



TUNE IN TO THE
SOUND OF DEMOCRACY

Justice Talking Radio Transcript

Wal-Mart: America's Economy in a Big Box?—Air Date: 1/16/06

As the largest corporation and private employer in the United States, Wal-Mart sets the standard for wages and labor practices – from pay scales to health care benefits. With sales of groceries to diamonds, lawn mowers to teen fashions, Wal-Mart also tops the charts in sales--\$240 billion dollars worth of products, many made overseas in China and Thailand. On this edition of Justice Talking we take a close-up look at Wal-Mart and ask what the policies at America's biggest big box retailer can tell us about globalization, free trade and Americans' yen for a bargain.

This transcript is being provided free of charge for educational purposes. The views expressed herein are those solely of the guests and do not reflect those of the Annenberg Public Policy Center or NPR. Although every effort is made to make a verbatim rendering of the program, this transcript may vary slightly from the audio version and may contain minor grammatical or spelling errors. For permission to reprint, please contact Laura Sider at the University of Pennsylvania's Annenberg Public Policy Center, (215) 573-8919.

MARGOT ADLER: From NPR, this is Justice Talking.

UNIDENTIFIED MALE: People hate, you know, Wal-Mart; but Wal-Mart is a good thing. Look how many black people work in that Wal-Mart. Look how many Mexicans work at Wal-Mart. Skip what they're talking about—Wal-Mart is all right.

UNIDENTIFIED FEMALE: They're underpaying their employees; the majority of the purchases are made from overseas.

MARGOT ADLER: I'm Margot Adler. Wal-Mart—it's the country's biggest employer. There are over one million Wal-Mart workers in the U.S. alone, and some \$240 billion worth of product sold there. It's the subject of a big debate on whether the company helps or hurts America. Today on Justice Talking we'll take a close-up look at Wal-Mart – what it's like as an employer and a global corporation, and whether a number of recent lawsuits will affect what Americans think about the company.

MARGOT ADLER: This is Justice Talking. I'm Margot Adler. You've probably shopped at Wal-Mart—eight out of ten Americans do. It's known for its low prices, but you may not know that it's the country's largest seller of jewelry and the world's largest supplier of music. With 3,500 stores around the nation, it's likely that there's a Wal-Mart not very far from where you are right now. In recent years, Wal-Mart lawyers have been spending a lot of time in court. The chain has been charged with hiring illegal immigrants, exploiting child labor laws and rampant sex discrimination. Later in the show, we'll here from a Business Week reporter about whether those lawsuits have affected how the company does business. We'll also take a look at two recent documentaries, one that praises the company and the other by a vocal critic.

UNIDENTIFIED MALE: You know, if you can squeeze every dime out of them, you go for it; and it doesn't matter what happens to their families, if they fall apart, they get sick, you know, the hell with them.

MARGOT ADLER: First to help us learn how Wal-Mart got started and what makes it such a powerhouse, I talked with John Dicker. His work has appeared in *The Nation*, *The Boston Globe* and *Salon.com*. He joins me from Denver, Colorado. Welcome to the show.

JOHN DICKER: Thanks for having me, Margot.

MARGOT ADLER: So Wal-Mart is now the largest private employer in the company; it's the largest corporation in the world and it's the richest with \$288 billion in annual sales. In your research, what were some of the most fascinating facts that you found out about Wal-Mart?

JOHN DICKER: I think the way it completely dominates so many market niches that you wouldn't really have guessed that it would dominate. For example, I believe it was last year – or 2004, rather – it became America's largest jeweler. And you wouldn't really think Wal-Mart and jewelry.

MARGOT ADLER: Well, give me three or four other examples that it dominates.

JOHN DICKER: One good example of Wal-Mart's dominance is in entertainment, in terms of music and DVD sales. And this was apparent when I was in Fayetteville, Arkansas for Wal-Mart's shareholder's meeting, which is kind of like “Triumph of the Will” meets “Hee Haw” meets the Olympics' opening ceremony. You just have all these investors and all these kind of business players gathering in a small Arkansas college town in the Bud Walton Arena— Bud Walton was Sam's brother.

And, you know, you see opening this shareholders meeting, you have Jessica Simpson singing the National Anthem, you have Jon Bon Jovi coming out and playing two songs, you have the Penguins from the summer Pixar hit *Madagascar*. Dream Works made a special video of them doing the Wal-Mart cheer – the company cheer – just for Wal-Mart. And then you have Garth Brooks closing out the meeting. And the other thing to note is that two days before the meeting in Fayetteville, Will Smith and Jimmy Buffet, both did, on different

nights, private concerts for Wal-Mart shareholders and Wal-Mart workers only. And these people aren't—Wal-Mart is not paying a lot of money to have these people perform, they're being sent by basically their record companies because they know where their bread gets buttered in America.

MARGOT ADLER: Now how did Sam Walton turn a five-and-dime store in Arkansas into such a force—a force that the world must reckon with?

