

December 3, 2005

HOT TOPIC

Gauging the Wal-Mart Effect

December 3, 2005; Page A9

THE MAIN EVENT

The sheer size and rapid growth of Wal-Mart have put the world's largest retailer at the center of a debate about its effects on workers, local communities and the environment.

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A sign announces a Wal-Mart store is coming.

Union-backed groups like WakeUpWalMart.com have stepped up their efforts to vilify the company, saying it depresses retail wages and undermines local communities and their tax bases. In response, Wal-Mart Stores Inc. Chief Executive H. Lee Scott Jr. has devoted an increasing amount of time and energy to convincing the public that the company is a force for good.

Mr. Scott, for instance, recently called on Congress to increase the federal minimum wage, and he offered Wal-Mart employees, called associates, a lower-cost health-care program. Meanwhile, Wal-Mart's share price is 18% below where it was nearly six years ago, when Mr. Scott took over, and some investors wonder whether the campaign to improve Wal-Mart's image may be taking management's focus away

from the bottom line.

Here's a look at the issues surrounding the retail giant:

Local Economies: In 2002, Wal-Mart became the first retailer to top the Fortune 500, and it continues to grow. About 550 stores will be built next year. The rapid growth has forced the company to address vexing questions: Does Wal-Mart eliminate jobs when it moves into a community? And does it drive down retail wages in that community?

An independent study done last month by the National Bureau of Economic Research says Wal-Mart does adversely affect employment and wages. Retail workers in a community with Wal-Mart earn 3.5% less, the study says, because Wal-Mart's low prices force other businesses to lower prices, and hence their wages. Wal-Mart pays its employees on average about \$9.68 an hour. NBER says it is possible that lower wages, which result in decreased earnings, could result in a strain on the tax base if lower-paid workers must seek food stamps and Medicaid. The study also found that Wal-Mart's presence reduces retail employment by 2% to 4%, although there is some evidence that total employment increases.

Wal-Mart counters with a study it funded from Global Insight, an economic-forecasting firm. The study

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found that, since 1985, Wal-Mart's openings around the country have cut consumer prices about 3%, saving consumers \$263 billion in 2004 alone. While nominal wages go down about 2% on average nationwide, the study says, prices go down even further, causing an increase in consumers' real disposable income.

Health Care: Just under half of Wal-Mart employees are covered by company health insurance. That is lower than the 67% national average but slightly higher than the 46% national average for retail workers. Wal-Mart in October rolled out a new health-care plan, with monthly premiums as low as \$11 to \$25 for a single employee -- 40% to 60% lower than the previous plan -- and a \$1,000 deductible that wouldn't kick in until after three doctor visits and three drug prescriptions.

Critics say the deductible is still too high in comparison with Wal-Mart wages. Also, Wal-Mart's critics point to a memo that was leaked in October, which suggested that the company wanted to keep medical costs down by discouraging less-than-healthy people from applying for jobs.

The Environment: Critics claim Wal-Mart is unfriendly to the environment and cite fines from the Environmental Protection Agency and state organizations for violations of clean-water regulations and petroleum storage-tank laws.

Mr. Scott has said Wal-Mart's goal is to eliminate 30% of the energy used in its existing stores and eventually to rely 100% on renewable energy and to create no solid waste. In July, the company opened its first "experimental supercenter," which uses solar panels to generate electricity, shredded tires for landscaping mulch and used motor and cooking oils to supply heating.

--Compiled by Lauren Etter

POINTS OF VIEW

"Some well-meaning critics believe that Wal-Mart Stores today, because of our size, should, in fact, play the role that is believed that General Motors played after World War II. And that is to establish this post-World War middle class that the country is so proud of...The facts are that retail does not perform that role in this economy."

--Wal-Mart CEO H. Lee Scott

"This is one of our nation's great companies...The story of Wal-Mart exemplifies some of the very best qualities in our country -- hard work, the spirit of enterprise, fair dealing and integrity."

--Vice President Dick Cheney

"It is extremely troubling when the vice president...praises a company that pays low wages and benefits, discriminates on the basis of gender, locks its own workers into stores at night, busts unions and violates child-labor laws."

--Rep. George Miller (D., Calif.)

"It's time for Wal-Mart to understand that their company practices run counter to the very values that make this country great -- fairness, opportunity and equality."

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FACTS

In 2004, Wal-Mart audited all of the 7,600 factories that supply products to it. Of those, **108 were banned from doing business with Wal-Mart primarily because of child-labor violations.**

Vermont has the fewest Wal- Mart stores -- four. Texas has the most -- 410. For Alaskan shoppers, Wal-Mart offers **the 'Alaska Bush Shopper' program, which sends a plane filled with its goods** to remote Alaskan communities.

