

# James Pethokoukis

POLITICAL RISK

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July 1st, 2009

## Wal-Mart and rent seeking

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Posted by: [James Pethokoukis](#)

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Government intrusion into the marketplace has so many unintended and unforeseen consequences — like Wal-Mart (!) coming out in favor of government mandate that employers provide health insurance. Why? Here is how a flabbergasted [Heritage Foundation](#) explains it:

Why would Wal-Mart — the nation's largest employer — endorse such an idea. Simple: *It would cripple many of their competitors.* Much ink has been spilled on the effect Wal-Mart has on small retailers. Wal-Mart's large size enables them to extract low prices from manufacturers, and that — combined with efficient, computerized inventory operations enables them to undercut — and sometimes drive out of business — small "mom-and-pop" retailers.

An employer mandate to provide health insurance would enhance Wal-Mart's cost advantage. Wal-Mart has 1.4 million U.S. employees, and can negotiate a health insurance contract for them all at once. As a large multi-state employer, they can self-insure and provide coverage under federal ERISA regulations, which exempts them from costly compliance with most state health insurance regulations.

Wal-Mart's small competitors have neither of these advantages. Employers with less than 20 employees often pay more than twice as much per employee for the same coverage, and small employers must comply with sometimes-onerous state regulations.

Supporting the employer mandate is just another way large business can harness the forces of government to hobble their smaller competitors. The employer mandate would impose much higher costs per employee on small retailers than it would on Wal-Mart. They would have to charge higher prices to compensate, which would put them at a substantial competitive disadvantage. Many of these small retailers would be forced out of business.

And the befuddled Michael Cannon of the Cato Institute has a [moment of clarity](#):

A couple of years ago, I shared a cab to the airport with a Wal-Mart lobbyist, who told me that Wal-Mart supports an "employer mandate." An employer mandate is a legal requirement that employers provide a government-defined package of health benefits to their workers. Only Hawaii and [Massachusetts](#) have enacted such a law.

I couldn't believe what I was hearing. Wal-Mart is a [capitalist success story](#). At the time of our conversation, this lobbyist was helping Wal-Mart fight off employer-mandate legislation in [dozens of states](#). Those measures were specifically designed to hurt Wal-Mart, and were underwritten by the unions and union shops that were losing jobs and business to Wal-Mart.

But it all became clear when the lobbyist explained the reason for Wal-Mart's position: "Target's health-benefits costs are lower."

I have no idea what Target's or Wal-Mart's health-benefits costs are. Let's say that Target spends \$5,000 per worker on health benefits and Wal-Mart spends \$10,000. An employer mandate that requires both retail giants to spend \$9,000 per worker would have no effect on Wal-Mart. But it would cripple one of Wal-Mart's chief competitors.

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- James Pethokoukis is the Money & Politics columnist and blogger for Reuters where he covers the nexus of Washington and Wall Street.

Previously he was the economics columnist and business editor at *U.S. News & World Report* magazine. Pethokoukis is also an official CNBC contributor and appears frequently on that network's *Kudlow Report*, *Power Lunch*, and *The Call* shows. In addition, he has appeared numerous times on MSNBC, Fox News Channel, Fox Business Network, CNN, and *Nightly Business Report* on PBS.

A 1989 graduate of Northwestern University where he double majored in Soviet politics and American history and a 1991 graduate of the Medill School of Journalism, Pethokoukis is a 2002 *Jeopardy!* champion. Pethokoukis can be reached at [james.pethokoukis@thomsonreuters.com](mailto:james.pethokoukis@thomsonreuters.com).

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