JOHN DICKER: One of the main things is just demographics. Where other retailers started in the urban core, a company like Sears or the big department stores – Macy's, Bloomingdales – they started in the urban core and then realized oh, wait, our demographic—people with money—are leaving cities and they're moving to the suburbs. They were late to the game in that demographic shift. Wal-Mart was out there. They were in these areas that demographers now call “micropolitans.”

MARGOT ADLER: And what does that mean?

JOHN DICKER: It is an official demographic term, but the best way to think about it, I think, is for any listeners who are in the I-95 corridor that goes down the east coast in these towns—you know, in Virginia, North Carolina—where it's not quite rural as in farmland, but it's not suburban in the sense that it's feeding into a major metropolitan center, but there's just lots of business activity in this kind of strip mall area with lots of big boxes. That's kind of what a micropolitan is.

MARGOT ADLER: And that's where Wal-Mart made its mark.

JOHN DICKER: To some degree, yeah. I mean, Sam Walton started out running. He was a franchisee for the Ben Franklin stores. And the way I think about Ben Franklin is kind of like in real rural America, if you're too small to get a Dairy Queen, you get a Tastee-Freeze. And, similarly, back in the '50s and early '60s, if you weren't big enough to get a Woolworth's, you got a Ben Franklin store and it was a five-and-dime. Two things they did that were important were just experimenting – stuff that small town retailers weren't doing.

One of them is, you know, it might seem like nothing, but he would get a popcorn machine and put it out in front of the store so people walking around town would smell it and it would invite them in. Later he borrowed some money and bought a soft-serve ice cream machine. That might seem like nothing, but he realized hey, you know, you have to get people in the door, you have to think differently. The other thing he did was that Butler Brothers had a book that was like *Retailing for Dummies*, and it designs that anyone with startup funds could be their own franchisee and wouldn't really have to reinvent the game. Sam Walton wasn't really satisfied with that arrangement because he thought well, you know, I bet I can get underwear and socks and supplies outside of Butler Brothers distribution network a lot cheaper.

He tried to do that, and he would drive late into the night into the neighboring state and fill up his car and this trailer hitch thing he had and bring it back. He would develop

relationships with suppliers in New York. The famous example, what I talk about in the book, is called—I call it "pantyology". He had this arrangement for buying women's panties, and the lesson he learned was if he could get a lower price, rather than making the money on a higher margin because of the lower wholesale price, he realized that if he took less of a margin and kind of, you know, buy low/sell high is the business maxim, but it was kind of buy low, sell just a little bit higher and make your money in volume.

MARGOT ADLER: You say in your book that Wal-Mart is not just a store. That it's become something much larger – something with a huge cultural significance. What do you mean and how did this happen?

JOHN DICKER: I think it's the way we shop. It used to be that there was some sort of shame associated in shopping at a discount store. Where I grew up in the northeast in suburban New York, the store at the time was Caldor. In middle school it was: I saw you shopping at Caldor. Your mom shops at Caldor. And I think that changed. I think something about the economy, the recession of the early '90s, and just the proliferation of big box chains that we switched from having a certain shame about shopping the discount store to saying it's okay, it's what Target calls "discount chic".

As the debate about Wal-Mart increases, as they're in the news so much, it's because these low prices come with large social costs that we don't really think about when we're in the checkout line.

MARGOT ADLER: Now the company has come under a lot of criticism for its employment practices. It's fought lawsuits in every state in the country from reasons ranging from sex discrimination, hiring of illegal immigrants to, most recently, allegedly killing turtles at a Wal-Mart building fight in Florida. Have these lawsuits affected the company and its image?

JOHN DICKER: Oh, absolutely. If you look at Wal-Mart CEOs, you know, they've only had three. There was Sam Walton who founded the company, David Glass who was his number two kind of finance guy who took it over shortly before Sam Walton passed away, and now Lee Scott. Well, until probably two years into Lee Scott's reign, Wal-Mart barely did any press. They didn't give interviews. It was one person in a business magazine was talking about calling Bentonville, Arkansas to find out about a grand opening ceremony of a new store, and they told him we don't really give that information out.

And now they're singing a different tune. Keep in mind that it was over 20 years into their history that they even hired someone to do public relations, because the philosophy at the time was that if we take care of our customers and make sure that our prices are low and that they're satisfied, everything else will fall into place. Well, that's not really true anymore, and now you have Lee Scott and a seeming army of Wal-Mart flacks giving interviews, you know, on Good Morning America. Everywhere you look there's a Wal-Mart spokesperson. There's a new front group – Working Families for Wal-Mart – which they've sponsored to kind of counter the PR efforts of labor unions. So they're very concerned about their image,

and that is a change. And, you know, they are very much on the defensive in terms of their reputation.

MARGOT ADLER: If Wal-Mart has changed the terms for manufacturing goods in the United States, and it clearly has in some cases—there are stories of companies that have had to shift their operations to China to respond to Wal-Mart's growth, to have products that are cheap enough for Wal-Mart, for example. How do you see this changing the entire scope of retail competition in this country?

