##### NEW YORK TIMES UPFRONT(Vol. 138, No. 13)April 24, 2006, pp. 18+

**Copyright © Scholastic Inc. April 24, 2006. All rights reserved. Reprinted with permission.**

# Wal-Mart: Good or Evil?

By John Tierney and Paul Krugman

**How did a store become such a hot topic of national debate? Well, Wal-Mart isn't just any store. Since Sam Walton opened his first shop in Rogers, Ark., in 1962, it has grown into the world's largest retailer and the largest private employer in the U.S., with 1.3 million workers. New York Times columnists John Tierney and Paul Krugman weigh in on Wal-Mart and its impact on America.**

|  |
| --- |
| Wal-Mart: Protester**Wal-Mart: Protester**ANTI-WAL-MART protest in Cincinnati in 2003. (Credit: Mike Simons/Getty Images) |

     Once upon a time, social activists decried the plight of workers in company towns whose paychecks vanished each week because they were being gouged by the local stores. And urban politicians, angered by the high prices charged at many grocery stores in the inner city, offered subsidies in order to attract chain stores that would make food more affordable for the poor.

     Then Wal-Mart came along, offering urbanites food at the same low prices charged in the suburbs. Now the activists and politicians have a new cause: Say No to Wal-Mart! Stop it before it discounts again!

     This new crusade is especially puzzling in light of the current consensus among poverty experts. Many have praised the welfare reform of the 1990s and say the government should keep pushing people off the welfare rolls and into jobs.

     From that perspective, Wal-Mart has been one of the most successful antipoverty programs in America. It provides entry-level jobs that unskilled workers badly want--there are often 5 to 10 applicants for each position at a new store.

**Jobs for Unskilled Workers**

|  |
| --- |
| Wal-Mart: Register Screen**Wal-Mart: Register Screen**2005 SALES: $312 billion (Credit: James Leynse/Corbis) |

     Critics say Wal-Mart's pay, $9.68 per hour on average, is too low and depresses local retail wages when a new store opens. That effect is debatable, but even if wages do go down slightly, these workers still end up with more disposable income, according to Jason Furman, a professor at New York University and former economic adviser in the Clinton administration who studies Wal-Mart.

     Furman notes that the possible decline in wages is minuscule compared with what the typical family saves by shopping at Wal-Mart: nearly $800 per year on groceries alone, a savings that's especially valuable to the many low-income shoppers at Wal-Mart.

**An Easy Target**

     The average income of Wal-Mart shoppers is $35,000, compared with $50,000 for Target and $74,000 for Costco. Costco is touted as the virtuous alternative to Wal-Mart because it pays better wages, but it needs to do so because it requires higher-skilled workers to sell higher-end products to its more affluent customers.

|  |
| --- |
| Kennedy, Ted: Senator**Kennedy, Ted: Senator**SEN. KENNEDY (D-Mass.) speaks about corporate health-care policies last June. (Credit: Yuri Gripas/Corbis) |

     Wal-Mart is often denounced for getting "corporate welfare" because some of its employees rely on Medicaid for health care and on other government aid. But so do some employees at other companies or at government institutions like public schools. Wal-Mart offers health benefits that are generally comparable to what other big retailers offer.

     Wal-Mart's size makes it an easy target for enemies, like the Maryland legislators who passed a bill in January that would apparently affect only one company in the state: Wal-Mart. The legislators in Maryland (and other states considering similar proposals) want to force Wal-Mart to either increase its spending on health-care benefits or to make payments to the state's health program for the poor.

**Making Shoppers Pay**

     But suppose Wal-Mart were forced to give health coverage to all of its part-time employees. To remain competitive, Wal-Mart would probably cut the cash wages of the workers to compensate for the additional health benefits. The cut in take-home pay would be particularly hard on the many part-timers who don't need the benefits because they're already covered through their spouses' or other insurance.

     Some of Wal-Mart's critics prefer to imagine that Wal-Mart wouldn't have to cut wages--that it could get away with raising prices a little to cover the extra health-care expenses. But higher prices would make Wal-Mart's shoppers bear the cost: Wal-Mart's low-income customers would, in effect, be paying a regressive new sales tax to pay for the employees' added health benefits.

