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THE HIGH BENEFIT OF LOW PRICES

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Imagine a scenario: The U.S. economy faces a dire threat from a low-price retail chain. If permitted to continue, the growth of this store and others like it would sap the economy of its strength, causing thousands of smaller competitors to close, creating unemployment, and robbing people of their wealth. In response to this looming danger, lawmakers pass legislation aimed at protecting Americans from the "high cost of low prices."

Sound familiar? The year was 1936, the legislation was the Robinson-Patman Act, and the company that supposedly was ready to "swallow" the United States was the Atlantic and Pacific Tea Company, better known as A&P. In retrospect, such fears seem almost comical, given that A&P, while still a viable firm, hardly is a major player among retailers these days.

But while history has demonstrated that A&P hardly was a ravenous monster swallowing American grocers, the false alarms have continued. In 1953, General Motors chairman Charles "Engine Charlie" Wilson told a worried Congress, "What's good for America is good for General Motors." A hostile press corps refashioned his statement into "What's good for General Motors is good for America," with the usual fear and loathing of successful U.S. businesses. Now, after five decades of regulation to keep the automaker from "gobbling up" the marketplace, GM is in real trouble. Its bonds have achieved junk status and some analysts even are predicting bankruptcy, something that would have been unthinkable in the days when GM was the nation's largest private employer and paid the highest wages in the world.

The saying that one should be careful for what one wishes seems true here. For many decades, politicians and intellectuals openly called for GM to be "stopped." (It is unclear what they meant by "stopped," but that was a favorite term in the anti-GM heyday.) Today, with plants closing, the company's stock value falling, and thousands of people in various stages of being laid off, perhaps one can begin to understand the consequences that follow when pundits and politicians go to war against a business that is "too" successful. Unfortunately, there is a lesson here that few people who hold positions of political authority seem to understand.

While GM's troubles have turned public anger away from its real or imagined evils, politicians and intellectuals have trained their sights elsewhere. In the 1990s, the villain was Microsoft, which supposedly harmed consumers (in the eyes of the Justice Department, anyway) by providing a free Internet browser as part of its Windows operating system. Now comes Wal-Mart, the first Great Economic Enemy of the People of the 21st century, not to mention one of the largest private employers in the United States and also the nation's leading retailer.

The negative press against Wal-Mart rivals anything that served as opposition to GM five decades ago. (A Google search of "against Wal-Mart" turns up more than 11 million hits, and the Internet has no shortage of sites dedicated to "stopping" Wal-Mart from opening new stores.) Opponents charge Wal-Mart with everything from paying substandard

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wages to contributing to global warming. In one of its first acts of 2006, the Maryland General Assembly overrode a gubernatorial veto and approved the Maryland Fair Share Health Act that forces the retailer to alter its employee compensation to ensure that at least 8 percent of the company's Maryland payroll goes to health care benefits instead of wages and other forms of compensation.

The purpose of this paper is to defend Wal-Mart from flawed (and often economically illiterate) criticisms that often are bandied about in the press and by politicians. (This paper is agnostic on other Wal-Mart policies and on employment practices that might occur at individual stores.) The economic arguments made against Wal-Mart not only are wrong, but are wrong in the extreme in that they often criticize the retailer for behavior that benefits society. They are a combination of urban legends and faulty cause-and-effect analysis, and reflect a lack of understanding of relatively simple laws of economics. This paper will concentrate on the economic arguments given against Wal-Mart, and leave the other issues to lawyers, judges, juries, and consumers.

This paper is an independent effort; I am not receiving payment from Wal-Mart nor have I ever been in the company's pay. The Maryland Public Policy Institute has received no inducement to produce this paper, has not received a contribution from Wal-Mart, and does not expect one in the future. This paper has been undertaken for one simple reason: The economic criticisms often lobbed against Wal-Mart are wrong-headed and could result in public policy that would be harmful to the public.

THE CRITICISMS

Economic criticism of Wal-Mart has become so commonplace that it even turns up in presidential politics. During the 2004 presidential campaign, Democratic nominee John Kerry's wife Theresa Heinz Kerry declared on the campaign trail that "Wal-Mart is destroying communities." She certainly is not alone in expressing such sentiments. The basic assertion that many critics make is that a new Wal-Mart store, while offering a large array of goods at low prices, actually sets off a chain of events that in the long run makes a community worse off than it was before the store opened.

