

Incidental Representation

Gautam Nair, Owen Bernstein, and Richard Zeckhauser

Assistant Professor of Public Policy, Harvard Kennedy School

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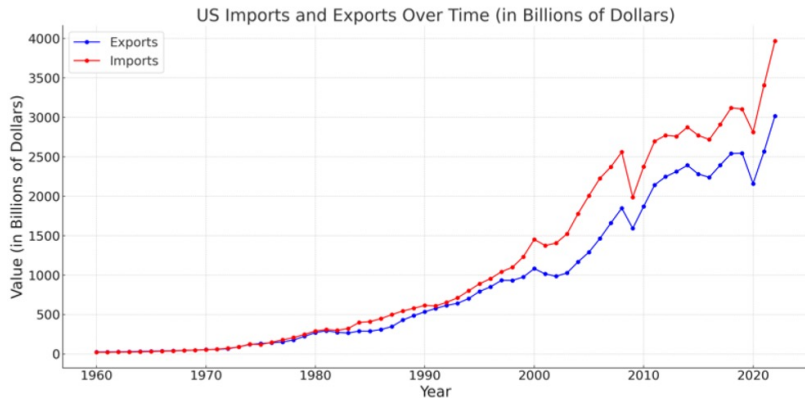
Problem: Representation of Dispersed Interests

- ▶ Dispersed interests face a collective action problem
 - ▶ Concentrated interests win in the lobbying arena while many “forgotten groups suffer in silence” (Olson 1965, p.165)
- ▶ Solutions
 - ▶ Selective incentives
 - ▶ cost of participation $>$ benefits
 - ▶ Motivating ideology
 - ▶ Moral/justice issues vs. pragmatic interests
 - ▶ Political entrepreneurship
 - ▶ Dependent on issue salience + resources (money/campaign funds)

Specific Application: Consumers and Trade

- ▶ The classic dispersed interest: very numerous and small individual stakes
- ▶ Concentrated producer interests face much lower collective action problems → Producer interests win over consumer interests
- ▶ Import competing interests win protection while consumers (hypothetical beneficiaries of free trade and cheaper imports) lose (Pareto 1927, Schattschneider 1935, Olson 1965)

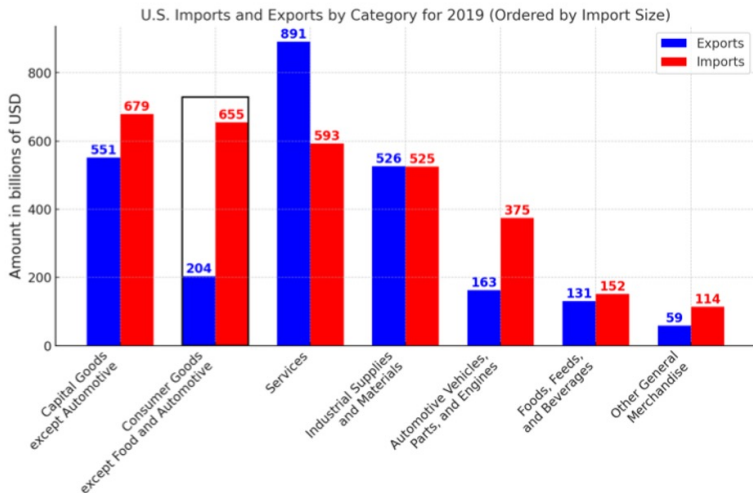
Puzzle: Declining Trade Barriers and Booming World Trade