JOHN DICKER: We've been seeing it for the last decade with the move of manufacturing offshore. I think, in some ways, this conversation sadly is happening after the fact. You know, so much of the production work has already shifted first to Mexico—well, first from the northeast part of the United States to the south.

MARGOT ADLER: So are you saying that people are blaming Wal-Mart, essentially, unfairly, for a shift that's much larger and that's happening everywhere?

JOHN DICKER: I say they're blaming them fairly, but if they only think it's Wal-Mart, then they're being unfair and unrealistic. It's just Wal-Mart is a good—the journalistic term is a peg or a hook or a lens to see these problems, to frame the story through. I don't think that absolves Wal-Mart of its sins, but it is helpful to keep that in mind in the conversation.

MARGOT ADLER: Now many towns and municipalities have fought Wal-Mart. Tell us some stories of what's happening in a few communities, and if you see these fights breaking down along what we might call red state/blue state lines.

JOHN DICKER: One of the struggles that I mentioned in the book was in this town of Monument, Colorado, which is outside of Colorado Springs, which is hardly known as a hot bed of progressive politics in the U.S. I would talk to people there. They were opposing a Wal-Mart that was going to go right on an east/west corridor, right off the interstate in an already clogged interstate exit ramp. If you talked to people there, they were opposed to it. The number one reason was traffic. It was not ideology; it was not that Wal-Mart is a bad corporate citizen.

MARGOT ADLER: Did they win or did they lose?

JOHN DICKER: They won. The Robert Greenwald film – the Wal-Mart documentary that he released – shows at the end all these communities spontaneously rising up and resisting Wal-Mart, and you'd think it's because of a change in political consciousness in the country. And I don't think that's really true. I think it's the over-storing of America. The amount of retail floor space, I believe, has exceeded population growth in the last 20 years. And so people, especially in the ex-urban communities that Wal-Mart's pushing into, they don't need Wal-Mart as much as historically the communities that Wal-Mart started in, in the rural sort of micropolitan base.

MARGOT ADLER: John, thank you so much for talking with me.

JOHN DICKER: Oh, no problem.

MARGOT ADLER: John Dicker is the author of “The United States of Wal-Mart”. Just ahead on Justice Talking we'll hear about two opposing documentaries on Wal-Mart, and I'll talk with two people who have different ideas about whether Wal-Mart is good for America's economy. Don't go away.

MARGOT ADLER: This is Justice Talking, I'm Margot Adler. Today, we're talking about Wal-Mart—the world's largest retailer. You probably either love it or hate it. Not too many Americans are ambivalent about this big box store. There have been two recent films made about Wal-Mart. They tell two totally different stories. One sings its praises, the other paints a portrait of evil. Wal-Mart won't sell either film at its stores. Robin Urevich brings us this report.

ROBIN UREVICH: Filmmaker Ron Galloway set out to debunk the growing legion of Wal-Mart critics in his film, "Why Wal-Mart Works and Why That Makes Some People Crazy". His film opens with an affectionate look at what some people hate about Wal-Mart – it's sprawl. The camera zooms in on the massive expanse of a Wal-Mart Super Center, about the size of four standard grocery stores. It pans fast motion up and down shelves chalked full of more than 100,000 items – everything from motor oil to underwear to Star Wars toys.

RON GALLOWAY: Wal-Mart represents, to a lot of people, a fear of accelerating economic change, crystallized in this whole mom and pop thing – you know, Wal-Mart moves in town, the mom-and-pops' dry up. Well, Expedia moved into town and travel agents dried up.

ROBIN UREVICH: Galloway traveled the country talking to free market thinkers about Wal-Mart. One of them who appears in the film is William Anderson, an economist at Frostburg State University in West Virginia.

WILLIAM ANDERSON: The shirt that I'm wearing right now was manufactured in China. I purchase it at Sam's Club, I paid less than \$13 for this; whereas 20 years ago, a shirt of this quality getting through Lands End would've cost me \$35. So I do not think that I as a consumer have somehow been violated because I'm able to get a high quality shirt at a lower price than what I paid 20 years ago.

ROBIN UREVICH: Professor Anderson's crisp white shirt comes cheap, partly because of Wal-Mart's near legendary efficiency, says Dr. Edna Bonacich, a sociologist at the University of California, Riverside. But, she says, the companies cut rate prices are also a result of its strong arm tactics.

EDNA BONACICH: They are known to look at the books of their supplying company; and to say: we want you to cut your prices by ten percent next year.

ROBIN UREVICH: Bonacich says Wal-Mart's demands are nearly irresistible because the company buys in such quantity that it can make or break a supplier. So some U.S. manufacturers comply by moving product offshore to China or Central America. The company's tightfisted policies abroad and at home come under attack in Robert Greenwald's film, "Wal-Mart: The High Cost of Low Price". The film was released in theaters in New York and LA and in thousands of church basements, union halls and house parties. Former Wal-Mart workers and managers, including Weldon Nicholson, blow the whistle on the company.

WELDON NICHOLSON: You know, if you can squeeze every dime out of them, you go for it; and it doesn't matter what happens to their families, if they fall apart, they get sick, you know, the hell with them.

