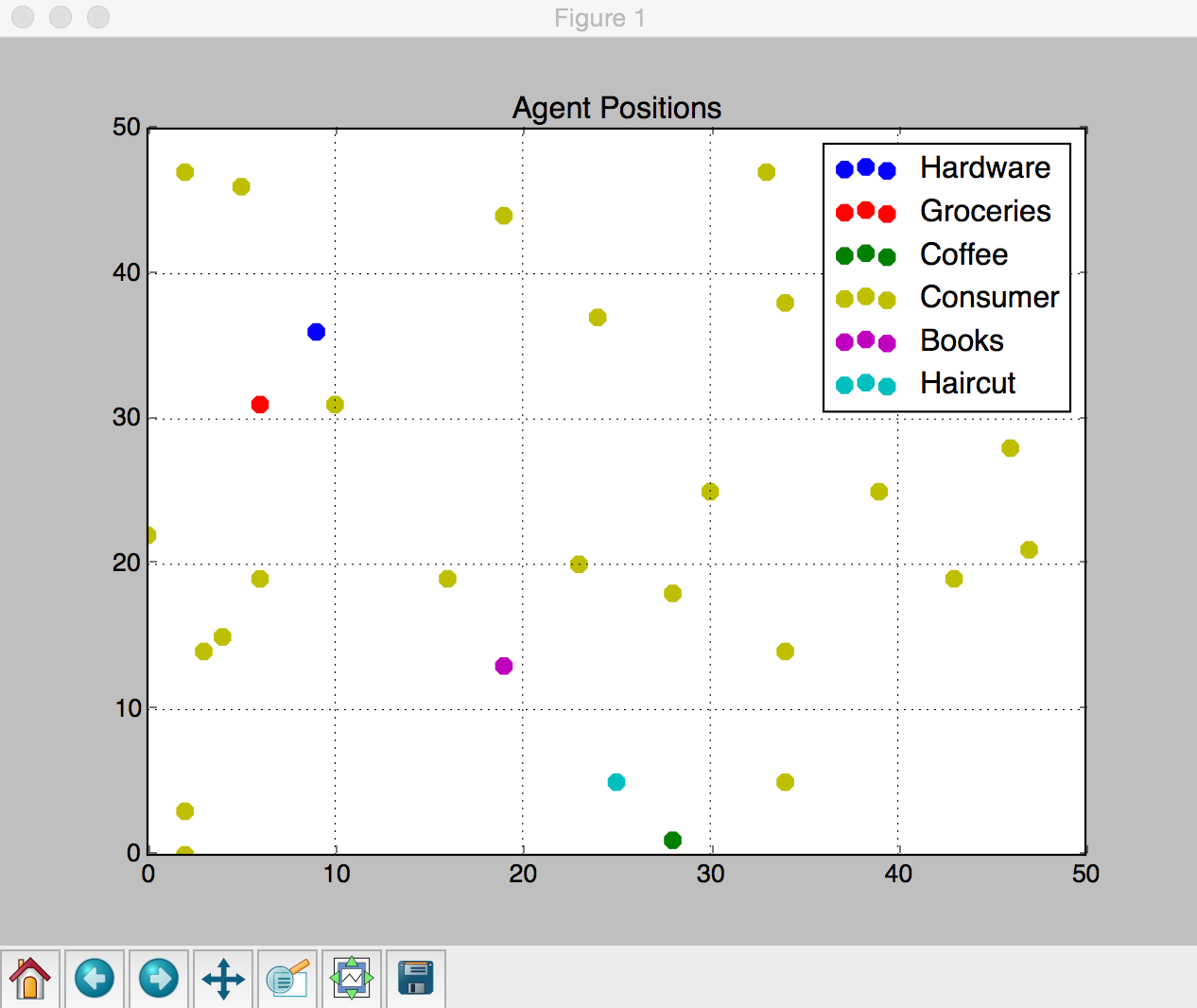
This paper attempts to show that the above analysis is simplistic. We present a model in which all consumers have the following preference ordering in some retail sector:

1. Have both local shops and a big box store.
2. Have only local shops.
3. Have only a big box store.

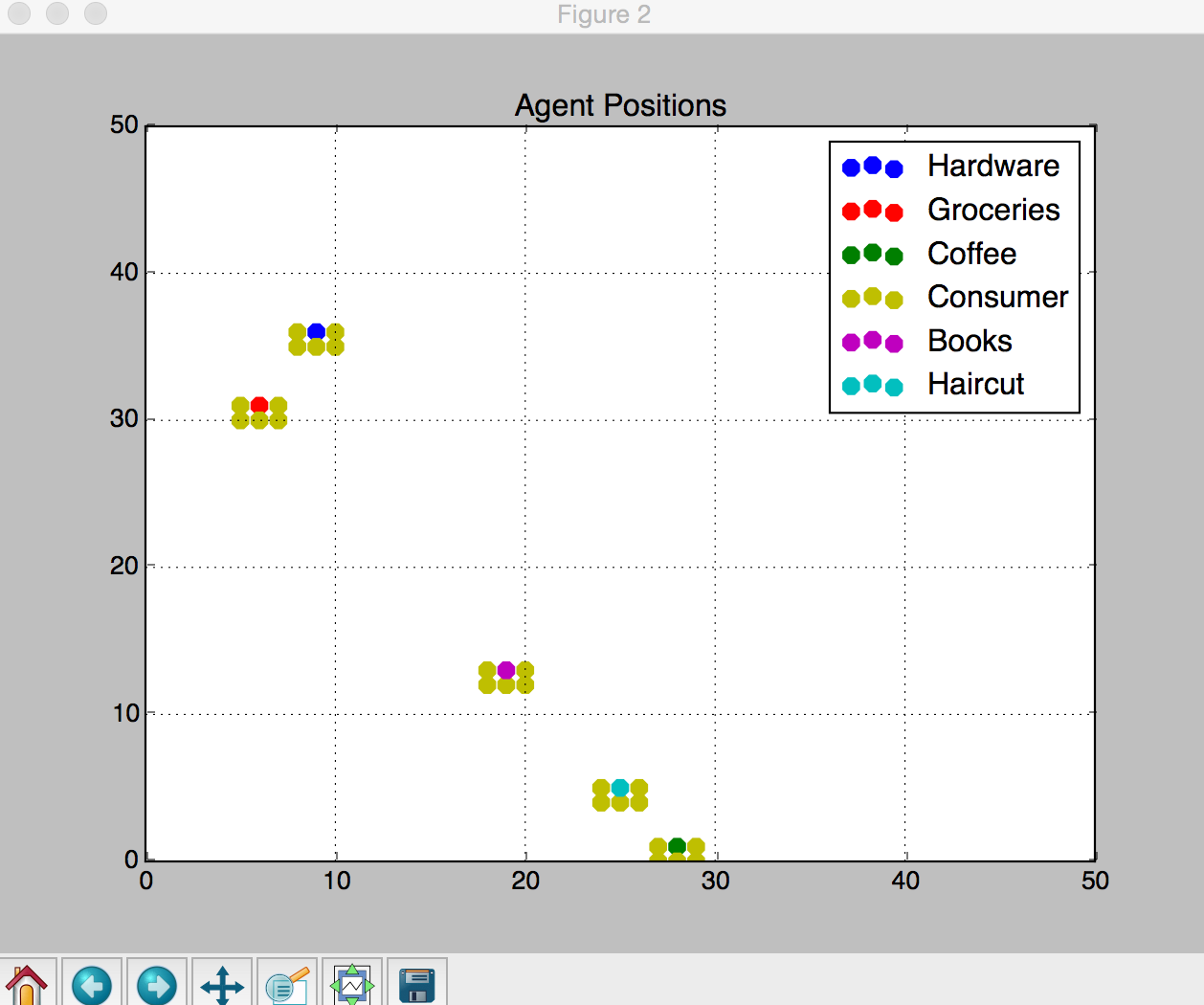
(We can further assume they know the costs of achieving 1, 2, or 3: they want 1 even if they sometimes pay higher prices to achieve it compared to 3, i.e., we could add a monthly shopping bill to each of the above.) We then show that, under not outrageous assumptions, it is easy for consumers, in trying to achieve their first preference, to instead wind up with their third.

## Design and Definition

In our model we have both the big box and the mom-and-pop stores, which (for ease of reading) we abbreviate as BBs and MPs.

