

Wal-Mart Is Good for the Economy

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The Major Criticisms of Wal-Mart Are Without Merit

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To some, Wal-Mart is a “corporate criminal.”¹ Loni Hancock, a California legislator, asserts that Wal-Mart’s fortune “has been built on human misery.”² A variety of critics have accused the company of engaging in questionable and exploitive practices on its way to becoming the largest business in the world.³ (Its \$250 billion in annual sales means that Wal-Mart has more revenues than legendary giants like Exxon, General Motors, and IBM.)

To get this big, Wal-Mart allegedly exploits its own employees by paying “poverty wages” and forcing them to work unpaid overtime. It also allegedly “squeezes” vendors, forcing them to lay off American workers and ship their jobs to foreign “sweatshops.” On top of this supposed economic rapacity is the charge that Wal-Mart disregards the concerns of small communities.⁴ While such charges fuel the passions of competitors who are losing customers to Wal-Mart, unions that have been unsuccessful in organizing the company’s employees, and ideologues who despise the free market, they are without merit.

The nature of competition is to produce winners and losers. Those who lose can be expected to bemoan their fate. The remedy is to improve one’s own competitive offering. The strategy and tactics of the leading competitor can be observed, analyzed, and, if warranted, imitated. Countermeasures can be devised. Since competition in the free market is continuous, today’s losers can be tomorrow’s winners. Instead of fomenting political opposition to Wal-Mart, its rivals should be improving their own game.

We all know that consumers like bargains. Getting something for less money is considered savvy shopping. Wal-Mart has opted to ensure that its prices are as low as can be. This focus has enabled the company to promise “always low prices, *always*.”

Low prices benefit both the consumers and the overall economy, besides being a winning strategy for Wal-Mart. Every dollar a consumer saves on a purchase enables him or her to buy other items. More of consumers’ needs and wants can be fulfilled when prices are lower than when prices are higher. Because a consumer’s dollars go further at lower prices, more merchandise can be manufactured and sold. All the businesses making and selling these other products and services are helped.

The sheer size of Wal-Mart attests to the success of its strategy and the benefits to the economy. Growing into the largest business on the planet indicates that it is accurately interpreting consumer needs and efficiently serving them. This is exactly what we want businesses to do. This is what the free market encourages them to do. It is estimated that Wal-Mart’s impact on prices accounted for 12 percent of the economy’s productivity gains in the 1990s.⁵ This also helped reduce the effect of the Federal Reserve’s inflation of the money supply.

But what about the methods Wal-Mart uses to achieve its goal of low prices? What about its exploitation of

labor? The free market requires that transactions be carried out voluntarily between the parties. No one is forced to work for Wal-Mart. The wages it pays must be adequate to secure the services of its employees. Would Wal-Mart's employees like to be paid more? Sure, everyone wants higher pay. If its employees could get higher pay elsewhere, Wal-Mart would lose its best workers to the businesses paying those higher wages.

The same goes for the alleged uncompensated overtime. Wal-Mart can't force its employees to work overtime without compensation. Employees are not chained to their stations. They are free to leave and take other jobs if the pay or working conditions at Wal-Mart are less than satisfactory.

If some of Wal-Mart's suppliers choose to manufacture their products overseas, that is because doing so lowers their costs. Sure, the costs may be lower because the wages demanded by foreign workers in places like Bangladesh are low and the workplaces may be "sweatshops" compared to conditions in U.S. factories. But this is hardly the cruel exploitation that Wal-Mart's critics describe. The relevant comparison is not to the working conditions Americans have become accustomed to after two centuries of industrial progress and wealth beyond the wildest dreams of inhabitants of the less-developed countries. The relevant comparison is to the alternatives available in these less-developed economies.

Companies that employ people in factories in less developed economies must offer a compensation package sufficient to lure them from alternative occupations. So as bad as these "sweatshop" wages and working conditions may appear to Americans who have a fabulous array of lucrative employment opportunities, they are obviously superior to the alternatives that inhabitants of less-developed economies are offered. If the "sweatshop" jobs weren't superior, people wouldn't take them.

Wal-Mart and Small Communities

The claim that Wal-Mart "disregards the concerns of small communities" is also contradicted by the evidence. If Wal-Mart's stores were not in tune with the concerns of shoppers in small communities, the stores wouldn't make a profit and would eventually shut down. If Wal-Mart's stores were not in tune with the concerns of job seekers in those communities, the stores wouldn't be able to staff their operations. The concerns that Wal-Mart rightly disregards are those of local businesses that would prefer not to have to deal with new competition. The absence of rigorous competition leads to high prices in many small communities. While this may be good for the profit margins of established businesses, it is not necessarily a condition to be preferred over the benefits for the majority of the inhabitants of the community that result from robust competition.

Wal-Mart runs the largest corporate cash-giving foundation in America. In 2004 Wal-Mart donated over \$170 million. More than 90 percent of these donations went to charities in the communities served by Wal-Mart stores.⁷

From an economic perspective, when all the claims are dispassionately evaluated it looks like Wal-Mart promotes prosperity. The company is helping consumers get more for their money. It is providing jobs for willing employees. It is stimulating its suppliers to achieve greater economies in manufacturing. It is encouraging trade with less-developed economies, helping the inhabitants of Third World nations to improve their standards of living. Far from "disregarding the concerns of small communities," Wal-Mart offers an appealing place to shop and work.

Wal-Mart is doing all these good things and making a profit of around \$9 billion a year. This is a profit margin of less than 4 percent. That's mighty efficient. To call Wal-Mart a "corporate criminal" is slander. Wal-Mart is a model of how successful capitalism is supposed to work. It is a company that should be emulated, not reviled.