ROBIN UREVICH: The film's other sources tell of how Wal-Mart has destroyed mom and pop competitors, or how employees earn so little that they relied on government programs for healthcare and sometimes food. Greenwald spoofs Wal-Mart's folksy TV ads with his own spots that pop up in the film. This one features actors James Cromwell and Francis Fisher.

UNIDENTIFIED MALE: Hey Wendy, look. There's that nice Thompson family. Haven't seen them in church lately.

UNIDENTIFIED FEMALE: Wal-Mart won't let them off on Sundays just to go to church.

UNIDENTIFIED MALE: Must be nice for them to drive to work together.

UNIDENTIFIED FEMALE: Yup, both at 5 a.m. And they're so clever they dress the kids for school the night before and they sleep in the car.

UNIDENTIFIED MALE: They're making it work.

ROBIN UREVICH: Both films were released last November and are available on DVD. But Wal-Mart has decided not to carry either one. The two documentaries have fueled a PR war between Wal-Mart and its opponents. Last fall, labor unions joined Social Justice – an environmental activist group – to launch what many say is the largest effort ever aimed at forcing a U.S. corporation to reform. Wal-Mart has responded with a campaign style war room staffed with some of the country's top political operatives. One result so far: people on the street know the issues. At least that's the case just blocks away from a Wal-Mart in south Los Angeles. Here's architect Ron Carrington.

RON CARRINGTON: They're underpaying their employees; the majority of their purchases are made from overseas. You know, I don't see that what they're doing for me and you, for that matter, other than just taking our money.

CX: My name is CX, they call me Castles and I'm from LA. Wal-Mart's a very good thing. People hate, you know, Wal-Mart, but Wal-Mart is a good thing. Look how many black

people work in that Wal-Mart. Look how many Mexicans work at Wal-Mart. Skip what they're talking about – Wal-Mart is all right.

ROBIN UREVICH: At USC's Marshal School of Business, professor Sandra Crystal, who studies crisis communication, predicts Wal-Mart will eventually make some accommodation with its critics.

SANDRA CRYSTAL: Look at Nike – Nike made big changes when there was enough push from so many groups, and I think Wal-Mart's faced with the same kind of a situation.

ROBIN UREVICH: Now, however, there's no sign of a truce. Wal-Mart foes say they'll block the mega retailer's expansion into new markets. Wal-Mart continues an aggressive public relations push, now with filmmaker Rod Galloway and entertainer Pat Boone on board, as members of a non-profit the company calls Working Families for Wal-Mart. For Justice Talking, I'm Robin Urevich.

MARGOT ADLER: You can learn more about these documentaries and our guests today at justicetalking.org.

MARGOT ADLER: The economics of Wal-Mart are complicated. When Wal-Mart moves into a community, it affects the local economy. Some argue that Wal-Mart's wages and benefits set the standards for neighboring stores, and its low prices bring down those of its competitors. As the world's largest corporation, Wal-Mart also plays a leading role in the global economy. To debate whether Wal-Mart's business practices are good for America, I've asked two people to join me. I should also say that we asked Wal-Mart to join us, but they declined.

Peter Cappelli is a professor of management at the Wharton School at the University of Pennsylvania, and Jason Furman is a visiting scholar at New York University's Wagner School. You're a progressive – you've done lots of work, looking at the economy, how it affects poor people in the United States. It's fascinating to me to see that you see Wal-Mart as a positive force for the working poor – tell me why.

JASON FURMAN: Low prices, very simply. It offers on food – prices that tend to be about 25 percent lower than prices at other stores. You look at a low income family – they're spending one-quarter of their budget on food, so those low prices are doing something enormous for them. A high income family is spending about three percent of its budget on food. It might benefit from shopping at Wal-Mart, but it's not going to make a whole lot of difference to them. That's why I think Wal-Mart is enormously important to progressives.

MARGOT ADLER: Peter, you teach management at Wharton, one of the country's top business schools. Isn't Wal-Mart a perfect example of capitalism at its finest?

PETER CAPPELLI: It's been an enormously successful company – there's no doubt about that. The impact it's had in various aspects of society, once you get beyond prices, I think, is not so clear and not so obvious. And maybe I could illustrate with a quick example. Suppose you were the mayor of a small town, and 20 years or so ago, somebody told you that the largest employer in the country was coming to set up a facility near you. I think you would assume that this was unmitigated good news for the community. I think if you tell them now the largest employer in the country is coming – it's Wal-Mart – they have a much more mixed reaction, I think, thanks in large part to Jason pointing this out to people. They probably will now understand that prices will be lower for people in their community – that's a good thing. On the other hand, we also know that the community changes in very important ways as a result of a store like Wal-Mart coming and the center of small town life begins to change, a lot of companies are driven out of business, basically - a lot of smaller competitors of Wal-Mart.