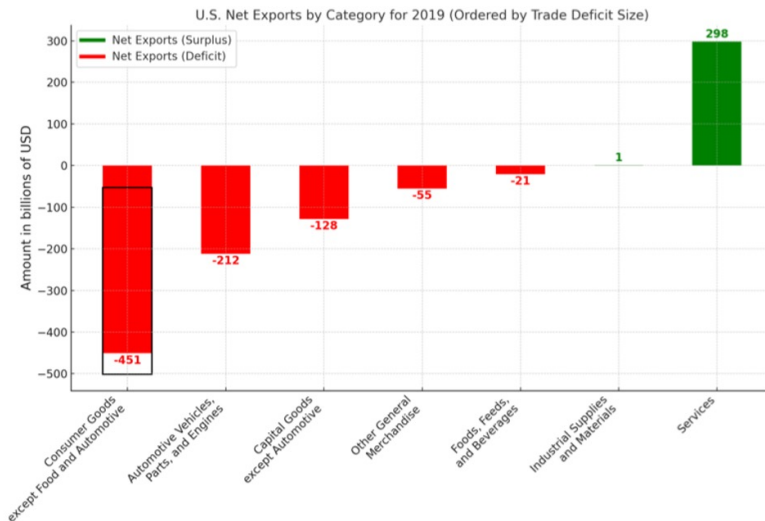
Firm-centric theories of trade liberalization

- ▶ Gilligan 1997, Kim 2017, Osgood et al. 2017, Osgood and Kim 2019
- ▶ Focus on *exporting* and *import-competing* firms
- ▶ Emphasize demands of *intermediate goods* importers

Unexplained: Large Imports of *Consumer Goods*



Consumer Goods are Key Driver of Trade Deficit



Argument: Rise of Concentrated Retail Sector and Representation of Consumer Interests



Role of Retail and Distribution (Ingram 2004, Basker 2016, Lichtenstein 2009, Ellickson 2016)

- ▶ Acts like a **buying agent/group in markets** (i.e. “organizes” a large group of consumers together and then negotiates prices and quality with manufacturers, providing information, marketing, etc.)
- ▶ Gets a profit for performing these services (wholesale + retail \approx 15% of US GDP)

Technological Origins of Changing Industrial Structure

- ▶ Dominated by small mom-and-pop establishments
- ▶ Starting in the 1950s and accelerating in the 1970s, we see the emergence of behemoths like Walmart (and later Amazon)
- ▶ New technologies (barcodes etc.)
- ▶ Shifts balance of power towards retail (pricing autonomy etc.)
- ▶ Ingram and Rao, 2004; Basker, 2016; Lichtenstein, 2009; Ellickson, 2016

Retail Interest in Lower Trade Barriers

- ▶ Retailers support lower trade barriers
 - ▶ Consumer demand increases with low prices and product variety
 - ▶ Retailers profit by arbitrage between price paid to suppliers and prices paid by consumers
 - ▶ Imports reduce supplier power and increase variety
- ▶ Preference for free trade is more intense among large retailers
 - ▶ Able to pay the fixed costs of global supply chains

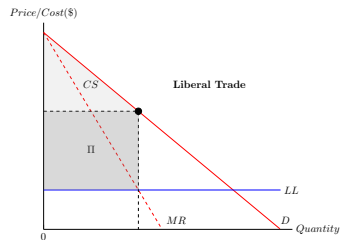
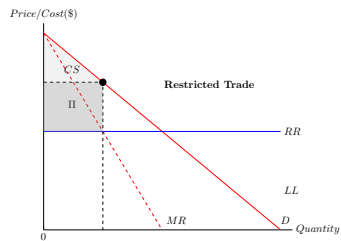
Concentration also matters in the political arena

- ▶ Large firms reap bigger share of industry specific benefits
- ▶ Big firms bankroll collective action of dispersed industry
- ▶ Reduced “influence gap” relative to producers

Incidental Representation of Consumers

- ▶ Share of resulting benefits is passed on to consumers in lower prices and product variety
 - ▶ Not motivated by altruism
 - ▶ Representation of interests (not stated preferences)
 - ▶ Oligopolistic competition (retail does not absorb full surplus)
 - ▶ Reverse of standard theory of regulation (concentration encouraging entry)

Sharing the spoils



Varieties of Representation

Varieties of Representation in Politics and Policy

Purposive

Characteristics:

Proactive advocacy
Clear mandate
Formalized roles

Examples:

Political entrepreneurship
Politicians for constituents
Class action lawyers for plaintiffs

Linked

Characteristics:

Mutual dependency
Shared objectives
Can be formalized

Examples:

Unions and executives
seeking favorable policy
(tariffs, bailouts)

Incidental

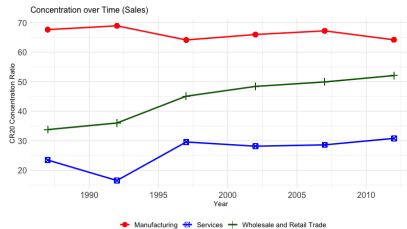
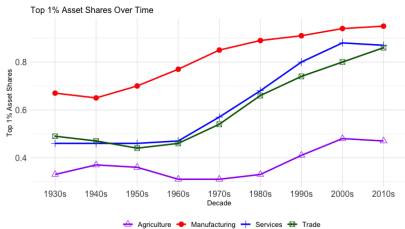
Characteristics:

Unintentional representation
Byproduct of primary goal
Not often formalized

Examples:

Retailers lobbying for
liberal trade inadvertently
benefiting consumers

Assumption: Rising Concentration/Consolidation (De Loecker, Eekhout, and Unger 2020; Kwon, Ma, and Zimmermann 2023)



Motive: top five importers by volume are all large retailers (22/100;
Walmart alone accounts for about 11-15% of Trade with China)

JOC TOP 100 IMPORTERS | TEU IN 2019 | SECTOR | HEADQUARTERS

- 1 **Walmart** | 893,390 | Retail | Bentonville, Ark.
- 2 **Target** | 600,040 | Retail | Minneapolis, Minn.
- 3 **Home Depot** | 400,100 | Retail | Atlanta, Ga
- 4 **Lowe's** | 292,244 | Retail | Mooresville, N.C.
- 5 **Ashley Furniture** | 270,000 | Furniture | Arcadia, Wisconsin

Retail takes a uniformly pro-free trade position in public (and in interviews)



Advocating for policies that strengthen global trade relations
NRF continues to call for the elimination of the China 301 tariffs and for a more transparent tariffs review process. The [Americans for Free Trade coalition](#), which NRF helps lead, recently [sent a letter](#) to United States Trade Representative Katherine Tai to stress the importance of a transparent review of the China tariffs, as well as an economic impact review of the tariff's impact on American businesses and consumers. We continue to call on Congress to renew expired trade programs such as the Generalized System of Preferences and the Miscellaneous Tariff Bill, which also help retailers and consumers. [Learn more](#) about how global trade boosts the economy and lowers prices.

Value, Choice, and Openness

STATEMENT OF ROBERT HALL, VICE PRESIDENT AND INTERNATIONAL TRADE COUNSEL, NATIONAL RETAIL FEDERATION

Mr. HALL. Good evening, Mr. Chairman.

I am Robert Hall, vice president and international trade counsel at the National Retail Federation, the Nation's largest trade group speaking for the retail industry. We represent the entire spectrum of retailing, which includes several dozen national retail associations and all 50 State retail associations.

Our membership represents an industry that encompasses over one and a half million retail establishments, employs 20 million Americans—one in five Americans—and last year registered sales in excess of \$2.5 trillion.

The Federation strongly supports renewal of China's most-favored-nation status for several reasons. First, MFN for China helps American families make ends meet. Second, MFN for China creates high-paying jobs relating to both exports to and imports from China. Third, MFN for China promotes change within China. Fourth, failure to renew China's MFN trading status would deal a severe blow to Hong Kong. And, fifth, no one understands better than retailers the importance that MFN for China plays in helping families purchase well-made, value-priced goods.

Every day the Federation's members shop the United States and the world in search of consumer goods that meet American families' demands for quality at competitive prices. China offers us an opportunity to provide the goods these consumers demand at prices that fit their increasingly tight budgets.

For many products such as toys and consumer electronics, to name just two, China is a low-cost alternative to other foreign producers. In other cases, such as the high-quality silk apparel sold by high-end department stores and also by mass retailers, China is the only source for a given product at affordable prices. In the case of silk apparel, even U.S. producers are not alternative suppliers.