     It's easy to understand the motives of some of Wal-Mart's enemies. Local merchants don't want to match its prices. Labor leaders know that they'll lose members and dues if unionized stores suffer. But why would anyone who claims to be fighting for social justice be so determined to take money out of the pockets of the poor?--John Tierney

##### John Tierney is a columnist on the Op-Ed page of The New York Times.

\* \* \*

     Wal-Mart recently responded to some of its critics with one of the worst economic arguments of the last year.

     A union-backed group critical of the company, Wake Up Wal-Mart, released a TV ad in December accusing Wal-Mart of violating religious values. The ad was backed by a letter from religious leaders attacking the retail giant for paying low wages and offering poor benefits. The letter declares that "Jesus would not embrace Wal-Mart's values of greed and profits at any cost."

     You may think that this particular advertising campaign--which has inevitably been dubbed "Where would Jesus shop?"--is a bit over the top. But it's clear why those concerned about the state of American workers are focusing their criticism on Wal-Mart.

**Low Pay, Few Benefits**

     Wal-Mart isn't just America's largest private employer. It's also a symbol of the state of our economy, which is growing even as living standards for average working Americans fall or remain stagnant. And Wal-Mart is a huge, and hugely profitable, company that pays badly and offers minimal benefits.

 Attacks on Wal-Mart have hurt its image, and perhaps even its business. The company has set up a campaign-style war room to devise responses. So how did Wal-Mart respond to this recent religious-values critique?

     Wal-Mart can claim, with considerable justice, that its business practices make America as a whole richer. The fact is that Wal-Mart sells many products more cheaply than traditional stores, and that its low prices aren't solely or even mainly the result of the low wages it pays: Wal-Mart has been able to reduce prices largely because it has brought genuine technological and organizational innovation to the retail business.

     It's harder for Wal-Mart to defend its pay and benefits policies. The company could try to argue that despite its awesome size and market dominance, it cannot defy the laws of **supply** and **demand**, and therefore is forced to pay low wages (though I would disagree).

     But instead, Wal-Mart decided to insult our intelligence by claiming to be, of all things, an engine of job creation. Judging from its response to the religious-values campaign, the assertion that Wal-Mart "creates 100,000 jobs a year" is now the core of the company's public-relations strategy.

**Creating Jobs?**

     It's true that the company is getting bigger every year. But adding 100,000 people to Wal-Mart's workforce does not mean adding 100,000 jobs to the economy. On the contrary, there's every reason to believe that as Wal-Mart expands, it destroys at least as many jobs as it creates, and drives down workers' wages in the process.

     Think about what happens when Wal-Mart opens a store in a previously untouched city or county. The new store takes sales away from stores that are already in the area; these stores lay off workers or even go out of business.

**When Wal-Mart Comes to Town**

     Because Wal-Mart's stores employ fewer workers per dollar of sales than the smaller stores they replace, overall retail employment surely goes down, not up, when Wal-Mart comes to town. And if the jobs lost come from employers who pay more than Wal-Mart does, overall wages will fall.

     This isn't just speculation on my part. A recent study used sophisticated statistical analysis to estimate the effects on jobs and wages as Wal-Mart spread out from its original center in Arkansas. The authors found that retail employment did, indeed, fall when Wal-Mart arrived in a new county. It's not clear whether overall employment rose or fell when a Wal-Mart store opened. But it's clear that average wages fell.

      So Wal-Mart has chosen to defend itself with a really poor argument. If that's the best the company can come up with, it's going to keep losing the public-relations war with its critics. Maybe it should consider an alternative strategy, such as paying higher wages.--Paul Krugman

##### Paul Krugman is a columnist on the Op-Ed page of The New York Times.

## Background

     For 19 million customers worldwide who shop at Wal-Mart each day, it is a haven for low prices. But critics of Wal-Mart say it pays its workers too little and drives competitors out of business. Two New York Times columnists, John Tierney and Paul Krugman, discuss some of the arguments for and against the giant retailer.