Wal-Mart seems to be associated with the reduction of jobs in the community and you can see why that would be because they're more efficient, and therefore you don't need quite as many... much retailing employment to get the same amount of stuff sold. And the other thing, which is a little bit of a surprise, is that they also seem to lower wages in their community, and depending what standards you use, it's either a lot or a little or not much; but now the story's much more nuanced. So if you're the mayor of this town and you're thinking would it be a good thing for Wal-Mart to come in or not, and you have an awful lot of on the one hand and on the other issues, and I think that's why ultimately this is much more a political story than it is really an economic story.

MARGOT ADLER: Now, Jason, how would you say, given what Peter has said, that Wal-Mart affects the economy of let's say a small town or the nation?

JASON FURMAN: Well, first of all, Wal-Mart's low prices are very clear. You can just walk in there yourself, pick up a tube of toothpaste or a thing of ketchup and take a look at it and then look at your neighborhood supermarket or your corner grocery store – you can see that the prices are much lower. The evidence about Wal-Mart's impact on jobs and employment is much more ambiguous and much less dramatic. Some studies have found - in fact, the only published study in *The Referee Academic Journal* - found that the entry of Wal-Mart into a town actually increased the total number of jobs.

Some other studies have found mixed results with it – reducing jobs in the retail sector, but increasing jobs outside of retail. So my reading of the evidence is that it's a lot less clear than Peter made it out to be. That if you get Wal-Mart in your town, you're basically guaranteed to have lower prices and you may get a few extra jobs, you may lose a few jobs, but either way, it's not going to be a dramatic change in the total number of people working or the total amount.

MARGOT ADLER: And, Peter, you disagree with that?

PETER CAPPELLI: It is true that prices go down a lot and affect a lot of people. It's also true that if you're one of the people who've lost your jobs, you know, it's a much bigger issue than somebody who simply gets groceries ten or fifteen percent cheaper.

MARGOT ADLER: And you're saying this happens because Wal-Mart comes into town.

PETER CAPPELLI: Yeah. I mean, the thing about Wal-Mart that's important to remember is that Wal-Mart is not a manufacturer. Wal-Mart coming into town does business by taking retail away from its competitors around it. So I think the political issue here is: how important is it to think about lower prices for the folks in the community – that's certainly important – how important is it to disrupt the community life in the sense that the small retailers who are there are going to be driven out of business. Well, that's important maybe to a different group.

Job loss, you know, a couple of percent or so, well, you know, that's not a huge number unless you're one of those one or two percent. Wage is declining. It seems to me the reason why that is so surprising is that a few years ago you would've thought when the largest employer in the country comes to town, you'd almost assume without thinking about it that wages would go up. And what's odd about Wal-Mart, and sort of unusual - and I think this is the point on which you can be quite critical of Wal-Mart - is that they come in and appear to provide worse terms and conditions than equivalent employers; and let's be clear: the employers they're competing against are, for the most part, not big, well-financed, highly capitalized companies.

They're competing against, you know, little mom and pop shops traditionally in rural areas. And they don't raise wages at all compared to even those low, weak competitors – they're actually lower wages compared to those folks; and that's stunning.

MARGOT ADLER: Jason?

JASON FURMAN: Small businesses are a wonderful part of American life, but we shouldn't romanticize them. One of the major problems with small businesses is they're very unlikely to offer health and other benefits, they don't offer much in the way of prospects for advancements, their jobs tend to be much less secure. Wal-Mart consistently pays better and has better benefits than the smaller businesses that it displaces. Wal-Mart, for example, offers health benefits to its part-time employees. They have to wait two years – it's not the best deal in the world.

MARGOT ADLER: And how much does Wal-Mart actually pay?

JASON FURMAN: It averages around \$9/\$10 an hour, which is pretty much comparable to the retail sector as a whole in the areas where Wal-Mart is. It might be a little bit below large retailers and it's certainly paying more than small retailers.

MARGOT ADLER: I talked with pollster John Zogby of Zogby International about a poll he conducted on American attitudes toward Wal-Mart.

JOHN ZOGBY: Wal-Mart is so much more than retail – you know, it's almost a religion. But what we found clearly is that—especially when people learned or understood some of the alleged practices of Wal-Mart regarding employees—that support for Wal-Mart is actually declining. I also should add, though, that Wal-Mart gets its lowest marks in large American cities, many of whom have no Wal-Mart or have people who do not shop at a Wal-Mart, and so only know it by reputation.

MARGOT ADLER: Right, so actually when you looked places where there was a Wal-Mart, were the findings mostly positive?

JOHN ZOGBY: Mostly positive. And Americans in small towns, rural areas, those so-called edge cities on the periphery of American cities—they love their Wal-Mart.

MARGOT ADLER: That was John Zogby. So when we talk about people loving or hating Wal-Mart, Jason, are we talking about a cultural divide?

JASON FURMAN: I think when people really focus on Wal-Mart, they're misplacing where their attention should be. We have a lot of problems in our economy: we have increased inequality; we have stagnant incomes; we have wages today that are lower than what they were four years ago when the economic recovery began. That's a much, much broader issue than Wal-Mart. And Wal-Mart, I think, is just the misplaced source of peoples' anger, and justifiable anger over all of those economic trends. Wal-Mart, in fact, if anything, is helping those by having lower prices that's equivalent to a wage increase for everyone in the economy.

