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Wal-Mart's Shocking Impact on the Lives of Hundreds of Millions of People

By David Moberg, The American Prospect
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Wal-Mart casts a global shadow across the lives of hundreds of millions of people, whether or not they ever enter a Supercenter. With $405 billion in sales in the last fiscal year, Wal-Mart is so big, and so obsessively focused on cost-cutting, that its actions shape our landscape, work, income distribution, consumption patterns, transport and communication, politics and culture, and the organization of industries from retail to manufacturing, from California to China.

Yet other paths are possible, and the company would not be so influential had the world not changed to enable its metastasized growth. Had unions been stronger, especially in the South, and more devoted to organizing the growing service sector, Wal-Mart might not have become such an obstacle to labor renewal. If antitrust enforcement had not been narrowed, Wal-Mart could never have grown as big as it did. There would be no such mega-stores if state governments had not repealed Depression-era fair-trade laws. And Wal-Mart's push of American consumer -- product manufacturing to China depended on a previously established political and technological foundation of pro-corporate globalization.

But it would be a mistake to say that Wal-Mart is merely following the new logic of retail competition, for Wal-Mart reinforces all dimensions of this emerging business climate. As Jennifer Stapleton, assistant director of the United Food and Commercial Workers' project Making Change at Walmart, puts it, "They set the rules."

Consider Ana Sanchez, a 45-year-old immigrant to Southern California from Mexico. Wal-Mart does not employ her but is in some sense her boss. Sanchez worked two years at a temp agency that staffed a large California warehouse. She was trying to put her three children through college in Oaxaca, Mexico, on pay that started at $6.75 an hour, then rose to $8, with no benefits. She retrieved cartons, put labels on products, then shrink-wrapped plastic around pallets to ship. Mainly, she shipped children's clothing made in China to Wal-Mart.

The work was hard, fast, and stressful, with "constant pressure," she says. "If I killed myself to make 2,000 labels one day, the next day, they'd give me 200 more. They kept raising the quota. It was very dangerous. And with every order from Wal-Mart, the supervisors would say there's an urgency for us to do it. Managers would complain that the company was putting a lot of pressure on them."

Rushing to wrap a pallet in April 2009, Sanchez fell and injured herself. Despite an unblemished work record, the agency fired her, supposedly for a paperwork error, but more likely -- she believes -- because she was hurt. Unable to find another job, she lives in a tiny room in a cousin's house, making tamales to sell and looking for work. "I don't want to go back to Mexico destroyed and a failure," she says.

Zahir Chowdury (he asked not to use his real name) manages factories in Dhaka, Bangladesh, for an Asian multinational apparel manufacturer whose clients prominently include Wal-Mart. He admires Wal-Mart for setting "very structured, systematic" guidelines for everything from energy efficiency to treatment of workers. But now he worries that his prices are rising for inputs, such as cotton. His selling price has changed little over five years, but he hopes Wal-Mart will agree to pay more for finished garments, which is usually about 5 percent less than anyone else pays but for longer production runs.

It's hard, however, to meet Wal-Mart's standards at Wal-Mart's price. That's why the U.S.–based Worker Rights Consortium frequently uncovers major workers' rights violations in the Bangladeshi (or Indian or Cambodian) factories of suppliers to Wal-Mart and other big retailers, despite their codes of conduct and monitors, says WRC Executive Director Scott Nova.

"Expectations on quality are up, also on managing logistics," Chowdury says. "The lead time is squeezed. Getting fabric is difficult. Everything is getting squeezed," including his workers. Though the new minimum wage is about $42 a month, he claims his company pays $90 a month because at anything much lower, workers "can't survive." He hopes someone will build power lines and roads into the countryside, so he can move the factory to an area where "every worker can survive at $70 to $80 a month," and he could pay less. Would Wal-Mart one day just move some place cheaper? "Where will they move?" he asks.

In July 2007, Wal-Mart expanded its discount store into a new Supercenter, with full grocery service, in Galesburg, Illinois, a middling industrial and market town hard-hit by globalization. Todd Frakes, a life-long grocer, managed one of two Econofoods grocery stores in town when the Supercenter opened. "The first week, our sales were down about 40 percent," he recalls. "Then in about six to eight weeks it evened out, to about 18 percent off." They tried everything: deep discount sales (Wal-Mart beat them), special events (Nascar Day), better ads, playing up their hometown knowledge of their customers. They cut back hours to avoid layoffs. Just over a year later, the chain's corporate managers closed the two stores.

