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B U S I N E S S F O R U M It tends to depress wages. It tends to lower prices. So when all is said and done, just how does Wal-Mart impact the typical American consumer?

Gauging Wal-Mart

BY JIM KOCH

Wal-Mart Stores Inc., perhaps because it is the biggest company in the United States and records more than $312 billion in annual sales, has become increasingly controversial.

Wal-Mart's detractors complain that the company pays low salaries accompanied by inadequate fringe benefits without necessary medical coverage. Further, they say, Wal-Mart is such a large purchaser of goods and services that it extorts unreasonable concessions from its suppliers. Finally, they assert that when a Wal-Mart comes to town, it drives small companies out of business and there is a social cost attached to this disappearance of small merchants from town squares and malls.

Wal-Mart's public defenders, which now include former U.N. Ambassador Andrew Young, argue that it offers significantly lower prices that substantially benefit all consumers, but especially those who occupy the bottom rungs of the economic ladder. Further, they assert that there is a demonstration effect associated with Wal-Mart – its low prices force other companies to become more efficient and lower their prices so that consumers' gains come from other companies as well.

Setting aside the emotional responses that Wal-Mart increasingly generates, what is the economic evidence on the propositions each side advances? Does Wal-Mart lower prices and pay lower salaries?

Every reputable study has concluded that Wal-Mart offers lower prices for the goods it sells. An MIT-based study concluded that Wal-Mart offers food prices that are approximately 20 percent lower than its conventional competitors, and that these competitors themselves offer prices that are 5 percent lower because of Wal-Mart's competition.

Global Insight, an economic consulting organization, estimates that a typical household would save $2,329 per year if it purchased items from Wal-Mart rather than from conventional sellers. One of the sources of these savings is the lower prices – perhaps as much as 10 percent lower than conventional companies' – that Wal-Mart pays its suppliers. The suppliers don't like this situation, but consumers do.

On the other hand, most studies suggest that while the entry of Wal-Mart into a community typically increases employment, Wal-Mart offers salaries that are a bit less than those of many of its competitors. Global Insight estimates that Wal-Mart lowers total employee payrolls by 2.2 percent in the regions where it operates. This takes into account the effects of Wal-Mart's pay practices on all labor markets within that region.

Which of these two effects – price or payroll – is quantitatively more important? Nearly every study has concluded that the price effect outweighs the payroll effect.

Global Insight concludes that Wal-Mart increases the disposable real income of Americans by 0.9 percent because its activities have caused prices to fall even more than payrolls have declined. This increase in real income translates to $114 billion annually, or about $382 per person. This is a nice chunk of change and improves our standard of living.

Should we commiserate with the small companies that find they're unable to compete with Wal-Mart – the corner grocery stores, haberdasheries and sellers of electronic goods and furniture that fall along the wayside? Perhaps. They do represent a traditional slice of Americana that is disappearing.

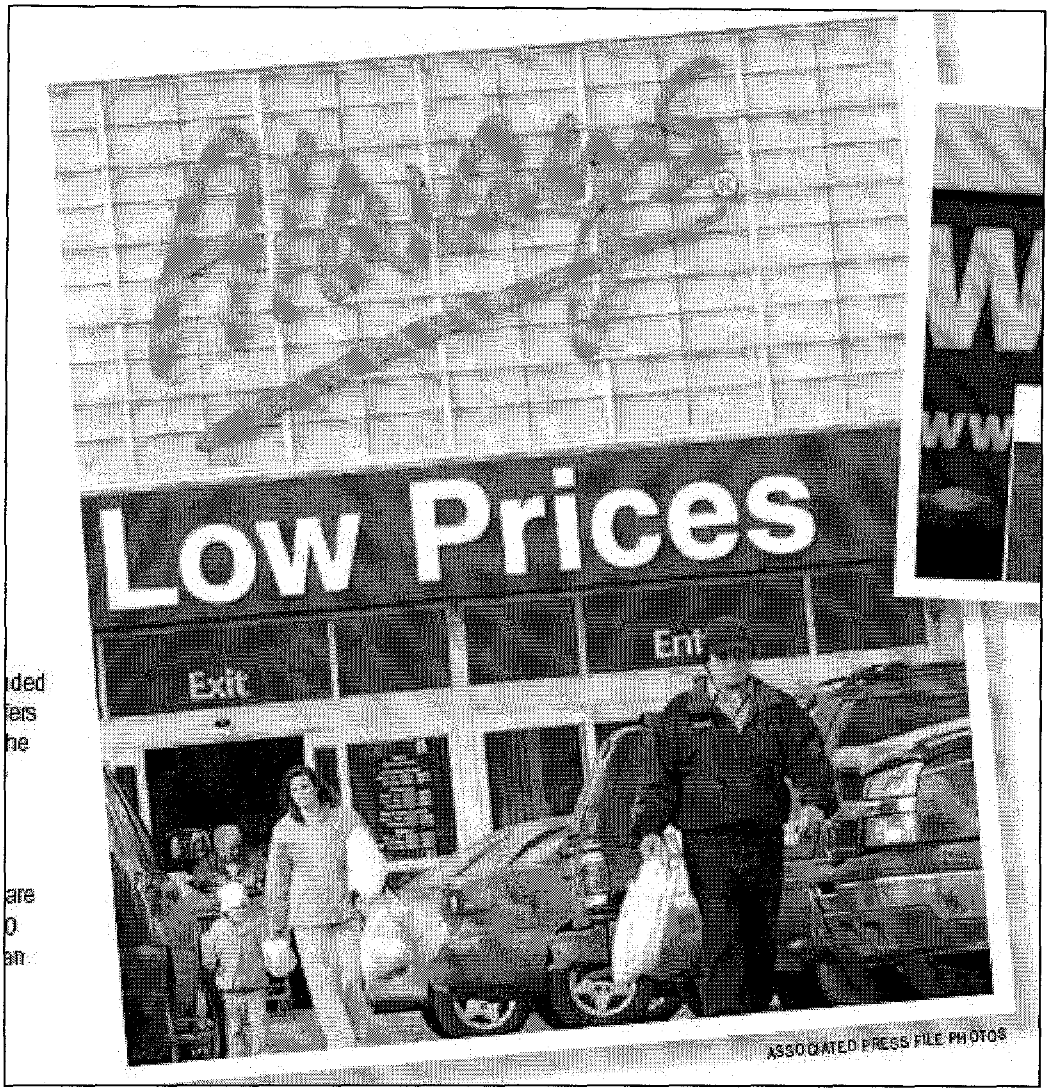
Yet these small shops on the town square and our friendly neighborhood merchants disappear only because we choose not to patronize them. The reality is that a massive majority of American consumers have decided the savings offered by Wal-Mart is more important to them and their families than paying the higher prices that would enable their small neighborhood businesses to survive. Most Americans wave sentiment aside when visible price savings is available to them.

Ultimately, American consumers vote with their feet and their dollar bills. Most have decided they like what Wal-Mart has to offer. Its sales increased 9.5 percent last year even though it was flogged in the media and some investors turned up their noses at its stock.

In retrospect, we should not find Wal-Mart's vigorous sales performance surprising, even in the face of media headwinds, because available evidence does support the notion that Wal-Mart improves the economic position of the typical American. This is small comfort to individuals who lose their jobs or to employees who would prefer to receive higher salaries and improved fringe benefits. Yet it is a conclusion that reflects a collective weighing of the costs and benefits of Wal-Mart's activities.

For better or worse, that's what appears to count to most American consumers today.

KOCH



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