Wal-Mart says its computer database holds more than 570 terabytes of information, more than all of the Internet's fixed pages. **The database allowed Wal-Mart to fill Florida stores with strawberry Pop-Tarts** after it predicted Hurricane Ivan would spur demand for the toaster pastries.

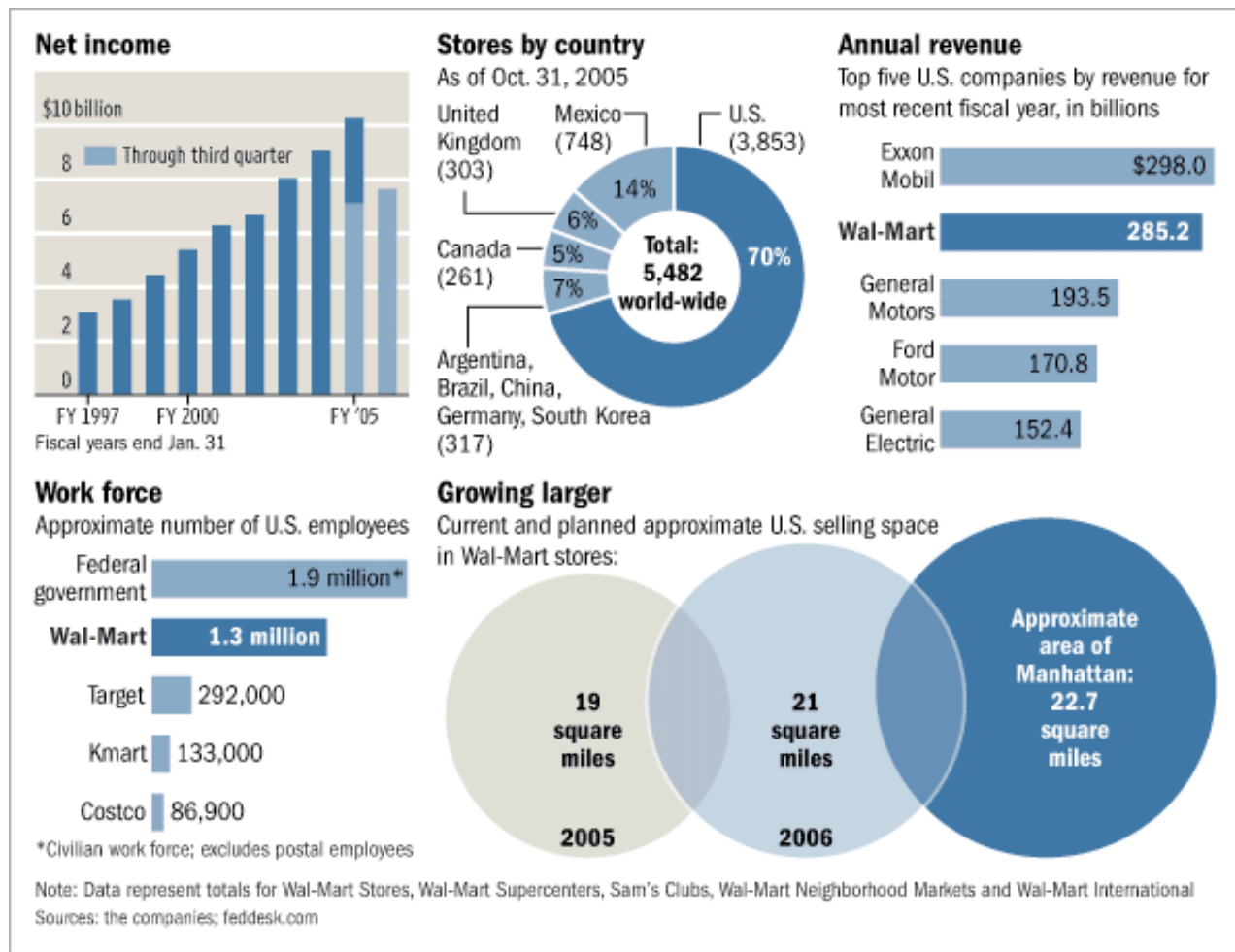
Wal-Mart became the largest grocery chain in 2002. Its supermarket revenue is larger than that of Safeway and Albertson's combined. **Wal-Mart says its grocery prices are about 20% lower than other supermarkets.**

The family of Wal-Mart founder Sam Walton **has a combined fortune estimated at \$90 billion.** In 2005, Bill Gates was worth \$46 billion; Warren Buffett, \$44 billion; and Saudi Arabia's Crown Prince, \$20 billion.

A Wal-Mart cheer ends: 'What's that spell? Wal-Mart! Who's No. 1? The customer! Always!' **Mr. Walton invented the cheer after seeing tennis-ball-factory workers in Korea do a company cheer** along with their morning calisthenics.

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