"The thing with Wal-Mart is they're just huge," Frakes says. "It's hard to compete when they get stuff so cheap. It's been really tough on Galesburg. We've lost a lot of mom-and-pop businesses." One independent grocery, Hi-Lo, survives, and Frakes works there now.

"There's been two of three factors that helped us," Hi-Lo assistant manager Jeff Jefferson says. "The number of years we've been here in town and customer loyalty. We have fair prices and quality meat and produce. We're never going to be the biggest, newest store, but we can be the friendliest, and we offer service. We still cut our own meat, and we still carry your groceries to the car."

Such stories illustrate a few dimensions of "The Wal-Mart Effect," as journalist Charles Fishman titled his book on the far-flung influence of Wal-Mart. Boosters of the company contend that every new store has just two relevant effects: First, it energizes the local economy; and, second, lower prices for local shoppers compensate for other negative effects.

The preponderance of research tells a different story. The net effect of Wal-Mart entering a local market is to reduce local employment, reduce area wage rates and total payroll (especially in retail), eliminate other businesses (especially small shops and small chain stores that directly compete with Wal-Mart), and raise poverty rates. University of California, Irvine, economist David Neumark and colleagues reported in a 2007 study that "on average, Wal-Mart store openings reduce retail employment by about 2.7 percent, implying that each Wal-Mart employee replaces about 1.4 employees in the rest of the retail sector."

Wal-Mart knocks out many local businesses, economist Kenneth Stone discovered when he surveyed Iowa during the company's first decade there starting in the 1980s. Between 1983 and 1993, Wal-Mart opened around 45 stores in Iowa. During that period, the state lost 555 grocery stores, 88 department stores, 298 hardware stores, 444 apparel shops, 293 building supply stores, and 511 other retail outlets -- as much as 43 percent of some categories of retail stores. More recently, a team from Loyola University found that 82 out of 306 businesses within a four-mile radius of Chicago's first Wal-Mart failed since the giant retailer opened in 2006, eliminating an estimated 300 jobs, roughly equaling the number of workers in the new Wal-Mart.

When Wal-Mart displaces local small businesses, it also typically reduces income and employment for local business -- service providers, such as lawyers, bankers, accountants, printers, and newspaper publishers, since those services are centralized in Wal-Mart headquarters. Weakening small-business and professional networks further diminishes the community's social capital, according to economists Stephan Goetz and Anil Rupasingha.

Wal-Mart's dramatic transformation of warehousing and logistics has also increased efficiency significantly in both its own extensive operations and in third-party logistics companies with which it contracts. Wal-Mart often adopts early innovations like bar codes, then accelerates their use because its size influences industry standards. Productivity increases in the context of economic growth are generally good if the fruits of enhanced productivity are shared with workers -- largely not true with Wal-Mart. Workers gain little because Wal-Mart zealously fights unionization of its own employees and its global system (including unionized dock workers), and its squeeze on suppliers and competitors increases incentives to resist unions.

Wal-Mart has also quite likely reduced U.S. employment throughout its extensive supply chain, despite suppliers' expectation that they would hire more people as Wal-Mart sold more of their product. But there are stories, well documented by Fishman and others, of Wal-Mart's virtual dismantling of iconic supplier firms such as Huffy (bicycles), Master Lock (padlocks), Lakewood Engineering & Manufacturing (fans), and L.R. Nelson (lawn sprinklers).

In each case, Wal-Mart kept demanding a lower price, at times challenging suppliers to match the price of cheap imports. The companies improved productivity, cut corners on quality, and pressured their own employees and suppliers (who in turn tightened the screws on down the line). But eventually, Wal-Mart pushed these suppliers out of the country to China, Mexico, and any other place that could match "the China price."

From 1997 to 2004, Fishman reports, retail jobs grew more than half as fast as the population, and more than 70 percent of those new jobs were at Wal-Mart. During that period, 3.1 million manufacturing jobs disappeared, so that by 2003, more Americans were working in retail than in manufacturing. Simultaneously, Wal-Mart tripled its imports from China, importing in 2004 about 10 percent of all Chinese exports to the U.S. It seems likely that most of those imports were still nominally from hollowed-out American businesses. So Wal-Mart sped up both American deindustrialization and consolidation of a low-wage, bargain -- driven consumer culture where quality and price were both cheapened.

