Bloomberg

Defending Mom-and-Pop Stores, an Old and Enduring Fight: Echoes

By Marc Levinson - Feb 2, 2012

India's ambivalence about modern retailing has brought derision from the West. The government's decision to put off legislation that would have opened India's retail market to foreign investors, announced Dec. 7, led to howls of outrage. On Jan. 10, the government partially reversed course, decreeing that foreigners could own single-brand stores under certain conditions.

Those conditions include obtaining at least 30 percent of the products sold from small Indian manufacturers -- which was unattractive to retailers who gain competitive advantage from their ability to source globally on a large scale. On Jan. 22, the Swedish furniture retailer IKEA said it was putting its entry into the Indian market on hold.

From a historical perspective, India's new measures are far from unique. Almost every country has intervened at one time or another to protect mom-and-pop retailers from larger, more efficient competitors. In many countries, including the U.S., those protections have lasted for decades on end.

The reason governments shelter small retailers and wholesalers is straightforward. In a modernizing economy, mom-and-pop stores are usually enormous sources of employment. The grocery retail and wholesale sectors alone accounted for one in 18 U.S. jobs on the eve of the Great Depression. No one denies that modernizing the retail sector brings benefits in terms of productivity and consumer well-being. But in the near term, it also causes considerable economic and social pain by throwing Mom and Pop out of work.

When I was a student in West Germany in the 1970s, for example, we had to shop between 7 a.m. and 6:30 p.m. On Saturdays the stores closed at 2:00 p.m. except the first weekend of each month, when we celebrated "long Saturday" by spending 'til 4:00 p.m. If you happened to run out of milk on Sunday, heaven help you. Such rules had first come into place in 1900, ostensibly to protect retail workers from the ravages of unsocial working hours. Their real purpose was to protect independent stores. A factory worker on the day shift couldn't come home, change clothes, and venture out to a distant grocery chain or department store for an evening's shopping. The neighborhood shop was the only practical option.

Japan achieved much the same end by restricting big retail establishments after World War II. The most notorious of these restrictions, the "Large Retail Store Law," which went into effect in 1974, gave existing merchants a veto over the establishment of "large" stores in their neighborhood -- and in most parts of the country, a store of 15,000 square feet, roughly a third the size of the average U.S. supermarket, counted as large. Until it was repealed in 2000, this law proved highly effective at keeping foreign retailers such as Toys "R" Us and Wal-Mart from building a presence in one of the world's wealthiest markets.

Italy has also long coddled independent retailers. In 1971, a census counted 407,000 retail shops in Italy, more than 90 percent of which occupied spaces smaller than 25 square feet. That year, the proprietors of these tiny establishments -- who felt threatened by the arrival of supermarkets and discount hypermarkets -- won protection. A new law allowed municipal authorities to determine whether their towns needed more retail space -- and if the answer was yes, existing shopkeepers were to be given the first right to fill that space.

The law also dictated what types of items each shop could sell: Grocery stores could sell packaged foods and milk but not fish or meat, while only book stores could sell books. Pharmaceuticals could be purchased only in a shop owned by a pharmacist, which couldn't be too near another pharmacist's shop. Reforms announced by Prime Minister Mario Monti, to take effect next month, will finally give chains and foreign retailers a shot at the Italian market, where they have had difficulty even gaining permission to set up shop.

The U.S., of course, did this sort of thing much earlier. In the 1920s and '30s, most states imposed special taxes on chain retailers to increase their costs relative to independent stores. Many states required a minimum retail mark-up over the wholesale price on every single item in the store, to constrain discounting. Congress joined in with the Robinson-Patman Act, a 1936 law that was meant to keep manufacturers from giving volume discounts to their large retail customers; if every retailer could obtain its merchandise at the same price as its competitors, the reasoning went, the little guy might have a chance.

In most countries, these laws to protect small shopkeepers have faded over time, but change has often come slowly. That's likely to be the case in India as well. Indian consumers will gradually learn the virtues of large-scale retailing, and they will press their own government to let them choose which type of retailer they wish to patronize. Meanwhile, we in America shouldn't be patronizing about a country that seems to be turning its back on modern retailing. That used to be us.

(Marc Levinson's most recent book is "The Great A&P and the Struggle for Small Business in America." The opinions expressed are his own.)

To read more from Echoes, Bloomberg View's economic history blog, click here.

To contact the writer of this blog post: Marc Levinson at marclevinson1@gmail.com.

To contact the editor responsible for this blog post: Timothy Lavin at tlavin1@bloomberg.net.