Failure to renew MFN for China would trigger an avalanche of price increases across the United States without consideration for the tight budgets of American families. For example, the Trade Partnership has concluded that failure to renew China's MFN tariff status would increase the price of many toys by 66 percent, perhaps wiping out several particularly popular stuffed toys off the list of possible presents for children.

I have today an example of this—a teddy bear which our study has concluded would go up in price by 65 percent if you revoke MFN for China. Similar toys would increase by up to 90 percent. Similarly, the range of available low-priced bicycles for children would also be cut dramatically. Very inexpensive personal tape players would likely disappear. Low-cost footwear would no longer be low cost. Silk apparel prices would leap out of the range of most budget consumers.

Imports of these products from China are significant, and failure to renew MFN would have broad effects on American families.

Overall, the International Business and Economic Research Corp. estimates the failure to renew MFN for China would force the average American family to pay an extra \$300 a year in higher

prices. Clearly, this non-MFN status would take a particularly heavy toll on low-income families who depend on low-cost goods.

MFN for China creates high-paying jobs for the United States—as you heard from many of the export companies here today, over 170,000 jobs. These include high-paying jobs in growing industries such as telecommunications, information technology, aviation, and power generation. These jobs would be jeopardized by failure to renew MFN for China, and China would, in turn, retaliate and shift its purchases to companies in Europe, Japan, Canada, and elsewhere. In addition, U.S. jobs or related U.S. investment in China would also suffer if China retaliated in even subtle ways against those investments as a consequence of U.S. denial of MFN.

What is not widely known is that U.S. imports from China, which are more directly affected by MFN tariff treatment, support an even larger number of high-paying U.S. jobs than U.S. exports to China. The Trade Partnership estimates that U.S. exports of consumer goods from China in 1996 alone supported 2.4 million jobs in high-paying sectors such as manufacturing. Those are the jobs related to cash registers and the trucks that transport goods to stores, for example, finance and insurance, transportation, wholesaling, and, of course, retailing. Failure to renew MFN for China would force many companies in these sectors to lay off workers, because the reduction in demand for imports would no longer justify their jobs.

For my final two points, I will refer to you my formal submission.

I would conclude by saying there is much at stake in the decision to renew MFN tariff status. Much of what is at stake lies within America's borders. Misguided efforts to promote human rights and democracy in China and even Hong Kong would likely have the opposite of the effect intended. Added to that would be the enormously heavy burden on American families.

Mr. Chairman, with your permission, I submit for the record a copy of a letter we sent today and hand-delivered to all Members of the Ways and Means Committee. It is signed by a number of leading retail chief executive officers in this country, and they are asking that this Subcommittee report unfavorably the disapproval resolution offered by Mr. Solomon.

[The letter follows.]

Congressional Testimony: (uniquely) emphasizes lower prices and product variety

these industries especially since in 9 cases, and Druggist's home specialty stores in 2 States. In all, 20 members of this committee have Dayton Hudson stores and employees in their districts.

Retailers are a major industry in the country, employing 16 million people or roughly 15 percent of the American workforce. Our annual sales of over \$1 trillion constitute a third of the Nation's gross national product. Because we make a substantial contribution to the health of the economy, retailers have a major stake in the formulation of U.S. trade policy.

We are particularly pleased that this committee chose a representative of the retail industry to speak on behalf of American business. Retailers have a nationwide presence. We are in every city and town, from the largest metropolis to the smallest village. The general store, the local car dealer, the corner grocery store, and the downtown department store are all part of the retail industry—an industry which every family in the country knows and does business with on a regular basis.

We in retailing have much in common with you in the Congress. Our customers are your constituents. They are housewives, working women, and teenagers. But they are also auto workers, steel workers, and textile and apparel workers. When they are unemployed, we suffer. When our towns and communities are depressed, we feel the consequences. Like you, we share the goal of ensuring that they have jobs and that their—our—communities thrive.