Among the community harms alleged against Wal-Mart:

- The retailer not only pays substandard wages to workers, but it also depresses overall wages in communities that have Wal-Mart stores.
- Large numbers of Wal-Mart employees do not have access to affordable private health insurance, with many employees supplementing their income with food stamps, Medicaid health coverage, and other programs of public assistance.
- Wal-Mart creates unemployment in the United States by "putting other stores out of business" and by purchasing large numbers of goods from overseas, which means that Wal-Mart bypasses American manufacturers and contributes to the demise of the nation's manufacturing base.
- Wal-Mart engages in "predatory pricing," in which the company lowers prices to a level that cannot be sustained by other retailers, and later raises prices to monopoly levels after competitors have gone out of business.
- Many Wal-Mart manufacturers are located in poor countries where working conditions are substandard as compared with conditions in the United States and Europe, and where wages are substantially lower than what people earn in this country.

New York Times columnist Paul Krugman, a prominent Princeton University economist, recently added to the charge that Wal-Mart stores actually lower the overall standard of living in areas where they are located. He writes,

> 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. Because Wal-Mart's big-box 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 generously than Wal-Mart does, overall wages will fall when Wal-Mart moves in.[1]

NOTE: *Nothing written here is to be construed as necessarily reflecting the views of The Maryland Public Policy Institute or as an attempt to aid or hinder the passage of any bill before the Maryland General Assembly.*

Krugman's argument here is simple; the only thing Wal-Mart does when it opens a store is to centralize retail sales that already are occurring elsewhere. Thus, he believes, the number of goods being sold in any Wal-Mart location is nothing more than the sum of goods that were sold at other stores that Wal-Mart allegedly has driven out of business. Furthermore, because Wal-Mart uses fewer resources to transport and sell its merchandise than other retailers, argues Krugman, fewer retail jobs will be available and they are likely to pay less than the jobs they replaced. Thus, he claims, increased productivity in the distribution and sale of retail goods has the perverse effect of making most people poorer than they would have been had retailing been less efficient. The net effect of a new Wal-Mart store is not zero-sum, but rather negative-sum.

The contention that Wal-Mart makes gains by running the "mom-and-pop" businesses into bankruptcy also fuels resentment against the company. For example, the recent documentary "Wal-Mart: The High Cost of Low Price" blames the closing of an Ace Hardware store in Cleveland on the building of a new Wal-Mart.[2] (In its rebuttal, Wal-Mart points out that the store in question closed before the new Wal-Mart opened, and that the business reopened under new management and still is in operation today.)

There can be no doubt that the presence of a Wal-Mart store, which consistently charges lower prices for goods than most other retailers, will put pressure on existing businesses that sell the same or similar goods. Wal-Mart's critics take advantage of the belief that the company's low-price standards create negative-sum effects by claiming that the long-term result of large-scale discounting is the deterioration of the rest of a community's retail sector. In other words, the presence of a Wal-Mart will supposedly ensure a nearby "downtown" area with boarded-up, empty shops. Therefore, claim the critics, even if a Wal-Mart store sells goods for lower prices than shoppers could have paid elsewhere, when one accounts for the economic devastation that the presence of a larger retailer creates, the community ultimately is better off if Wal-Mart never locates there at all. As the movie claims, Wal-Mart's low prices carry high costs. Anti–Wal-Mart activists also point out that less than half of Wal-Mart's 1.6 million employees carry company health insurance. While Wal-Mart's average pay is well above the nation's minimum wage of $5.15 per hour, the dissidents claim the firm's overall compensation for workers is still too low. Both of these criticisms are summed up by the *New York Times*' review of the anti-Wal-Mart film, which says:

> The saddest part of this documentary is a series of shots of abandoned Main Streets, empty store after empty store, with Bruce Springsteen's plaintive version of "This Land Is Your Land" as accompaniment. But vanquishing thousands of small businesses coast to coast is not Wal-Mart's only crime, its critics say.
>
> They also cite the company's treatment of its employees, whose average annual income is under $14,000. The company offers health insurance, but it is so expensive, employees say, that most people can't afford it. According to the documentary, company representatives openly recommend that workers sign up for government-aid programs instead.[3]

According to the Internet site Walmart-watch.com, Wal-Mart workers receive approximately $1.5 billion annually in public assistance, including food stamps, school lunches, government-funded medical care, and housing programs. Funding is from governments at the federal, state, and local levels, and the workers are eligible because their incomes are low enough for them to qualify. Supporters of the Maryland Fair Share Health Act claim that government assistance serves as a mechanism to "subsidize" the relatively low Wal-Mart wages, so this legislation simply would force the retailer to share some of the costs already borne by the state's taxpayers.

