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The Impact of America's Store

It is safe to say that most people in America have shopped at, or at least know about Wal-Mart. Wal-Mart is America's store. Since 2002, Wal-Mart has earned the number one ranking from FORTUNE 500, been identified as "The Most Admired Company in America" two years in a row, and has received the Corporate Patriotism Award. Just last year, Wal-Mart was cited as having 3,800 stores in the United States alone and with sales around the world totaling \$312.4 billion ("The Wal-Mart Timeline" 5). Wal-Mart is simply, the dominating force in retailing stores. Wal-Mart prides itself on "always low prices," customer satisfaction, and availability of products; what isn't there to love about Wal-Mart?

Bentonville, Arkansas may not be a city people know when they first hear the name, but mention the store whose headquarters are located there, and nearly everyone in the United States will understand. Bentonville, Arkansas, is home to the Wal-Mart headquarters. In 1962, Sam Walton opened the first Wal-Mart store in Rogers, Arkansas, but Bentonville (the office and distribution site) has always been Wal-Mart's "home" ("Wal-Mart Timeline" 1). Ever since then, America has not been the same; the world has not been the same. Being the world's largest retailer and largest corporation, Wal-Mart undoubtedly affects the economy. Wal-Mart's "everyday low prices" should have a positive connotation, but what if this simple phrase and its meaning not only changes the economy; what if it destroys it? Wal-Mart's cheap prices, lack of health care benefits, and use of foreign labor weaken the American economy.

To understand how Wal-Mart impacts the economy, one must first understand a few basic economic principles. Being the largest retailer in America, Wal-Mart has the ability to affect consumer prices. One way Wal-Mart affects prices is by means of predatory pricing. Predatory pricing is the “the practice of pricing goods below cost and incurring a loss in order to reduce or eliminate competition” (“Predatory pricing”). The prices other stores offer depend on Wal-Mart’s prices. The way Wal-Mart can offer low prices is through outsourcing- the ability “to send out work to an outside provider or manufacturer in order to cut costs” (“Outsourcing”). Using predatory pricing and outsourcing, Wal-Mart affects the standard of living- a “level of material comfort as measured by the goods, services, and luxuries available to an individual, group, or nation” (“Standard of living”). All retail stores have the ability to affect the standard of living, but Wal-Mart, being the largest retail store, has the most impact. Because Wal-Mart offers low prices, customers expect those same prices at all stores. When customers do not get those low prices at other stores, they go back to Wal-Mart. Low prices are “luxuries” to customers and when low prices cannot be offered by all stores, customers’ “material comfort” is lowered. When the “material comfort” is lowered because products are not available at the same low prices Wal-Mart offers, the standard of living is also lowered (“Standard of living”). Predatory Pricing and outsourcing permit Wal-Mart to maintain low production costs, low prices, and create a lower standard of living.

The impact Wal-Mart has on the economy rests in Wal-Mart’s ability to use low prices by bringing in more profit than any other retail store. Target for instance, in 2005, brought in \$52,620 million in revenue throughout 1,397 stores (“Corporate Fact Card” 1). Because Target’s sales do not even come close to Wal-Mart’s, Wal-Mart is able to utilize

predatory pricing. For example, if Wal-Mart and Target are both selling laundry detergent, Wal-Mart is able to lower its prices and suffer a short term loss in revenue because the company produces more revenue than Target and can sustain losses better than Target. In the long run, more people will buy laundry detergent at Wal-Mart's lower price, creating larger revenue for Wal-Mart, even though they charge less. Wal-Mart's ability to make its prices low enough so other stores cannot compete is predatory pricing. Wal-Mart is a controlling force in the retail industry; if Wal-Mart lowers prices, so must all the other retailers, causing the less developed retailers and little "mom and pop" stores to go out of business. Companies that generate less revenue than Wal-Mart cannot sustain the company while losing money, even if it is just for a short amount of time.