To remain competitive, however, retailers must find merchandise that offers value to the American consumer, at a price they can afford to pay. We have no preference for imports over domestically produced goods. In fact, when we finish shopping the world's markets, 70 to 80 percent of the time we find what we are looking for right here in the United States.

When domestic sources of supply are unavailable, overseas manufacturers help us meet customer demand. Merchandise is purchased abroad to add value and choice for the American consumer.

We operate in a fiercely competitive business. Retailers must constantly innovate to compete effectively. No Federal guarantees, outlets, or guaranteed markets protect retailers. Those who can't thrive in this environment do not survive. It is that simple. I'm sure you remember W.T. Grant, Korvettes, and Robert Hall. When retailers, even large ones, don't improve their productivity, they disappear.

We are committed to open and expanding international trade. We want a trade bill this year that does that. As we in business, labor, and government assume the challenge of developing trade policies that will guide us through the remainder of this decade and into the next, we hope you will keep in mind the policies that we allowed us to prosper since World War II.

Our Nation's commitment to free and fair trade has led to a worldwide explosion in growth enjoyed at home and abroad. Without our commitment and effective leadership, we would all be much poorer.

As just one example, our successful efforts to lower tariffs have sped employment and living standards throughout the world. We must recommit ourselves to expanding world trade

In doing so, we must not take the easy route and blame all of our ills on foreigners. We, not they, have produced a Federal budget deficit of magnitudes unknown in history. We, not they, have failed to develop programs to foster exports. We, not they, have in too many cases failed to improve the productivity of our capital and labor when measured against the competition.

We must take responsibility for our actions, admit that many of our trade woes are self-induced, and begin the formidable task of formulating a coherent bipartisan trade policy. We in the business community must accept our responsibility to be innovative in our business methods, to develop new products, and to increase our marketing efforts.

But the Congress has a vital role to play as well. Along with the administration, it must establish a world trading environment in which export opportunities increase for all.

Mr. Chairman and members of the committee, I want to make four major points today.

First, the Congress must avoid the temptation to pass sector-specific legislation. Industries that receive protection more often than not fail to adjust to changing circumstances. In the process, consumers lose twice. They are forced to pay ever higher prices for goods, and they have fewer alternatives to choose from.

Perhaps worst of all, foreign interests benefit at the expense of our customers. For example, the Japanese would not have withdrawn the voluntary restraint agreement on automobiles if they did not expect to gain financially. We hope that you will recognize that not every group pleading for protection needs it.

The 1986 and forecast 1987 profits in the textile industry are vivid examples of this. Just as the United States should be no patsy for our trade partners, we should also be no patsy for every group demanding sector-specific relief.

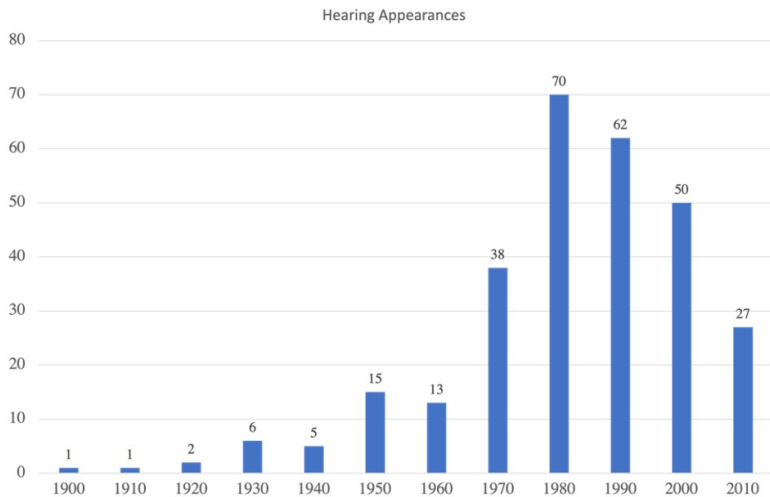
Second, we support programs aimed at helping workers, industries, and communities to adjust. We don't look at job losses as mere statistics. We see a loss of livelihoods and the energies of our communities. We see our customers without work, without a chance to maintain a lifestyle developed through a lifetime of hard work.