1. Krugman, Paul. "Big Box Balderdash," *New York Times,* December 12, 2005, p. A27.
2. *Wal-Mart: The High Cost of Low Price*, produced and directed by Robert Greenwald, 2005, www.amazon.com/gp/product/B000BTH4K4/qid=1136497427/sr=1-1/ref=sr_1_1/002-4635753-6460055?s=dvd&v=glance&n=130.
3. Gates, Anita, "A Look Inside the Outsize Company That Is the Biggest Retailer On the Planet," *The New York Times,* November 4, 2005, http://movies2.nytimes.com/2005/11/04/movies/04walm.html?ex=1136610000&en=7ce98a138f7e106c&ei=5070.

All or some of these accusations against Wal-Mart resonate with many Americans, including many who no doubt shop at nearby Wal-Mart stores. A recent Zogby poll, for example, found that 38 percent of the American public has an "unfavorable" view of Wal-Mart, whereas only 13 percent of the individuals polled had negative views of Target, another "big box" retailer, but a company that does not engage as aggressively in price cutting and discounting merchandise as does Wal-Mart.[4]

The popularity of the notion that Wal-Mart is "bad for America" can be attributed to a number of factors. First, the organizations that are leading the anti-Wal-Mart campaigns generally receive favorable press from journalists. Second, by enjoying almost unlimited access to friendly and prominent news media sources, these groups have been able to push a continuous message with almost no opposition or objective scrutiny.

Third, because the nature of large-scale retailing is murky to most people—including most economists—economic fallacies prevail where firms like Wal-Mart are concerned. Wal-Mart's actions and their community effects can best be explained by the economics of large-scale retailers, and with an understanding of why they are extremely vital to a community's overall economic health.

THE ECONOMICS OF RETAILING

In his 1776 classic *The Wealth of Nations*, still one of the most influential books on economics, Adam Smith pointed out the simple fact that the end goal for all production should be consumption. While this seems obvious on its face, its relevance is often lost in political discussion and punditry.

For example, in the early 1980s, a prominent economist called for the federal government to implement a European-style value-added tax (VAT) in order to discourage consumption and stimulate production. The idea of encouraging the production of goods and, at the same time, trying to make it difficult to sell those goods seems illogical, but that is precisely the 'logic' behind much of the criticism of Wal-Mart.

At one level, this disconnect is easily explained. Take the example of what occurs when an automobile company announces the construction of a new plant. When one adds the wages paid, as well as the other infusions of income into that area, it is not hard to see why a new automobile plant would be preferred to a new Wal-Mart or CarMax. However, the income stream that accompanies a new auto plant is not self-generated, as every penny that is paid for labor and equipment comes from consumer purchases of automobiles. Without "consumption" of automobiles, there is no production.

Consumption and production are not separate and unconnected entities, nor is production somehow 'superior' to consumption. Production is impossible without the appropriate venues for consumption, and no firm can stay in business very long with no way to sell its goods. Without effective means of retailing, goods cannot and will not be made.

THE HENRY FORD MYTH

Most everyone—including many of Wal-Mart's staunchest critics—would accept the tight relationship between consumption and production. However, the critics would then claim that people cannot consume goods unless they are paid enough to "buy back the products" they have created. However, this argument is problematic.

The notion that employees should be able to "buy back the product" lies at the heart of the urban myths surrounding Henry Ford's decision in the early 1900s to double the pay of his employees at his Dearborn, Michigan factory that produced his Model T cars. As the story goes, Ford raised the pay of his employees from $2.50 to $5 a day in order to ensure his employees could purchase the cars they were making. David Batstone and David Chandler, writing in *Sojourners*, tell the story thus:

> For Ford, mass production went hand-in-hand with mass consumption. He established a simple benchmark for worker compensation: His workers should be able to buy the product they were making. Ford promised a $5-a-day minimum wage for all his workers—twice the prevailing automobile industry average.
>
> Doing so, Ford created a virtuous circle. Workers flocked to his factory to apply for positions. If they managed to secure a

4. "New National Zogby Poll Finds Americans Hold Diverse, Strong, and Increasingly Negative Opinions About Wal-Mart," Zogby International Website, www.zogby.com/news/ReadNews.dbm?ID=1045.

