

## Should Cities Limit the Number of Certain Businesses?

I think it's a fascinating and polarizing question. In the last three years, I have heard from a number of people that have contended that cities should limit the number of certain types of businesses. I understand the rationale; if government limits the competition, the existing (or remaining) businesses should, in theory, gain a greater market share. This should result in greater profitability for existing local businesses and reduce the number businesses that have to close their doors.

Unfortunately, this issue is far more complex and convoluted. Rather than presenting a counter argument, I thought it would be far more interesting to take a journey down the rabbit hole...

### Down The Rabbit Hole

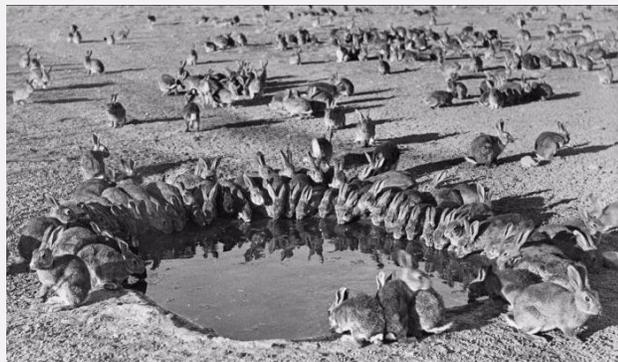
I should provide a little context before we get too far along. Here in Canada, we benefit from a mixed economy. While we are largely a [market economy](#), which is driven by the law of [supply and demand](#), government plays a significant role with respect to fiscal and economic policies, as well as providing public services.

In order to play out some of the effects of limiting the number of certain businesses, let's imagine that city has a significant (but particularly delicious) oversupply of ice cream shops.

### What is the right number of businesses?

How do you determine what is the right number for a city?

- **Population** - Do you limit the number of business based on threshold population? As an example, in Alberta one bottle depot licences is issued for every 40,000 people. What is the right number for ice cream shops in this market?
- **Sales** - Should it be based on retail sales? What amount of retail spending makes an ice cream shop viable? To what extend should the merchant's expenses (wages, lease rates, taxes, etc.) be factored in? What happens if trade area retail spending declines? Do you terminate or suspend some ice cream shops? Who determines what the thresholds are?



- **Distance** – Do you limit the number of businesses based on distance? Montreal recently imposed a 25 meter distance restriction on new restaurants in the borough of Saint-Henri, while Edmonton recently relaxed their distance restrictions on liquor stores. Suppose a new ice cream shop could not be within 1 km radius of another ice cream shop. Could businesses use those regulations to strategically block other businesses from locating or relocating? And what about consumers, would they be required to shop at the nearest ice cream shop or could still travel across town to visit their preferred merchant. If so, we may still see market share inequality.

#### **How do you implement new limits?**

- **Immediate Implementation** – Should you implement new rules immediately? If you do, some ice cream shops may be forced to close. How do you choose which ones get to stay open and which ones must close? Should it be the first ones into the market or the last ones? Should it be the one with the least sales? Should residents vote?
- **Grandfathering** - Do you grandfather all existing ice cream shops? While this may appear more fair to existing ice shops, is there is already an oversupply issue, this option does not allow for the market imbalance to be corrected until the market grows or one of the existing shops fails.

#### **Which industries should be limited and to what extent?**

- **Products** – If ice cream shops are limited, what about frozen yogurt shops, gelato shops, sorbet shops, milkshake shops? What about restaurants, grocery stores that sell ice cream? What about ice cream trucks? Would they be limited too? Should they be considered the same industry? Where should the line be drawn the line?
- **Services** – What about service based industries? There are certainly competitive services that face market imbalance challenges as well. Should plumbers, real estate professionals, accountants, etc. be limited too?

#### **What happens when a business closes?**

If an ice cream shop owner decides to close or retire, what happens their “licence”?

- **Licence returned to City** – Should the licence be returned to the city, so that it can be reallocated, either by competitive RFP or some sort of first-come-first served ice cream shop waiting list?
- **Licence sold by owner** – Should the ice cream shop owner own the right to the licence and be permitted to sell it to the highest bidder? We saw this scenario with Taxi “Plate-Holders” in the City of Edmonton. Plate Holders were permitted to sell their place instead of returning it to the city. The effect of that decision was that the price for a plate increased from the City’s original fee of \$400 to a resale value of around \$200,000!

#### **Pulling the Rabbit out of the Hat**

On the surface, limiting the number of a particular type of business may seem like a good idea, but as you can see from the small sample of questions above, there a number of interconnected considerations and decisions that need to be made; each with countless variables that could have unintended consequences. Do you think those decisions should left to government or would you prefer the autonomy and freedom to make them yourself? Setting a limit does not guarantee more market share. I would also argue, that it discourages entrepreneurship. I would suggest that rather than trying to limit, reduce, or prevent competition, our entrepreneurial energy should be focused on increasing our competitiveness, by working to provide a better product, better value, and a better customer experience.

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