The Government does have a role to play in adjustment assistance—a major role. But the emphasis must be on real adjustment. If the Government is going to provide assistance, workers, industries, and communities must do their part to adjust. Like Chrysler, in return for assistance, they must make commitments, honor them, and accept change in return for the help they receive. Assistance must not continue to be a means to avoid adjusting to change.

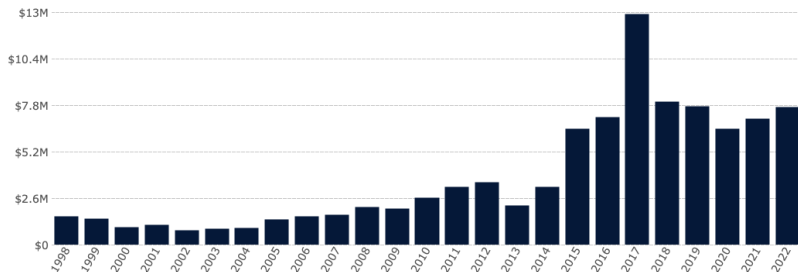
Third, the Congress must delegate to the President broad negotiating authority for the Uruguay Round of Multilateral Trade Negotiations. We recognize that the Congress has an important role to play in these negotiations and, along with the private sector, will be active in the formulation of our trade negotiating objectives.

Unless we provide the President with broad negotiating authority, however, we cannot hope to accomplish our overriding objective of expanding world trade. In developing positive trade legislation

Participation in Hearings has Increased



National Retailers Federation: Annual Expenditures of nearly \$8 million (similar to NAM; Trade is most lobbied issue from 1998-2008; Data from OpenSecrets)



Consistent with US Policy: US sought end to Japan's Large Store Law to facilitate US imports

JAPAN'S REGULATION OF LARGE RETAIL STORES: POLITICAL DEMANDS VERSUS ECONOMIC INTERESTS

JEAN HEILMAN GRIER*

1. INTRODUCTION

One of the most visible and hotly debated Japanese trade barriers in the 1990s was the Large-Scale Retail Stores Law ("LSL").¹ For years, no list of impediments to Japan's market was complete without a reference to the LSL. It was a leading topic in bilateral talks between Japan and the United States under the Structural Impediments Initiative. The LSL was also a key element in the U.S.-initiated film dispute in the World Trade Organization ("WTO"). In 1998, with little advance notice, Japan finally repealed the LSL, and enacted a replacement.

This Article examines the tight control that the Ministry of Economy, Trade and Industry ("METI")² has exercised over retail-

* Senior Counsel for Trade Agreements, U.S. Department of Commerce, Washington, D.C.; member of Bars of District of Columbia and State of Minnesota;

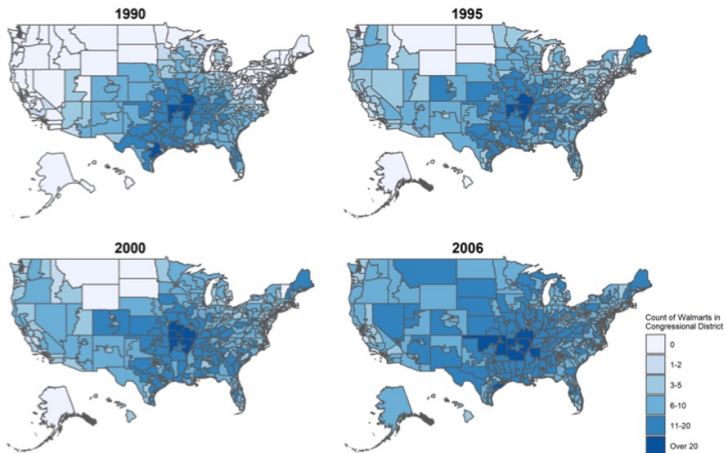
Observational Evidence

- ▶ Design: study relationship between rise of Walmart and normal trade relations with China
- ▶ Why Walmart?
 - ▶ \$572 billion in revenues
 - ▶ Largest employer in US (about 1.5 million)
 - ▶ Key driver of consolidation
 - ▶ Global supply chain (Lichtenstein 2006)
- ▶ Why China?
 - ▶ Biggest source of imports of consumer goods
 - ▶ Politically salient issue of Normal Trade Relations