> coveted job, then in time they too would be able to afford one of his cars. The company flourished on these twin pillars—a desirable product and a highly motivated employee base. By the time production of the Model T ceased in 1927, Ford had sold more than 15 million cars—half the world's output.[5]

They next contrast Ford's policy with that of Wal-Mart:

> While Ford's business model helped lay the foundation for a rising middle class in America, the Wal-Mart model reinforces downward mobility. Wal-Mart today is the largest commercial employer of labor in the United States. In 2002, 82 percent of American households bought something at Wal-Mart. Americans must love to shop at Wal-Mart; on the other hand, maybe they have no choice. A sizeable percentage of Wal-Mart's sales come from low-income households.
>
> The effort to minimize production costs is a legitimate business strategy; no argument there. But does Wal-Mart realize that the employees whose wages they squeeze are often the customers upon whom they rely to fuel their business?
>
> While Ford created demand and wealth with a new and innovative product, Wal-Mart displaces existing demand—siphoning consumption from elsewhere by under-cutting prices. Wal-Mart sets the pricing agenda in whichever market it enters. Suppliers and competitors are squeezed—forced either to push jobs overseas themselves, or forced out of business altogether.[6]

Thus, they reason, by doubling the price he paid for labor, Ford somehow was able to "create" an American middle class. They further reason that Wal-Mart could easily increase its business by raising the pay of its own workers, thus setting off a "virtuous circle" of its own.

Unfortunately for their argument, the Ford "virtuous circle" story is a myth, and their economic reasoning is flawed. Concerning the former, here is the true story of Ford's decision to increase pay for his assembly-line workers, as told by economic historian Burton Folsom, Jr.:

> One argument against the assembly line was that the work was monotonous. Ford almost conceded this point when he said, "There is not much personal contact—the men do their work and go home." Ford did keep his factories well lighted and ventilated, and he worked hard to prevent accidents on the job. But the work was not challenging. Partly as a result, he (and many other industrial employers) had high rates of turnover and absenteeism. Ford found himself spending $100 to train each new worker, though many stayed only for a month or two and then quit.
>
> Ford's reaction to this problem was dramatic: in 1914 he doubled his minimum wage to five dollars a day and cut daily working hours from nine to eight. The experiment caught the industrial world by surprise. His competitors were startled; his workers were energized. Ford himself was ecstatic. Some of the most talented workers in Detroit lined up by the thousands to apply for jobs with Ford. He couldn't hire as many as he would have liked because turnover and absenteeism almost disappeared overnight. No one wanted to lose his job. As a result, production surged and profits skyrocketed. Ford happily paid the higher wages and also cut the price of the Model T by over 10 percent in 1914, 1915, and again in 1916. With each cut, more and more of his workers could afford to buy the cars they were making.
>
> Ford was delighted to violate "the custom of paying a man the smallest amount he would take." And yet "[t]here was…no charity in any way involved…. The payment of five dollars a day for an eight-hour day was one of the finest cost-cutting moves we ever made."[7]

In other words, Ford attempted to eliminate the high cost of turnover and absenteeism by paying what economists call an "efficiency wage"—the wage at which the overall cost of labor was lowest

5. Quoted in Anderson, William L., "Paid Enough to Buy the Product," January 11, 2005, www.mises.org/story/1714.

6. *Ibid.*

7. *Ibid.*

for maximum overall profits. Although assembly line work lacked the kind of challenge that employees might have liked, the pay was so much higher at Ford Motor Company than anywhere else that employees, in effect, monitored themselves to ensure that they would keep their jobs, and with an employee base no longer a problem, Ford was able to cut costs and increase profits. In essence, Ford did exactly what Wal-Mart's critics claim the retailer does: he cut overall labor (and other) costs so that he could cut his product's cost, thereby increasing his overall market share and his profits.

Contrary to the urban myth, Ford's success was the result of non-employees buying his cars, not his own employees. Indeed, if one believes that Ford was able to sell more cars and make more profit by arbitrarily raising employee pay to $5, then it would seem that Ford could have doubled his car sales by paying $10 per day, and so on. From that viewpoint, he was a piker for "only" paying $5.

