

Is Wal-Mart Good for America? Retailer Plays Tough but by the Rules

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Article:

Does anyone really like corporations? In America, the populist streak is never far below the surface, and corporations are always the target of some anger. Of course, the oil companies get more than their fair share, due largely to the peculiar American belief that cheap gasoline is an inalienable right no less central to our way of life than free speech. And then there are flagrant corporate wrong-doers like Enron. But aside from these obvious targets, the corporation that catches the most flack has got to be Wal-Mart.

On one level, Wal-Mart would seem to be a hard company to hate. A lot of people clearly like shopping at its stores. Excluding motor vehicles, which Wal-Mart doesn't sell (yet), one out of every eleven dollars spent at retail in this country is spent at a Wal-Mart. One study found that four out of every 10 women in America walk into a Wal-Mart each week.

Wal-Mart isn't just the largest retailer in the country, it's the largest company period, having reached the top of the Fortune 500 for three years running. In 2003, Wal-Mart's annual sales reached nearly \$259 billion, or about 2.4 percent of Gross Domestic Product. We spend more at Wal-Mart each year than the total amount the U.S. government has spent so far in Iraq. You don't sell billions of dollars of housewares and groceries each year without making a few people happy along the way.

And yet Wal-Mart clearly doesn't make everyone happy. Its low wages anger labor activists. Its effects on downtown business districts enrage community activists. Its sheer size makes small-business owners nervous. Its practice of advertising via television has destabilized advertising-dependent small-town newspapers across the country. And its compensation practices have generated lawsuits by women who claim they were paid less than men for equivalent work.

It's worth stepping back and asking whether the company deserves all this anger. More to the point, if Wal-Mart is bad for America, is there anything that public policy can (or should) do about it? Let's take a quick look at some of the sources of the discomfort many Americans have with Wal-Mart.

Low Wages

The average wage at Wal-Mart is about \$7.50 per hour, as compared to the national average in retail of about \$12.00. To be fair, most Wal-Mart stores are in low-wage regions, in the small towns and suburbs of the South and Midwest. So we'd expect its wages to fall below a national average that takes into account both high-wage and low-wage regions. Even so, Wal-Mart is hardly the industry leader in employee compensation.

And wages are only part of the story, because Wal-Mart is notoriously stingy with benefits. Most of its employees must pay for their own health insurance, and the company's subsidy is so meager that only two in five workers can afford it. In fact, a handful of studies have found that the appearance of Wal-Mart in a community actually increases the cost incurred by local governments to provide social services.

Out-Sourcing

Wal-Mart used to trumpet its commitment to American-made products. These days the company's commitment to low prices trumps that earlier commitment. In that respect, the company is reflecting the buying habits of consumers, who rarely make a point of buying American even though they always *say* it's important to do so. Wal-Mart is one of the very biggest sellers of imported goods, accounting for a tenth of all U.S. imports from China. As a result, the company has come under fire from labor groups and others that oppose the movement of manufacturing off-shore. If one believes that out-sourcing is a crime, then Wal-Mart is a prime accomplice.

Downtowns

As nearly everyone knows, Wal-Mart's favored business model is the "big box" on the edge of town or in the suburbs. The company prefers not to locate in existing downtowns, for a variety of reasons including taxes and space. (This is changing to some degree, as the company tries out new store sizes and formats.) One of the frequent criticisms leveled at Wal-Mart is that by pulling customers away from central business districts and out to the periphery, it sucks the life out of downtowns.

These three criticisms of Wal-Mart have something in common. Each is a serious problem in the minds of many people, but none is a problem that Wal-Mart created. Wal-Mart didn't create the current labor market, and it's hard to condemn it for paying what is, after all, the prevailing wage in the areas in which it does business. Many thousands of working people around the country see Wal-Mart as their best option.

Some of the company's critics act as though it's against the law to pay low wages. Well, it isn't. The minimum wage is less than \$7.50, and anyone who has a problem with that needs to take it up with Congress, not Wal-Mart.

At the local level, the only time governments get to have any say about wages is when a company requests a customized tax break, either as part of a site-location decision or an expansion of an existing facility. Usually the tax break is contingent upon the company paying a specified average wage. But Wal-Mart generally doesn't apply for such incentives, hence no local-government say.

As for the increased cost of social services in communities with Wal-Marts, there's something to that. Cost-shifting is one of Wal-Mart's specialties, though usually the victims are its suppliers. However, we need to be clear about this finding. Wal-Mart may increase the burden on social-service agencies when compared to previous employers that provided better benefits, but not when compared to having all those Wal-Mart employees on the unemployment rolls. In any case, benefits are like wages in that they're a function of the labor market.

We can also lament Wal-Mart's dependence on imports and its impact on downtowns. But Wal-Mart invented neither out-sourcing nor suburban sprawl. The blame for the latter lies with zoning boards around the country, which, for reasons ranging from misguided policies to sheer neglect, let sprawl happen. (Wal-Mart may bear some responsibility for out-sourcing, as I'll mention below.)

While the snobs among us may turn up their noses at Wal-Mart, the simple fact is that millions of Americans, including quite a few people reading this newspaper today, think that Wal-Mart and its low prices are just wonderful. I'm not one of those people, but I'm in no position to say they're wrong.

There is something about Wal-Mart that does give me pause from the standpoint of economic policy. The issue is the company's market power, particularly as it exerts it on its many suppliers. We're used to thinking about companies having too much market power on the selling side, thereby driving prices up too high. What I wonder is whether Wal-Mart has too much market power on the buying side, thereby driving prices down too low. Yes, it's possible for prices to be too low.

Wal-Mart is incredibly demanding of suppliers of sporting goods and groceries and everything else it sells. A revealing article in the December 2003 issue of the business magazine *Fast Company* outlines just how intense that pressure is. Wal-Mart's relentless quest for ever-lower prices forces manufacturers to rethink and improve entire production processes. Of course, this is a boon to consumers, at least in the short run. But some suppliers are forced to sell at a loss, because with Wal-Mart's awesome reach in the retail sector, they can't afford *not* to place their products in the company's stores. By severely squeezing profit margins among manufacturers, this has reinforced the existing trend toward out-sourcing, as manufacturers search the globe for the lowest possible production costs. Most economists believe that out-sourcing *per se* isn't a big problem, but any out-sourcing that results from Wal-Mart's undue market power is troubling.

Wal-Mart's buying power has some unexpected consequences. In the recording industry, for example, companies are beginning to find it too expensive to keep a wide variety of artists under contract *and* keep their prices low enough to satisfy Wal-Mart. The result is a gradual trend toward less artistic diversity on major record labels (though the Internet and other new technologies are countering this).

There are things about Wal-Mart that make many of us uncomfortable. It is scarily efficient, never resting on its laurels, always looking for the next profitable business. It pushes the envelope on wages, purchasing, and pricing. But for the most part, Wal-Mart plays within the rules as they currently exist. Aside from enforcing those rules, what the government needs to do is pay close attention to the company's market power over its suppliers. Excessive market power generally invites scrutiny by antitrust officials, and perhaps Wal-Mart warrants a look.

Many people believe that Wal-Mart is bad for America. But for the most part, what's behind those beliefs has more to do with America's problems than with Wal-Mart's misdeeds.