What the right place to direct your attention to is what we do in this economy to insure that work pays - the earned income tax credit, minimum wage, insuring that you have health insurance when you go to a job - all of those types of broader policies that progressives have pushed for for years. That's really the way to address these broader economic concerns people have - not beating up one particular company, which, if anything, is actually part of the solution, not part of the problem.

MARGOT ADLER: By the way, you should know that Wal-Mart disputes Zogby's findings. Peter, are we talking about a cultural divide?

PETER CAPPELLI: I think we are talking about a bit of a cultural divide. I think with respect to the poll, what you see is people in towns that didn't have much competition see Wal-Mart coming in – it does lower prices a lot for them, it does offer them more choices than what they had before. And I think with respect to Wal-Mart, the thing that is stunning about Wal-Mart, particularly compared to earlier generations, is that this is the largest employer in the country, it's highly profitable, highly effective employer.

Twenty years or so ago, companies in that circumstance saw themselves as worrying a fair bit about how to do things to help their employees to be maybe, you might say, paternalistic to push an agenda that benefited their employees. That is they saw their employees as

important stakeholders in the company, and that's clearly not the case. Anymore it's not the case for Wal-Mart. Wal-Mart, at least in terms of the way its policy act, is viewing its employees, I think, much more as a commodity, much more as an issue, a factor of production – how can we get the lowest cost out of our employees.

MARGOT ADLER: That was Peter Cappelli, professor at the Wharton School at the University of Pennsylvania. Also with me is Jason Furman of NYU's Wagner School of Business. Coming up, more of “Wal-Mart: America's Economy in a Big Box?”

UNIDENTIFIED MALE: Wal-Mart is acting like a capitalist in a market-based economy.

MARGOT ADLER: Don't go away.

MARGOT ADLER: This is Justice Talking. I'm Margot Adler. We're talking about Wal-Mart, its low, low prices and its huge market share. With me is Peter Cappelli from the Wharton School at the University of Pennsylvania, and Jason Furman from the Wagner School at New York University. Now, Jason, before, was talking about health care and was saying that Wal-Mart did, in fact, provide health care for part-time workers; but isn't it true that in many cases employees of Wal-Mart rely on Medicaid for their health care – quite a sizable portion? Aren't tax payers subsidizing Wal-Mart, you know, and shouldn't the burden of health care plans be put on the employers?

PETER CAPPELLI: Well, I think the employers have pretty much changed their view on what their responsibilities are to employees. So the notion that the employer had some responsibility for the health and welfare of their employees is a notion which is eroding rapidly in the U.S., and I think, frankly, if the government wasn't helping to help the people who are in these low wage jobs, it's not that the employers would jump in and do it for them.

JASON FURMAN: Wal-Mart is not different from any other employer in terms of the way it uses Medicaid. You'll sometimes hear Wal-Mart is the number one employer in the state that has people on Medicaid or something like that; but Wal-Mart's the largest employer so it's going to be the largest user of Medicaid, it's also going to be the largest tax payer and the largest in a lot of other respects. Percentage wise, five percent of Wal-Mart employees are on Medicaid. That is virtually identical to what the average is nationwide.

In terms of the number of children, it's higher – it's 27 percent of children of Wal-Mart employees are on Medicaid, which is also very similar to the nationwide average and slightly below the average in the retail sector.

MARGOT ADLER: So you're really saying it shouldn't be on the employer's back, it should be part of what states and the federal government give to people.

JASON FURMAN: Well, that's not exactly what I'm saying, I'm saying that you have an employee at Wal-Mart who has a choice of paying extra health premiums – maybe an extra

thousand dollars a year or more – to have their children get covered or have their children get covered through Medicaid. They choose to keep that extra thousand dollars a year and have the government pay it. That's something that the employee is choosing and it's a choice that people make at companies throughout our economy – not just at Wal-Mart. I find that it's almost strange that there are people who think that 100 percent of health benefits should be paid by the government, and then they look at low income people and see 25 percent of their children get health benefits paid by the government and think that's somehow a problem.

MARGOT ADLER: Do both of you think that the complaints about Wal-Mart affect on our economy are really about Wal-Mart; or are they about the fact that we have these much larger issues. We've moved from a manufacturing economy to a service economy; you know, is this something that is Wal-Mart's fault or is it being blamed on Wal-Mart, but it's other things? Peter?

PETER CAPPELLI: Well, I think, to some extent, it is a symptom of the fact that employers have changed their notions of responsibility toward employees. It is much more of an open market know, with respect to the way they see employees. They see them as factors of production. They don't necessarily worry about long-term relations with employees, they don't necessarily, as a group, take much care of their employees. I think there is a particular reason why Wal-Mart is focused in on for this, partly because it's the biggest employer in the country and that certainly makes it a target for people who are interested in what corporations are doing, partly because it, compared to other companies, is doing relatively little as a way to try to improve the terms and conditions of its employees.