Had Ford doubled worker pay, but not cut overall costs (including labor costs), then the only way he could have sold enough cars to cover all of his production costs would have been for consumers to be willing to pay higher prices for the Model T. The success of the Model T reflected Ford's ability to find ways of lowering the cost of production to the point where he could sell the car at a relatively low price and still profit. Further, most automobiles at that time were very expensive playthings for wealthy people; Ford was the first manufacturer to make a functional car that many Americans could afford. To claim he succeeded because of high production costs is absurd.

The urban legend of Ford reflects the mistaken belief that higher production costs mean higher value for the good created. Conversely, this holds that by finding ways to purchase and sell goods at low prices, Wal-Mart actually is destroying wealth.

This fallacy reflects the mistaken analysis of classical economists of the late 18th and early 19th centuries, who held that the value of goods was determined by labor and other costs of production. In the latter half of the 19th century, Austrian economist Carl Menger and British economist William Stanley Jevons corrected this error, noting that the chain of value runs backward from the final good to the various factors of production, including labor. To put it another way, Ford was able to pay his workers the highest industrial wage because car buyers were willing to pay enough for a Model T that would enable the high wages to be paid. Moreover, Henry Ford and his managers found ways to cut costs, which meant that the company was able to forgo paying for labor services elsewhere.

In fact, any kind of cost-cutting in any organization, whether a private business or government agency, ultimately will involve the elimination of some labor services somewhere in the production pipeline. To condemn Wal-Mart for its own cost-cutting efforts is to condemn all other economic entities, right down to the family where the father cuts the lawn instead of hiring someone else to do it.

The essence of cutting costs is to gain more production of goods by using fewer resources than before. An economy cannot grow any other way. For example, the U.S. economy is much more productive today than two decades ago because individuals can produce more things and use fewer resources in the process than in 1985. This phenomenon is often hard to recognize because we denominate costs using money, and since inflation has been on the march since the end of World War II, nominal prices of many goods have risen over the past several years. However, when one accounts for inflation by measuring the *real* prices for goods and services, we find that over time, prices have fallen.

Economies grow because people find ways to produce more by using less than they did before, and that includes less labor—for specific projects. However, when less labor is used in one place, that means that scarce labor resources can be applied to other areas of production that were not available before. That is why so-called automation has not resulted in the kind of mass unemployment that has always been feared when new technologies and capital investment are implemented—those labor resources have simply been re-deployed to make new goods and services.

With all of the criticism of Wal-Mart, one forgets that this company has re-written the book on processes like supply chains (the production and delivery of goods) and on developing the most effective means of large-scale retailing in economic history. Since the dawn of department stores in the mid-19th century, no one has been able to match Wal-Mart's ability to bring large numbers of different types of products under one roof, and do it as inexpensively as this company has done.

Furthermore, this company began in a way no other firm would attempt: by bringing discount shopping to small towns and rural areas. Before Wal-Mart, people living either in the country or in small towns had few choices for shopping. Either they had to pay higher prices with relatively small selections of goods at local shops or they had to drive many miles to large cities with department stores. Other companies did not invest in rural or small-town department stores because the high costs of delivering products to those markets made it difficult to produce a profit that would warrant such investment. Wal-Mart, however, developed a number of innovations that enabled the company to be extremely efficient in its purchases and deliveries, and the company became profitable and continued to grow. Although K-Mart and Sears were seen as the most effective retailers during the first 20 years that Wal-Mart was in business, by the mid-1980s, Wal-Mart was clearly setting the standard for retailing.

While retailing is often dismissed as irrelevant to the economy, manufacturing is often glorified. However, without a cost-effective means of delivering goods to customers, there is no manufacturing.

IS WAL-MART REALLY BAD FOR AMERICA?

Critics routinely lob a number of charges at Wal-Mart, claiming that the retailer is "bad for America." Do those criticisms stand up to scrutiny? Let us consider several of the most common charges:

- **"Wal-Mart is Destroying Communities."** This alarmist claim is difficult to support. When one thinks of destruction, something akin to what Hurricane Katrina did to the Gulf Coast comes to mind, or the tsunami that wracked southern Asian nations in late 2004, killing hundreds of thousands.