Details

- ▶ Approach: geocode and link Walmart penetration to Congressional districts
- ▶ Dependent variable: affirmative votes (1/0) for NTR
- ▶ Independent variable: Walmart penetration over time (Walmarts per 100k citizens)
- ▶ Event study design; Controls: state fixed effects, year fixed effects, party ID of Congressperson, DW-NOMINATE, president's party, time-varying measures of district/state income, education, employment

Walmart Penetration over Time



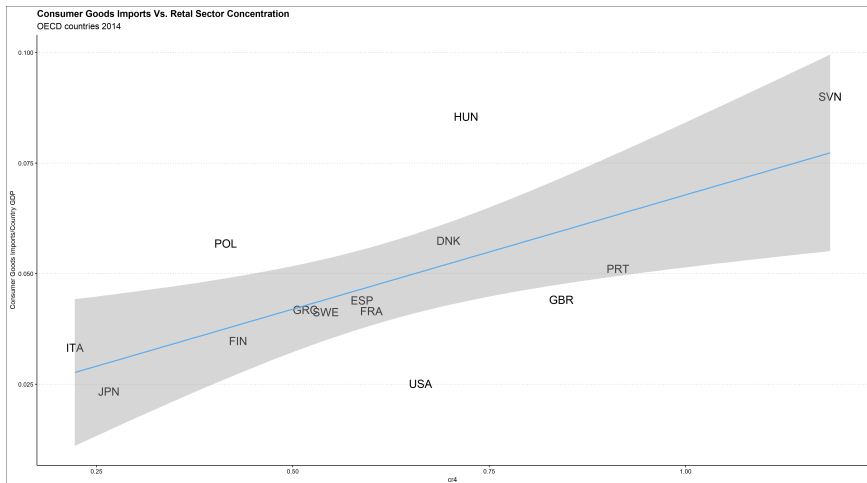
Approximately 7 pp increase in likelihood of affirming NTR with China

	Votes For Renewing China NTR Status			
	Vote for China			
	(1)	(2)	(3)	(4)
Walmart Count (Per 100k)	0.078*** (0.009)	0.071*** (0.013)	0.080*** (0.015)	0.070*** (0.015)
Party (Republican)			0.164*** (0.018)	0.032 (0.039)
Party (Independent)			-0.531** (0.258)	-0.688*** (0.261)
Per Capita Income			-0.00000* (0.00000)	-0.00000* (0.00000)
High School Grad (%)			0.002 (0.003)	0.002 (0.003)
Bachelor's Degree (%)			0.014*** (0.004)	0.015*** (0.004)
Unemployment (%)			0.001 (0.005)	0.004 (0.005)
Same Party as President			0.103*** (0.020)	0.106*** (0.020)
DW-Nominate 1st Dimension				0.191*** (0.049)
Constant	0.549*** (0.010)	0.196*** (0.055)	-0.091 (0.174)	-0.039 (0.174)
State Fixed Effects	No	Yes	Yes	Yes
Year Fixed Effects	No	Yes	Yes	Yes
Observations	5,233	5,233	5,233	5,233
Log Likelihood	-3,644.871	-3,179.160	-3,105.641	-3,098.018
Akaike Inf. Crit.	7,293.741	6,468.320	6,335.283	6,322.037

Note:

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Consistent with Cross-National Data (Bajgar et al. 2019)



Summary

- ▶ Big Retail helps to solve the collective action problem for consumers: incidental representation
- ▶ Extensions: social and regulatory policy
- ▶ Theory and results contribute to literature on collective action, business influence, trade politics, and understudied politics of retail and distribution

- ▶ gnair@hks.harvard.edu
- ▶ Thanks!