It is pursued a strategy of managing employees, which is a low commitment strategy that relies on low wages, low cost up front rather than investments in employees and investments in efforts to try to improve productivity, and, frankly, it's got a pretty unimpressive record with respect to compliance with employment legislation of all kinds.

MARGOT ADLER: Now, Jason, I was wondering about one of the objections that many, many people make to Wal-Mart, which is that it manufactures so many of its products in China. And I'm wondering how you see how Wal-Mart is shifting, essentially – both countries' economies. Is Wal-Mart responsible for Americans losing jobs to China? Is it increasing our trade deficit?

JASON FURMAN: Well, buying things from China makes an awful lot of sense when those things are made in China much more cheaply than what are made in the United States. So why someone would want American consumers to pay more when they have this other alternative is just, again, not something progressive should be in favor of.

MARGOT ADLER: But Wal-Mart has pushed a number of manufacturers to lower their price to such an extent that they have to move to China.

JASON FURMAN: There's no question that we are in a more competitive economy than we were in before, and that comes with some extra sets of insecurity, and that's why things like a

national health system than insures that everyone has health insurance, a minimum wage, an earned income tax credit – all of these types of things – are more important than they ever were before. But Wal-Mart itself is subject to that competition. Its stock price is down in the last six years. It faces intense competition from Costco, for example.

Everyone in this economy is less secure today than they were 20 or 30 years ago – that's true of workers. It's also true of the major companies that when they stumble, they see their stock price fall, they see themselves moving down.

MARGOT ADLER: Jason Furman is a visiting scholar at New York University's Wagner School. Peter Cappelli, how do you view the United States and China and Wal-Mart?

PETER CAPPELLI: Well, I want to maybe just follow-up on some of the things that Jason was saying a minute ago. I think that it is true that Wal-Mart is acting like a capitalist in a market-based economy, and it's sort of like saying, you know, when a tiger attacks people and tries to eat them, blaming the tiger. Well, you can say, well, this is what companies do in a modern sort of robust economic environment where the economy is increasingly competitive internationally and this is what you expect them to do.

I think for employers there's a bit of a policy bind for them, though, and that is I think it's perfectly reasonable for employers to say: look, don't look to us anymore to take care of employees, to provide health insurance, to provide pensions, to protect employees – don't expect us to do it. But if that's the case, then it is difficult for them, it seems to me, on ethical grounds to object to efforts for public policy to try to help with those problems. So you can't have it both ways; you know, they can't say: well, don't blame us, we're just doing what capitalists do. Don't expect us to have any responsibility for our employees anymore, and, at the same time, but hands-off efforts to regulate employment or try to improve wages or those sorts of things.

MARGOT ADLER: Jason, you wanted to answer.

JASON FURMAN: I completely agree with Peter on that. Wal-Mart should be out there actively lobbying for the types of progressive policies that would strengthen the public pension system, strengthen the public health system, strengthen the public employment system, and they are not. They're not acting - in the public policy realm - they're not acting in the interest in their employees. Their biggest public policy priority - the Walton Family – has been eliminating the estate tax, something that would benefit them by billions of dollars and hurt the rest of Americans.

So Wal-Mart's business practices, as a company with low prices, are enormously beneficial, but they're not out there lobbying for the types of public policies that we really need in this country.

MARGOT ADLER: I've got to ask you if you shop at Wal-Mart, either of you? Jason? Peter?

JASON FURMAN: I've been to Wal-Mart a grand total of once in my life. Bought more than I intended to because I had such a wide selection – I got distracted.

MARGOT ADLER: And Peter?

PETER CAPPELLI: I have been in Wal-Mart, but we don't make it a practice of shopping in Wal-Mart.

MARGOT ADLER: There's certainly a lot more to talk about, but we have to wrap it up. Thanks to both of you. Peter Cappelli is a Professor of Management at the Wharton School in Philadelphia. Jason Furman is a visiting scholar at New York University's Wagner School. Thank you so much for being with us.

MARGOT ADLER: We looked at how Wal-Mart got started and debated its economic impact. Now I'd like to focus on some of the legal problems faced by the company and whether new lawsuits are forcing Wal-Mart to change how it does business. Aaron Bernstein covers Wal-Mart for Business Week magazine. I asked him how the company has changed its public relations strategy in recent years.

AARON BERNSTEIN: They decided last year – the CEO Lee Scott – that they had been sitting down in Bentonville too long without trying to explain themselves to the world. They felt, he said, that they didn't need to if they just ran a good business. And in recent years they have been criticized on so many fronts by so many different kinds of people that he felt that the company needed to start talking out and defending itself, and so they launched a big campaign last year to hire public relations people and start speaking out.

MARGOT ADLER: Wal-Mart has been the subject of many lawsuits. It had to pay \$172 million for forcing 116,000 employees to work through their lunch breaks without pay. Last year, Wal-Mart had to pay \$11 million because it hired illegal immigrants in 21 states. In another case, Wal-Mart is accused in an equal number of states of locking workers inside closed doors without paying them. And then there's what some call the largest sex discrimination class action lawsuit in the U.S. Are Wal-Mart's practices any different from other large corporations who have hundreds of thousands of workers?