  When Wal-Mart's critics talk of the retailer destroying a community, they are referring to some of the retail stores that supposedly close when Wal-Mart comes to town. Yet, when one sees shoppers at a Wal-Mart, one does not gain the sense that they are a destructive force. If anything, a bustling, well-lit Wal-Mart suggests a viable community.

  For example, I live in Cumberland, Maryland, which at one time was the state's second-largest municipality. Once an industrial city with almost 50,000 residents, today Cumberland has less than half that number, as several of the town's historic large employers (railroads, mining, and a large tire manufacturer) have downsized, gone out of business, or moved to other environs.

  Cumberland's decline began long before Wal-Mart came to town, so it cannot be argued that the retailer "destroyed" the town." Indeed, the presence of Cumberland's Wal-Mart Supercenter means the area's lower-income residents do not have to drive to Hagerstown, Altoona, or farther to purchase quality items at low Wal-Mart prices. The store also ensures that shoppers can purchase groceries and other food products that often are hard to find in a small-town environment.

- **"Wal-Mart charges destructively low prices."** This is another version of the "Wal-Mart destroys communities" criticism. But critics who make this charge seem to forget that Wal-Mart cannot put anyone out of business; consumers do. Whether or not a store stays open depends upon the customers who choose to purchase goods there. Wal-Mart cannot force anyone to shop at its stores—or keep them away from competitors.

  For example, critics will say something like, "Wal-Mart controls 80 percent of the television sales in this country." While the statement sounds impressive, economically speaking, it is nonsense. The more accurate statement would be, "Americans chose to purchase 80 percent of their television sets from Wal-Mart last year."

  There is no doubt that in many small towns, Wal-Mart offers a larger selection of goods for lower prices than the established stores. However, that hardly means that all of those stores will go out of business. Again, using Cumberland as an example, along with a Wal-Mart Supercenter, a number of other general merchandise stores also are thriving, including Dollar General Stores, Ollie's, Big Lots, Value City, and several small hardware stores. Even though Cumberland is a low-income county relative to the rest of Maryland, residents here have a number of shopping options, despite Wal-Mart's strong presence.

Predatory pricing is an old accusation, but one that has not proven to be true with Wal-Mart. Despite the attempts of researchers and economists to find instances of pricing policies that would fit the predatory pricing description, no one has been able to document any cases that match the common accusation.

- **"Taxpayers Subsidize Wal-Mart."** Critics often charge that, because some Wal-Mart employees draw on government welfare services, Wal-Mart in essence is receiving a government subsidy. Government subsidies are indeed a serious problem. For instance, the State of Maryland provides tens of millions of dollars in subsidies to entertainers, multi-millionaire professional athletes, and sports team owners, in the form of sports and entertainment venues around the state. Indeed, when compared to the government subsidies linked to Wal-Mart, the sports and entertainment subsidies appear more egregious—at least Wal-Mart provides significant economic benefits to more 'average' Marylanders than the stadiums do.

  Furthermore, government officials throughout the country have no problem lavishing huge subsidies upon favored companies, not only by providing direct payments, but also by offering trade protection through tariffs, quotas, and export subsidies. Thus, even if the State of Maryland is 'subsidizing' Wal-Mart, the retail giant hardly would be the first commercial entity in the state to receive special benefits.

  However, unlike the stadium and other subsidies that professional sports teams and politically favored businesses receive, the government benefits that some Wal-Mart employees receive are available to any person who meets certain qualifications. In other words, Wal-Mart itself is not receiving special or specific benefits from the state, and Wal-Mart is certainly not the only employer in Maryland whose employees receive public assistance.

  Wal-Mart's compensation policies reflect the opportunity cost of the labor that the company needs. For example, fast-food companies in the Maryland suburbs of Washington, D.C. pay more for basic labor than do fast-food outlets in Cumberland because people in the D.C. area have more opportunities to earn higher pay. Companies are not going to deliberately underprice the local labor market relative to their own needs. To put it another way, Wal-Mart—like any other employer—is going to offer the level of pay that is needed to draw workers who match the company's needs. In order to keep his firm from experiencing costly employee turnover, Henry Ford had to pay wages substantially above the going rate in order to have a stable (and relatively low-cost) workforce; Wal-Mart, on the other hand, does not need to provide relatively high pay in order to keep a stable workforce.

  Notably, many people who criticize Wal-Mart because some of its employees receive public assistance are passionate proponents of expanding access to welfare benefits. It thus seems odd that advocates for welfare expansion would condemn Wal-Mart because its employees are taking advantage of an opportunity these advocates have provided.