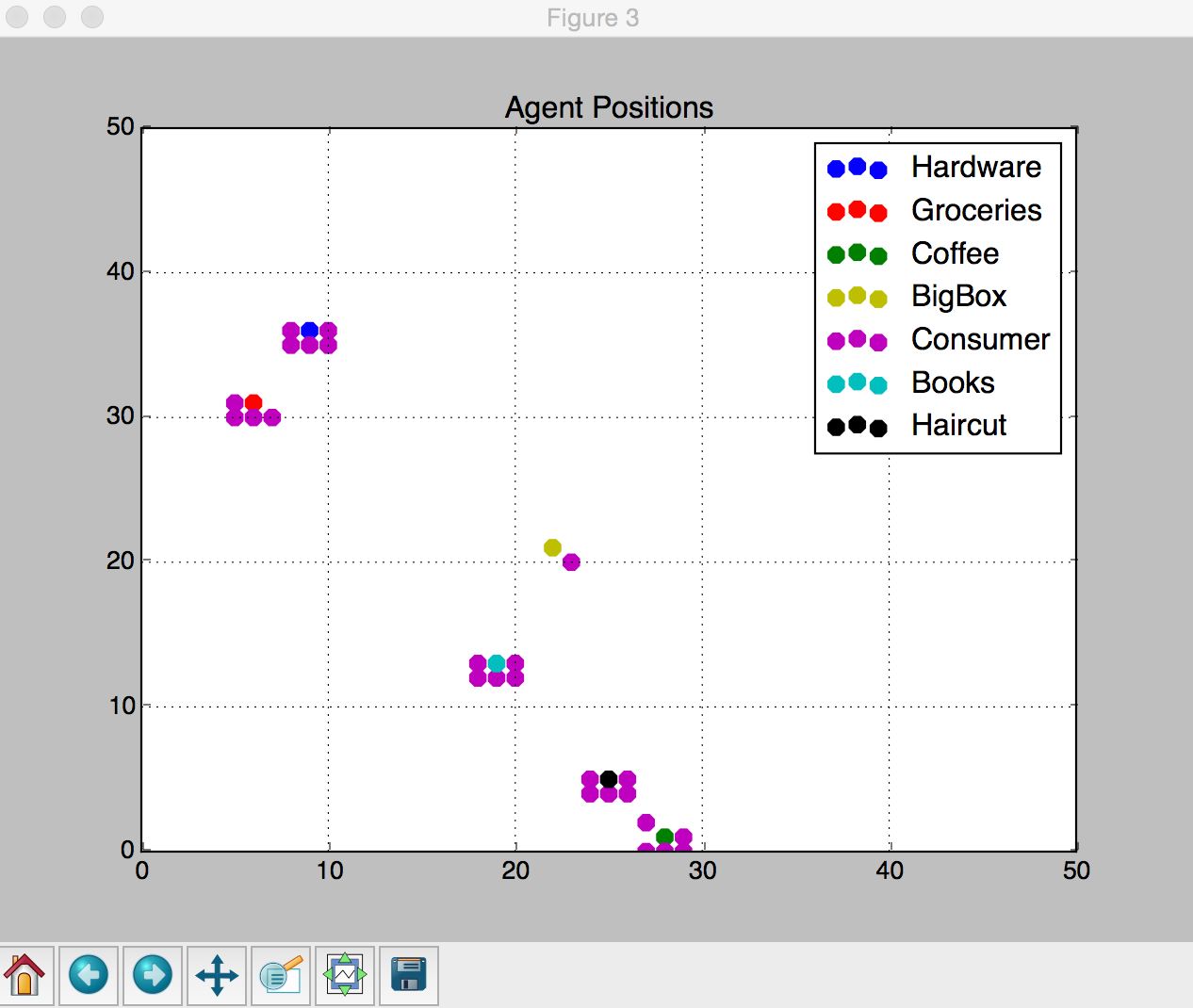
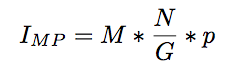
Initially, there are only MPs, no BBs. And our city “EverytownUSA” begins with as many MPs as there are kinds of goods to sell. So if there are G different kinds of good, there will be G different stores.

**Initial Situation**

Our city’s consumer population size is M. In each step of the model, every consumer purchases a good at one and only one store. His choice of what good to shop for is deterministic. He cycles through each of the G goods successively. This leaves MPs average income to be described as follows:

And the MPs' financial security is sustained as long as its income is greater than its upkeep expense, R:

**Customers shopping at the MPs**

Now when we introduce BBs into EverytownUSA, a new dynamic appears: consumer preference for MP and BB. Here the preference p is the probability customers will shop at the MP. And so, our above income equation becomes

On the other hand, the consumer preference for the BB is (1-p), and so the BBs’ average income is

For simplicity’s sake, we keep the cost of upkeep for the BB the same as that of the MP, that is, R.

## Formal Statement and Analysis of Model

Now we can formally state our model.

1. Consumers want to shop at both MPs and BBs. [Formally: 0 < p < 1 and 0 < (1-p) < 1]
2. Consumers would rather shop only at BBs than MPs. [That is: p > 0.5]

But nevertheless it can occur that MPs cannot compete, or even survive, with the BBs. That is, on average:

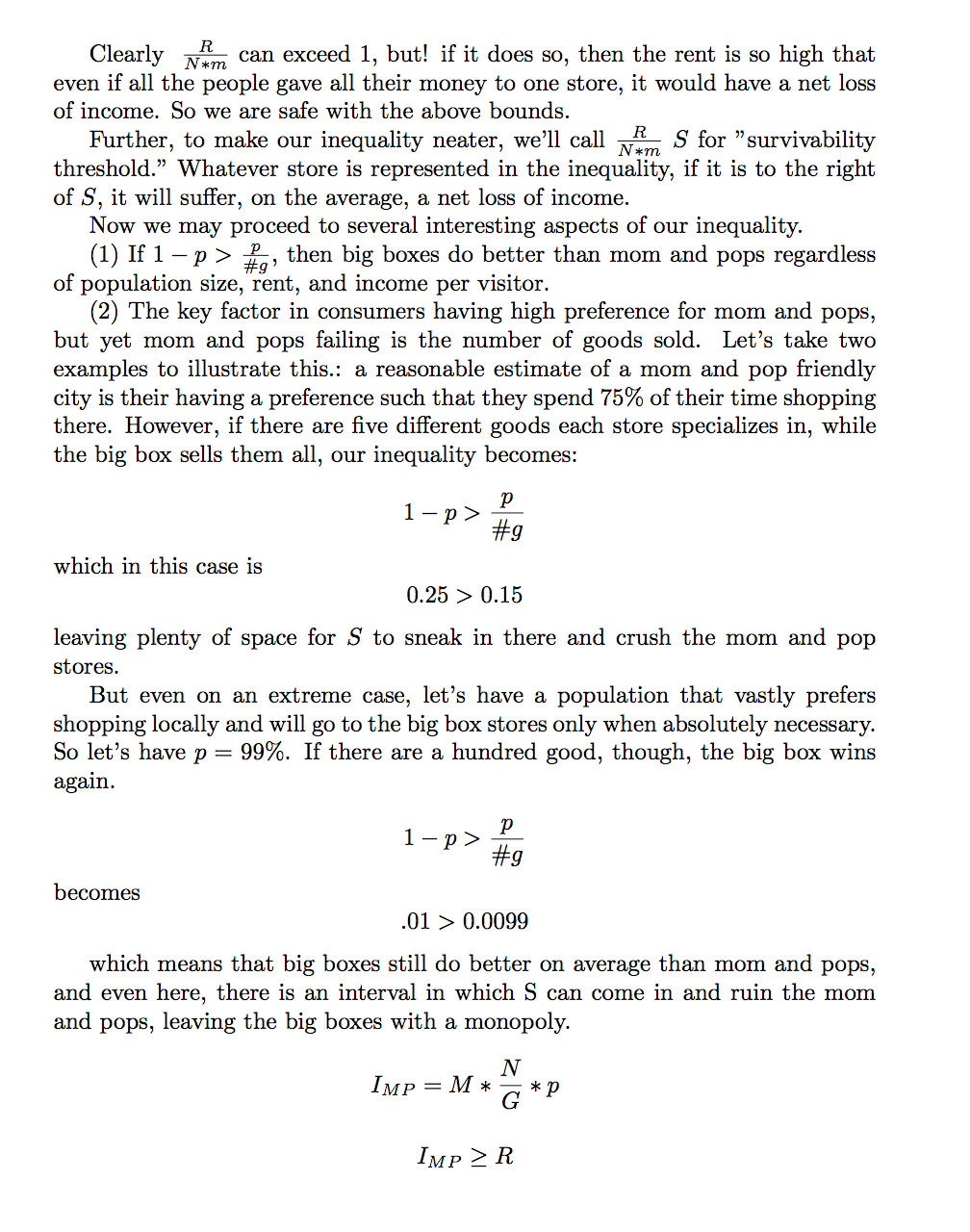
## The Program

[MORE TO COME]

## Mathematical Analysis of the Model

## Conclusion

This behavior is due to consumers facing a collective action problem, as well as a knowledge problem: Consumers might, if they had perfect knowledge of the exit points of the local shops and the ability to finely coordinate their own shopping with that of others, be able to achieve their first preference (a mix of big box and mom-and-pop shopping available). But, in general, consumers have little knowledge of what percentage reduction in sales will cause a small shop to exit the industry, nor do they have very much ability to coordinate their shopping with other consumers. (The latter means that even if consumers forego a certain amount of shopping at the big box stores, which they would otherwise do, simply to keep the small stores solvent, they cannot ensure their neighbors will do the same. So their rational choice is to "defect" and shop at the big box store as often as they wish, regardless of the impact on the small shops.)

Therefore, since they cannot fine tune their shopping to achieve 1), they shop at the big box store whenever it suits them for a particular purchase, without regards to the "macro" effects of their choices. (See Schelling, 2006, for extensive analysis of the potential gap between micromotives and macrobeahvior.) They shift "too" much of their shopping to the big box, with the end result is that all of the mom-and-pops are driven out of business, despite no consumer wanting that result. Thus, it *might* make sense, faced with such knowledge and game theoretic difficulties, for consumers to bind themselves in advance to 2), by banning a, or some, or all, big box stores, or to trying to achieve 1) by, say, forcing big box retailers to locate well outside the center of town, making trips to them less convenient. (All legislation has unintended consequences, which is why we make the weak claim that these types of actions *might* make sense: such legislation might also, for instance, serve the interest of an inefficient local monopolist seeking to protect its privileged position in a market.)