AARON BERNSTEIN: Well, all the kind of suits that they face that you just mentioned have hit other companies, particularly retailers, in recent years. A lot of them have been hit with these off-the-clock lawsuits about people working through lunch breaks and things like that, and they've been hit with sex discrimination suits—many companies have, not just in retailing. But it's a little bit unusual for a company to be hit with so many. They really have a problem that sort of seems to go beyond what some of these other companies have because they just keep getting hit.

MARGOT ADLER: And why do you think that is?

AARON BERNSTEIN: Well, I think it's a combination of reasons. I think part of it is probably what the critics say, which is they have a business model that's predicated on driving down cost to the lowest possible level, so that they can deliver the lowest possible price. But when you're cutting costs like that, there's a danger that either the corporation or individual managers are going to cut corners, including with their workforce, so there's probably some of that going on. I think there's probably also some truth to their explanation, which is they're the biggest employer in the world. They're a big, fat target, so they attract all the lawyers and people who want to file lawsuits against corporations.

MARGOT ADLER: Do you think these lawsuits will damage the company?

AARON BERNSTEIN: Well, they already have. I mean, the publicity is certainly bad. They've had to pay the money that you mentioned – billions of dollars in fines – and while they're a very large and wealthy corporation and they can afford it, that's not fun. Spending money like that is bad. But I think more than the actual dollars is the reputational damage, and that has been expensive in the last couple of years. Those lawsuits really hurt. And the sex suit is probably going to be the most troubling if they actually lose it; it's not at all clear that they will. But it's the ones that they've been hit with so far on not paying for lunch and the immigration and all that—those have been bad enough. But the sheer size of the sex discrimination suit—there are more than a million plaintiffs. It's just kind of overwhelming to think about that. If they lost that suit, I mean, first of all, the damages could indeed be staggering, but the reputational hit of saying you've discriminated against a million American women and systematically held them down. If that really turns out to be the case and a jury finds that—boy, that's bad.

MARGOT ADLER: Have these lawsuits changed Wal-Mart's business strategy? Has it changed the way it does business?

AARON BERNSTEIN: Well, it's not just the lawsuits, it's all the criticisms. The lawsuits are probably the most visible stuff, but they've been hit with all kinds of criticisms about their environmental behavior and their big stores. And Lee Scott in the interview he did with us said very explicitly that he doesn't want to change the low cost model. The business model works for them. So in that fundamental sense, it's not changing, and they very explicitly say they're not going to change it.

However, they have been changing some of the ways they do business, or at least they've been starting to in response to the criticisms, like trying to reduce the environmental impact of the company by working with suppliers to cut down on packaging so there's less waste when you buy something in the store, so there's not so much stuff you have to throw away. They're working to make their stores more environmentally friendly.

The one thing that Lee Scott was very clear about is that he doesn't want to talk to the labor union leaders who are also amongst his critics. That would entail not just talking to them, but if you ultimately let unions organize Wal-Mart workers, that would entail a fundamental change in their business model and he's very adamant that that's not going to happen.

MARGOT ADLER: Now, it's been reported that the Labor Department has agreed to give Wal-Mart advanced notice of all of its investigations, and then allow it a ten-day grace period to fix these problems. Does this give an advantage to Wal-Mart over other companies?

AARON BERNSTEIN: Boy, when that came out last year, the Labor Department took a lot of heat for that and they have still been unable to explain why they're doing that.

MARGOT ADLER: Is there some sense in which Wal-Mart has become a monopoly, like the old-style monopolies?

AARON BERNSTEIN: There's not a clear answer to that. There have been a lot of economists looking at questions related to that. They seem to be exercising extraordinary market clout. It's clearly not a monopoly; it might be something more like an oligopoly because we don't have that many big retailers. You know, everybody assumes that they drive pricing power in the retailing industry in America, but it's not exactly a traditional monopoly/oligopoly like when there were three car companies in America and they set prices for cars or steel or something.

MARGOT ADLER: What do you think will be the future of Wal-Mart?

AARON BERNSTEIN: I think they're going to keep going with their current business models. They don't seem to be varying from that track. And I think all these critics, even though the pressure is mounting, I don't think it's big enough yet to force them to really change course in a fundamental way. So I think they'll keep doing business the way they're doing it and fighting these battles and trying to bolster their image. I think it'll probably be more of the same.

MARGOT ADLER: Well, thank you so much for coming on the show. Aaron Bernstein is a reporter at Business Week magazine where he has written extensively about Wal-Mart.

MARGOT ADLER: We should say that we did ask Wal-Mart to participate in our show, but they declined. If you love Wal-Mart or hate it, we'd like to hear from you. Do you shop there or do you avoid all big box stores? Will you shop at Target but not Wal-Mart? Join the debate and find out more about the issues raised in today's show at our website, justicetalking.org. Thanks for joining us. Tune in again next week. I'm Margot Adler.