- **"Wal-Mart is Destroying U.S. Manufacturing."** When critics condemn Wal-Mart for purchasing goods from countries like China, they operate under the assumption that the choice is between U.S. goods and goods from elsewhere. In reality, the choice is often between purchasing foreign-made items or buying nothing at all. If Wal-Mart purchased all or most of its goods from U.S. firms, its shelves would hold fewer, more expensive products.

  Batstone, Chandler, and Krugman might argue that if Wal-Mart were to purchase from U.S. companies, where workers earn more than workers in places like China or Latin America, American incomes would be higher overall. As pointed out earlier, this argument appeals to the fallacy that higher costs equal greater wealth. On one level, higher costs of production reflect the opportunity costs of capital, land, and labor. Therefore, in order to draw those factors away from other possibilities of production, one has to offer the owners of those factors enough payment. In poor countries where many Wal-Mart–sold goods are assembled, those costs are fairly low because of those countries' dismal economies. In the much wealthier United States, those costs are much higher because capital, land, and labor are in much higher demand. If anything, Wal-Mart should be applauded for giving economic opportunities to areas of the world that desperately need them.

  One unfortunate charge against Wal-Mart is that its decision to purchase foreign-made goods creates poverty in those particular countries. People see workers in China or elsewhere being paid low wages, so they draw the conclusion that the low wages are the cause of poverty in those places. This perception confuses cause with effect. Places like China are low-wage countries because of a historical lack of large-scale capital investment. As more capital enters China and other low-wage countries, the real wages of workers begin to rise. One should remember that just 30–40 years ago, Japan also was considered to be a "low-wage" country, as was Hong Kong. Indeed, American investors are not "exploiting" Chinese workers; they are giving the workers opportunities that were denied their parents and grandparents.

As for Krugman's argument that Wal-Mart destroys U.S. jobs and diminishes wealth, he is assuming a number of things that simply are incorrect. First, he assumes that Wal-Mart does not add to the stock of goods for sale in an area, even though he admits that Wal-Mart is more efficient in its delivery of goods and charges lower prices for them than for goods previously for sale in the same area. Second, he assumes that these less-efficient stores paid higher wages than Wal-Mart, which means, then, that the people in that community—because wages have been depressed—are less able to purchase the Wal-Mart goods than they were before Wal-Mart came to the area. According to Krugman, by offering products that are more abundant and lower-cost than what existed before—and by managing to provide those goods by using fewer resources than was previously the case, Wal-Mart actually makes a community poorer. If that were the case, it would be a first in economic history. Throughout history, the most productive societies have also been the wealthiest. To put it another way, Krugman's thesis turns economic development on its head.

CONCLUSION

Unfortunately, many policymakers have declared a war of sorts on Wal-Mart. Emboldened with successes like Maryland's "Wal-Mart Law," they will likely move on to advocating even more radical measures that supposedly will benefit the poor but that in reality will deny the poor the low prices they want (and often need).

According to Ohio University economist Richard Vedder, "Wal-Mart has raised the standard of living of Americans by lowering the cost of getting goods from manufacturers to consumers, and it has helped workers all over the world who produce what it sells."[8] Yet because of those benefits and success, Wal-Mart has become a target for critics who seem to want to do to Wal-Mart what their predecessors have done to GM. To those critics, I suggest that they visit some of the towns and neighborhoods where GM and other heavy manufacturers once operated. Many of those places are now economic shells of their former selves, with boarded-up storefronts, deteriorating homes, and residents desperately trying to scratch together an existence.

Interestingly, many of those communities have Wal-Marts. But the Wal-Marts were not the cause of those towns' and neighborhoods' decay. Indeed, the shiny, bustling, well-lit Wal-Mart stores, with their lower prices and many shoppers, often seem economically lush oases.

Hopefully, policymakers at all levels of government will end their war on Wal-Mart and the opportunities the company provides to shoppers and employees. Right now, the prospects are less-than-hopeful, and if this war continues, many people will pay a high cost for this war on low prices.

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8. Quoted in "Ignore Liberal Elites' Blast at Wal-Mart," Luke Boggs, *Atlanta Journal-Constitution,* March 15, 2004, http://www.ajc.com/opinion/content/opinion/0304/15boggs.html.