Wal-Mart has used its low prices as an advantage over competitors for many years. In 1993, U.S. News and World Report produced an article stating, "an Arkansas judge ruled that Wal-Mart's prices were too low and that the chain had engaged in predatory pricing practices - illegally pricing drug and health care items below cost as a way of driving smaller competitors out of business" ("Wal-Mart's Price War: David versus Goliath" 1-2). In effect, three pharmacies were awarded a total of \$289,407 in compensation for lost revenue as a result of Wal-Mart's unfairly low prices ("Wal-Mart's Price War: David versus Goliath" 2). This lawsuit was not Wal-Mart's first lawsuit and definitely not the last. Complaints have continued since 1993; on November 4, 2006, Wal-Mart was criticized again for its price cutting. Last week, Wal-Mart made a second price cut on electronic items; this additional 15 percent price cut, aimed to draw special attention and sales during the holiday season, is expected to instigate a "price war" with competitors (Barbaro "Wal-Mart Starts" 1). In true Wal-Mart fashion, low prices have

spurred controversy; if history repeats itself, Wal-Mart may even be in for another price cutting lawsuit. For consumers, the additional 15 percent price cut serves as an asset during the holiday season. Many shoppers are well aware that Wal-Mart offers lower prices than most retail stores, so, holiday shopping at Wal-Mart is an obvious choice in order to save a few dollars. For those in tight financial situations or even those just trying to get ahead, Wal-Mart makes holiday shopping cheap. However, these same shoppers are not aware that the effects from shopping at Wal-Mart hurt the economy. In saving a few dollars, shoppers are supporting Wal-Mart and its principles of low wages, paucity of healthcare benefits and the use of sweatshops overseas. The effects of purchasing items from Wal-Mart include an increase of impoverished people, an increase of people requiring publicly funded healthcare, and a decrease in the standard of living.

Wal-Mart's ability to maintain low prices comes as a result of outsourcing. Since its opening, Wal-Mart has always been associated with the phrases "everyday low prices" and "always low prices." These slogans are catchy but also idealistic. To obtain the so-called "low prices," Wal-Mart participates in outsourcing. Wal-Mart imports 60% of its products from foreign suppliers. This use of foreign labor decreases the number of jobs available in the United States and allows Wal-Mart to rely on cheap labor from overseas (Gereffi 5). If Wal-Mart produced the majority of its items in the United States, it would cost more money, but it would also create more jobs for American workers. Charles Fishman explains, "Wal-Mart is itself the reason for the inhumane conditions. It uses its vast power to insist on low unit prices that are possible only if workers are squeezed to such an extreme degree that they can barely survive the long hours and low wages they are forced to endure" (Fishman 189). Foreign workers, compared to those in America, get

paid less and work in more extreme conditions. In 2004, of 12,500 inspections done on Wal-Mart factories located overseas, 8,900 violated the standards of the inspecting officers (Fishman 189). This statistic proves that the foreign labor being used by Wal-Mart is detrimental to the workers because the conditions are dangerous. In places other than America, the hourly rate of labor is cheaper; therefore, when Wal-Mart has products made in other countries, it costs less. American workers do not benefit; foreign workers do not benefit; Wal-Mart does.

Although Wal-Mart imports the majority of its items and uses more foreign workers than American workers, Wal-Mart does offer many job opportunities to those in need. With numerous Wal-Mart stores located around the United States, Wal-Mart is able to offer unemployment solutions to more people than any other retailer. As indicated by Wal-Mart, they employ “1.3 million [employees] in the United States” (“Fast Facts” 1). In offering so many jobs, Wal-Mart has the ability to affect the number of impoverished people. Unfortunately, Wal-Mart’s ability has been used inefficiently. In 2001, Business Week produced an article that claimed sales associates at Wal-Mart earned \$8.23 per hour. At this rate, sales associates would earn \$13,861 annually, \$769 below the poverty level of \$14,630 (Bianco and Zellner 1). This study is frightening because sales associates are not even the lowest paid Wal-Mart workers; therefore, many other positions at Wal-Mart also earn wages under the poverty level. Another study affirms that sales associates, cashiers, team leaders, and overnight stockers that make up 56% of Wal-Mart employees, all earn less than the national average for the retail industry (Bernhardt, Chaddha and McGrath 2).

Not only do many Wal-Mart employees earn less than the poverty rate, Wal-Mart also affects the poverty rate itself. A study done by Stephan Goetz in counties since 1989 explained that, “In counties with a Wal-Mart, the rate of poverty fell 10 percent more slowly than it would have without a Wal-Mart in that decade” (Fishman 164). This statistic means that the number of impoverished people went away slower in counties with a Wal-Mart, sustaining the fear that Wal-Mart negatively affects the poverty rate. A high poverty rate means the economy is not producing enough jobs, wages, or health insurance, among other things- resulting in financial instability for individuals and families. Working at Wal-Mart is not a practical solution for a family or even an individual. In addition, working at Wal-Mart is not a sensible solution for the economy because the ubiquity of Wal-Mart and its principles increase poverty in the United States.