It's not even clear that the surviving, compliant suppliers have prospered. Two independent studies found that suppliers to Wal-Mart, especially smaller businesses, are likely to end up with lower profits than suppliers who service other big retailers. Beyond squeezing prices, Wal-Mart often "takes a bite" out of suppliers, delaying payments to them. But some suppliers, mainly large ones, may gain enough from Wal-Mart's big orders to make increased profits despite the squeeze.

The Wal-Mart effect on wages is more clearly harmful to workers, whether they work for the company, its suppliers, or its competitors. A group of University of California, Berkeley, researchers led by Arindrajit Dube, found in 2007 "strong evidence that Wal-Mart entry reduced average and total retail earnings, retail wages, and health benefits for retail workers over [the 1990s] -- primarily in urban areas." The loss of 1.5 percent of earnings for all retailers in a county, plus lost health benefits, with the opening of each Wal-Mart came from substituting poorly paid workers for better paid workers and from Wal-Mart "driving down wages of competitors."

On average, Dube reports, workers at large retailers make about 15 percent more than employees at Wal-Mart, which pays an average sales associate $8.81 an hour, according to market researcher IBISWorld.

The Berkeley researchers calculated that in 2000, the downward pressure on wages from Wal-Mart was costing retail workers nationally about $4.5 billion a year. Simply the threat that Wal-Mart Supercenters were coming to Southern California led unionized grocery chain managers in 2003 to unite in a lockout -- imposed in response to a strike against one chain -- against the United Food and Commercial Workers union. The conflict ended with concessions from workers, such as a two-tier wage schedule and provisions reducing insurance coverage. Three years later, only 54 percent of union grocery workers, down from 94 percent, had health insurance.

"Long term, anybody that continues to gain market share is going to be dominant," says UFCW organizing director Patrick O'Neill. "It's like the U.S. and the Third World. Either we take them up to our standard, or they'll bring us down to theirs."

But what about all the money consumers save shopping at Wal-Mart? Experts estimate that Wal-Mart's prices run from about 5 percent to 25 percent below most competitors. Commissioned by Wal-Mart, IHS Global Insight calculated that the company's lower prices saved U.S. consumers $365 billion in 2007 -- about $1,200 per person or $3,100 per household. Such analysis led even some Democrats like Jason Furman, now economic adviser to President Barack Obama, to praise Wal-Mart as a boon to the poor. Although Furman advocates a higher minimum wage (as Wal-Mart does), he argues that even modestly higher Wal-Mart worker wages would eliminate the company's profits or push up prices, thus implicitly hurting them.

But an Economic Policy Institute team of economists authoritatively criticized Global Insight's methodology and judged its projected savings from shopping at Wal-Mart "implausible." For example, EPI critics say, the Global Insight report credited Wal-Mart with reducing prices it does not affect, like other services that make up 60 percent of the consumer price index. In any case, the EPI economists argued, if the savings are as big as claimed, Wal-Mart could raise wages and keep prices low. The Berkeley group also concluded that a higher minimum wage for big-box retailers would help retail workers and result in only a tiny increase in retail prices.

Government at all levels also loses when Wal-Mart moves in, lowers pay, eliminates jobs, and pushes families into poverty: As a result, government ends up paying for their Medicaid, S-CHIP (children's health insurance), food stamps, and other aid. Indeed, in many states, Wal-Mart employees lead the list of Medicaid beneficiaries and their children lead the S-CHIP rolls, because they cannot afford the company's health plan. In 2004, the Democratic staff of the House Education and Workforce Committee calculated that a 200-employee Wal-Mart store could cost federal taxpayers $420,750 a year (more than $2,000 per employee).

But Wal-Mart's spillover impact goes further. According to Good Jobs First, an economic-development research group, Wal-Mart has collected more than $1.2 billion in tax breaks and other subsidies from state and local governments (about $70 million annually). It uses gimmicks to avoid another $300 million a year in taxes (and created Wal-Mart.com as a supposedly independent corporation to avoid collecting state sales taxes). The company systematically challenges all property-tax bills.

