



The political economy of pricing car access to downtown commercial districts[☆]



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ABSTRACT

We study the political economy of pricing access to downtown commercial districts, using curbside parking fees as the main example. A spatial equilibrium model is embedded in a political economy framework in which special interest groups (urban and suburban retailers, local residents) lobby the city government. We have the following results. If downtown and suburban stores sell a homogeneous good, the local government underprices downtown parking if suburban stores operate with low enough markups. If goods are heterogeneous and some consumers engage in multiple-stop shopping (i.e., shop both downtown and in the suburbs), suburban stores will not lobby at all; lobbying by downtown retailers leads to parking fees below the social optimum. Furthermore, local residents do not necessarily lobby for high parking fees on downtown shoppers. If a decline in urban stores leads to negative externalities (urban blight) they may join forces with downtown retailers and lobby against high parking fees on shoppers.

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1. Introduction

Car travel imposes significant costs on society, many of which car users ignore. These costs include the external costs of congestion, pollution, noise, and accident risks; moreover, they also include the cost of underpriced parking space.¹ Many economists have argued, therefore, that road travel is to a large extent underpriced, and that the resulting welfare loss is considerable (see, for example, [Small and Verhoef, 2007](#)).² This is particularly true in downtown commercial districts, where both the opportunity cost of land and the level of congestion are often very high ([Arnott, 2011](#); [Inci, 2015](#)).

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¹ It is estimated that land dedicated to parking in the United States covers an area roughly the size of Massachusetts ([Jackle and Sculle, 2004](#)), at an estimated monthly cost of at least \$125 per parking space ([Shoup, 2005](#)).

² Despite longstanding support by economists, some form of road pricing exists in only a handful of cities; examples include London and Stockholm ([Eliasson, 2009](#)). In many cases, proposals for tolls have met retailers' opposition. Throughout the paper, we stick to the parking interpretation for concreteness, but we briefly return to the road pricing interpretation in [Section 6](#).

Why do governments set the price for car travel into urban areas too low? The purpose of this paper is to explore a positive theory of pricing car access to downtown commercial districts, emphasizing one possible explanation, viz., lobbying by special interest groups. Specifically, we develop a spatial equilibrium model to study the political economy of pricing car access when various special interest groups (different types of urban and suburban retailers, and local residents) lobby the city government. For purposes of concreteness, we use curbside parking fees as our driving example, but the results also apply to other pricing measures controlling access to city centers, such as cordon tolls or area charges.

In many cities, the downtown commercial district is the primary focus of policies intended to regulate car use, and ample anecdotal evidence suggests that several special interest groups may lobby to affect these policies. In US-cities, downtown retailers – concerned by competition from suburban malls – exercise political pressure to express their demands (Shoup, 2005; Arnott, 2011). The same seems to happen in other countries. For example, retailers formed the Greater Manchester Momentum Group to lobby against cordon tolls in Manchester (ultimately abandoned in 2008).³ As another illustration, consider the following quote from a report by the Federation of Small Businesses, which represents a large share of British family-run businesses, discussing parking policy in the British town of Harlestone:

“In spring 2008 South Norfolk Council recommended that Harlestone’s town center car parks should introduce charges. The Federation of Small Businesses threw its weight behind a local resident campaign to urge the district authority to rethink the introduction of charges...When the case was made for the crucial relationship between parking policy and a successful town center, South Norfolk Council decided to rethink the introduction of car park charges” (Federation of Small Businesses, 2008).

Downtown retailers might lose business due to higher parking fees, but other politically influential stakeholders may benefit. Hence, lobbying need not be restricted to downtown retailers. For example, large stores located in the suburbs may attract part of the demand lost by downtown shops (note that they often provide free parking (Hasker and Inci, 2014)).⁴ These stores may organize themselves to lobby local policymakers.⁵ Finally, downtown residents may favor parking fees for non-residents because they compete for limited parking space, and they may lobby to press their demands.⁶

The model developed below considers a linear city with a downtown commercial district, populated by traditional downtown retailers (e.g. delis, grocery stores or convenience stores) at one edge, and large suburban stores (e.g., hypermarkets) at the other. We assume shoppers travel by car. Their trips entail an external cost, so that the government should ideally regulate access to the downtown district via an appropriate pricing policy. This increases the relative cost of shopping downtown, possibly shifting consumer demand towards suburban stores. We embed this simple spatial competition model in a political economy framework à la Grossman and Helpman (1994), whereby both downtown and suburban retailers may lobby the local government.

In the baseline scenario, we assume that retailers sell the same homogeneous good, and that consumers visit either the downtown district or the suburban stores. In most real-world cities, suburban stores are primarily large establishments that sell large quantities of goods at relatively small margins (see, for example, Foster et al., 2006, and Basker, 2007). By contrast, the scale of downtown retailers is typically smaller, but they charge larger mark-ups.⁷ Capturing these features in a simple way, we find that the value of attracting (or retaining) a customer is, at the margin, smaller for large supermarkets than for downtown retailers. Thus, one dollar “spent” lobbying to alter travel costs produces a greater impact on profits of downtown retailers (taken together) than on suburban stores. We then show that, unless the mark-up charged by suburban stores is much larger than that of downtown shops, the steeper lobbying contribution schedule of downtown retailers leads the government to adopt lower-than-optimal parking fees.

We then allow downtown retailers and suburban stores to sell differentiated goods. Furthermore, we assume consumers can visit both types of retailers so as to enjoy the whole variety on the market.⁸ We show that when some consumers visit both retail areas, the incentive of suburban stores to lobby for the downtown parking fee disappears. The reason is

³ See http://www.rochdaleonline.co.uk/Rochdale_News_Business_News_The_Greater_Manchester_Momentum_Group-Rochdale_Online.htm. Similar examples include Milan, San Francisco (Bent and Singa, 2009) and Montréal (<http://ici.radio-canada.ca/regions/Montreal/2010/11/17/008-plateau-stationnement-commercants.shtml>).

⁴ Scholars and commentators mention accessibility by car as one of the key competitive advantages of suburban establishments. See, e.g., Lagakos (2009) and UK Dept. for Communities and Local Government (2013, p.7).

⁵ Anecdotal evidence indicates that large suburban retailers (e.g., big grocery store chains) lobby local governments on several issues. Consider, for instance, land-use regulation. There are several reports of lobbying by supermarket chains to tighten planning rules in order to block entry of similar competitors. See, e.g. Friends of the Earth (2006).

⁶ In several cities, central residents have encouraged the government to raise fees on non-resident drivers, or to provide residential parking permits (Inci, 2015). Van Ommeren et al. (2011) report a large difference between parking fees applied to residents and to outside visitors in central Amsterdam. By contrast, in other (usually smaller) cities, residents have shown concerns about the loss of vitality of the area they live in (see Molenda and Sieg, 2013 for an analysis focusing on local residents). In some instances, therefore, both retailers and local residents backed the campaign against parking fees. This was the case in the Harlestone example mentioned above.

⁷ Consider, for instance, the grocery retailing industry. According to data published by Sageworks, over the period from 2007 to 2012, the average net profit margin for US supermarkets was below 2%, less than half of the corresponding figure for specialty food stores (see Forbes.com, “Supermarkets face tough choices if food costs rise”, retrieved June 2014). Statistics Canada reports that the net operating margin of food and beverage stores is 7%, compared to 2% for supermarkets (see CCSA, 2012).

⁸ The relevance of multiple-stop shopping has been emphasized in recent studies of competition among retailers. See, e.g., Chen and Rey (2012) and Uschev et al. (2015).

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