Adding to the economic impact of wages, Wal-Mart’s health insurance policy also harms the economy. For example, as of September 2005, health insurance was attainable for full and part-time employees at Wal-Mart, but to receive it, the employee (if part-time) would first have to work two years in order to buy insurance. After the two years, Fishman explains, “part-time employees cannot buy insurance for their families, only for themselves” (Fishman 240). In contrast, Costco, one of Wal-Mart’s competitors, offers healthcare and other benefits to part-time workers and their families only 180 days after beginning work (“Costco Employment Opportunities Benefits” 1). At any company, part-time employees often do not receive the most favorable benefits, but including full time employees, the New York Times states, “fewer than half of Wal-Mart’s workers are covered by company health insurance, compared with more than 80 percent at Costco, its leading competitor” (Barbaro C1+). Costco earns less revenue than Wal-Mart, but is able

to benefit employees more. Wal-Mart does employ a large number of people, but because workers do not receive adequate benefits, Wal-Mart requires tax payers to support workers that do not receive sufficient health insurance. When Wal-Mart does not supply health insurance and workers cannot pay for their own insurance, Medicaid and other state health benefits are applied. These services are paid for by taxes, not Wal-Mart. In essence, these services are paid for by Wal-Mart shoppers- the tax payers of America.

After years of criticism, Wal-Mart has listened to critics and has attempted to change its healthcare plan; unfortunately, there are still many problems with the new plan, leaving room for more criticism. Tracy Sefl describes the new health insurance as “a healthy person’s plan,” or one that “doesn’t fully address the needs of a majority of [Wal-Mart’s] workforce” (Barbaro C1+). The new health insurance requires a \$1,000 deductible to be paid if the employee visits a doctor more than three times in one month (Barbaro C1+). Wal-Mart does offer health insurance, but the insurance is not the best solution for the people it employs or for the economy. Wal-Mart prides itself on diversity, a diversity that consists of hiring 235,000 senior citizens (“Employment Diversity” 1). Senior citizens do not tend to work full-time jobs; therefore, Wal-Mart hires senior citizens, knowing that full-time benefits will not be offered to these employees. Part-time employees save Wal-Mart money. When an employee visits a doctor more than three times a month, Wal-Mart does not pay the deductible, the employee does; if the employee cannot pay, American tax payers do. In a study done on public health insurance, it was estimated that in just eight states, over \$26 million of taxes was spent each year on Wal-Mart employees through programs such as Medicaid, State Children’s Health Insurance Program, and other public assistance programs (Bernhardt, Chaddha and McGrath 5).

Wal-Mart hires part-time employees and does not provide sufficient health insurance, requiring tax payers to cover those who cannot support themselves. Although entitlement programs such as Medicaid do allow less fortunate workers to receive assistance, too much government assistance hurts the economy. The more workers on publicly funded healthcare, the higher taxes will be. If taxes remain the same while supporting more people on healthcare, the economy's debt will increase. Therefore, if Wal-Mart keeps on growing and does not increase its healthcare benefits, the American economy is going to be hit with increased taxes or an amplified debt each year.

Wal-Mart employs more people than any other retail store. Wal-Mart offers lower prices than any other retail store. Wal-Mart saves shoppers money. Sure, Wal-Mart is great. Why pay \$5 for something if you can get it at Wal-Mart for \$3? Well, if you want to support the use of overseas sweatshops, buy from Wal-Mart. If you want to earn a living below the poverty rate, work at Wal-Mart. If you want to receive fewer benefits than many retail stores, work at Wal-Mart. Wal-Mart may create thousands of jobs by way of 3,800 stores, but when those stores open, other competing stores close; jobs are lost. Wal-Mart offers "everyday low prices," a benefit to those trying to save money, but those same low prices cost shoppers; they cost America. Low prices lower the standard of living and drive out businesses by predatory pricing. Low wages and benefits cost tax payers and increase the economy's debt. Keep shopping at Wal-Mart, you'll save a buck or two; it only hurts the economy. Keep shopping at Wal-Mart; why not? Wal-Mart's America's store- isn't it?

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