



Wal-Mart's Giant Sucking Sound

That's what one hears as the giant retailer sops up the vitality from middle-class families, local communities, and the national economy

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Business Week

Updated: 8:00 p.m. ET Oct. 9, 2005

Using a multimillion-dollar ad campaign, Wal-Mart's (WMT) executives are defiantly blasting back at opponents who have criticized the retail giant's shoddy labor practices. But most people and even Wal-Mart's critics are missing the real crisis, which is that the behemoth from Bentonville, Ark., with its nationally destabilizing business model, is a dangerous detriment to America's local and national economies and to the middle class.

When H. Ross Perot ran for President back in 1992, he coined a memorable political phrase. The passage of the North American Free Trade Agreement, he said, would create "a giant sucking sound" -- the sound of jobs escaping out of the U.S. and into Mexico.

Today, if you listen carefully, you can hear a second giant sucking sound: Wal-Mart sopping up the vitality from middle-class American families, local communities, and the national economy.

EMPTY DOWNTOWNS. This happens in three different but related ways. First, there's the clobbering of Main Street: Wal-Mart moves in on the edges of towns, and the much smaller downtown merchants, unable to match its prices, soon go under. Second, there's the miserable wage and benefits package offered by Sam Walton's creation. And third, there's Wal-Mart's purchasing strategy, which seems to be about buying American-made products only as a last resort -- to the point that today Wal-Mart, by itself, is China's eighth-largest trading partner!

You could make the case that we are well on our way to becoming "Wal-Mart Nation." But maybe we don't have to be. Consider Costco (COST), Wal-Mart's most notable competitor --- whose much more sensitive and noble business model actually serves as a boost to the national economy and to its shareholders.

Costco's pay scale begins at around \$10 per hour and averages \$16. After four years, a Costco cashier can earn \$44,000 [counting bonuses], which is significant purchasing power. In comparison, Wal-Mart's average hourly wage is a miserly \$9.68. To appreciate the impact of this 65% difference in average wages, University of California at Berkeley researchers recently concluded that in 2003 Wal-Mart's low wages and benefits for its employees in California compelled taxpayers there to give these employees \$86 million in food stamps, health-care, and housing subsidies just to stay above water.

UNCOVERED WORKERS. Overall, only 38% of Wal-Mart's nonsupervisory workers receive health-care benefits, according to the United Food & Commercial Workers Union. The company won't disclose how much of its total workforce receives company benefits. It does say 56% of employees in the core U.S. Wal-Mart unit, which excludes operations such as Sam's Club, receive company benefits. Judging by any reasonable standard, it's clear Wal-Mart has left American taxpayers the burden of picking up a huge tab for its uncovered health-care costs.

Wal-Mart has gone so far as to actively instruct its employees on how to apply effectively for government health-care programs like Medicaid. Costco, on the other hand, covers 85% of its

employees' health-care costs. Costco is even pilot-testing a program offering discounted health-care plans to its customers in California who are either self-employed or cannot get coverage at work --- about 1.5 million people.

Not surprisingly, Costco's employee turnover is only about one-third that of Wal-Mart's, and Costco's customers are loyal almost beyond measure.

And yet Costco has operated this way while also satisfying Wall Street investors. Wal-Mart, of course, dwarfs Costco in size --- heck, it dwarfs even General Electric (GE) and Microsoft! (MSFT) --- but Costco may in fact be the much better-run company. Wal-Mart operates 5,332 stores with annual sales of \$288 billion, or \$54 million per store. Costco has 452 stores with annual sales of \$48 billion, or \$106 million per store.

WAKE-UP CALL. Costco is a living example that a company can be extremely profitable and competitive and at the same time not destroy everything and everyone in its corporate path.

Wal-Mart's success has come at an enormous and painful cost to our national and local economies. From its boarding-up of Main Streets to its failure to pay workers fairly, to its imposing on taxpayers welfare costs for its underpaid employees, to its material contribution to our obscene ballooning trade deficit with China, this "Wal-Martization" of America is leaving us with an economy increasingly characterized by a gaggle of cheap imported consumer goods, shoddy employee practices, and insensitivity to communities.

It is beyond time for all Americans to wake up from this nightmare and support those companies -- - Costco, for example --- that believe that companies and their CEOs have as much responsibility to employees, customers, and the nation as to shareholders. And it is way beyond time for us to take our support away from those companies that believe otherwise and do more to aggrandize management than to serve employees and their communities.

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