Beyond its economic impact, Wal-Mart is notorious for censoring the books and recordings it stocks, excluding some presumably for their progressive political leanings and demanding bowdlerized versions of others. As historian Bethany Moreton recounts in To Serve God and Wal-Mart, the company has promoted an amalgam of evangelical Christianity and free -- market ideology in colleges and elsewhere and draws much of its management from this cultural milieu. More recently, it has ventured into electoral politics with large political donations, mobilization against politicians supporting the Employee Free Choice Act (including heavy-handed pressure on its own employees), and the promotion of its own version of "Wal-Mart Moms" as a key swing constituency (an implicit buffer against attacks of its treatment of employees).

Wal-Mart's greatest clout comes simply from its size, which in another era would have provoked anti-trust action -- as happened with A&P from 1915 to 1979, even though A&P, like Wal-Mart, grew big organically rather than by acquiring other firms. "Wal-Mart is a symptom of a true revolution in the regulation of the political economy," says Barry Lynn, a fellow of the New America Foundation. Bigness itself can be a problem, and competition as much as efficiency should be our goal, he argues, especially since Wal-Mart's efficient bigness creates a dangerous deflationary downward spiral of wages and prices. Wal-Mart is not, despite its size and influence on prices, a monopoly, but Lynn says it may often act as a monopsony -- a company with anticompetitive influence as a buyer -- meaning that Wal-Mart is able to exert substantial control over supplier companies and their prices by accounting for a quarter or more of their sales.

"Wal-Mart's Slump Persists," read a February Wall Street Journal headline, as same-store sales dropped for the seventh quarter in a row. But hold the tears: Overall sales and profits were up. Yet Wal-Mart must grow to make its model work -- breaking into urban markets, new countries, new demographics (more upscale), new formats (more conversions to Supercenters and small, neighborhood stores), new products (more electronics), and new image (going beyond green). But as industry analyst Bill Dempsey of the UFCW puts it, "They don't have an image problem. They have a reality problem."

Even so, there are alternatives. After leaving a trail of bankruptcies and corporate consolidations in its wake, the undisputed shark of retail is being seriously nibbled by agile minnows -- or maybe some halibuts. In groceries, Whole Foods and Trader Joe's aim at higher price, quality, and service niches. Even though they are nonunion, they attempt to offer attractive work and competitive pay. Kroger -- the most unionized of the three big merged grocery corporations -- competes effectively with Wal-Mart in many markets by adapting to communities, creating a pleasant shopping experience, and holding prices fairly close to Wal-Mart's levels.

Nobody literally goes head-to-head with Wal-Mart, but two companies with much better pay and benefits and less hostility to unions come close to such a face-off and are faring well. Costco, which originated on the West Coast and then went national, is a members-only warehouse club, like Wal-Mart's struggling Sam's Club. But according to IBISWorld, the average Sam's Club cashier makes $9.48 an hour, and the average Costco cashier makes $15.50 an hour. A Costco worker also gets a substantial annual bonus, a 401(k) retirement plan, and health insurance, 90 percent of which is paid by the employer. The Sam's Club cashier can buy insurance at work.

How does Costco do it? Low turnover of its trained, fairly satisfied, partly unionized, highly productive workers is one key element, says R.J. Hottovy, director of consumer research for Morningstar. The store draws a more affluent clientele than Wal-Mart, and there's a limited stock (about 4,000 items compared to about 60,000 at a Supercenter) of often high-quality, heavily discounted products, including a successful house brand. Costco practices "creative merchandising" of products for which it drives a hard bargain, then takes no more than a 14 percent markup, leading to higher turnover of goods and double the value of sales per store of its competitors, according to IBISWorld.

Operating 189 stores in Michigan and some nearby states, Meijer is a widely respected, generous corporate citizen in many communities. Entirely unionized in Michigan, Meijer originated the one-stop shopping supercenter roughly 50 years ago. Now facing a challenge from Wal-Mart and other retailers, Meijer is experimenting with different sizes of stores, both bigger and smaller, and has promoted itself as eco-friendly, using some wind power and offering local "home grown" meat and produce. Meijer does not pay as well as Costco, but it beats Wal-Mart on vacations, holidays, pensions, insurance, and a voice at work.

Ultimately, it is possible to compete with Wal-Mart, offer good deals to customers, deal fairly with suppliers, pay workers decently, and even respect their right to organize. Better public policies and stronger unions would help. Maybe Wal-Martization is not the end of history after all.