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Wal-Mart Gives Globalism A Bad Name;

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The current election-year debate makes it clear that Americans are deeply aware that trade, technology transfer, and outsourcing have a huge impact on their jobs and indeed their lives. Not long ago, some of the most powerful corporate symbols of this intensifying globalization were McDonald's, Coca-Cola, and CNN. But now American-style global capitalism could have a new face -- Wal-Mart Stores Inc. That would be bad news.

Wal-Mart is now the world's largest private employer (1.5 million people) and largest retailer (sales of 50% greater than Target, Costco Wholesale, Sears Roebuck, and Kmart combined). It operates more than 3,500 stores around the world and has plans to open nearly one a day this year. The company has aggressively expanded throughout North and South America, Europe, and Asia. It accounts for 10% of U.S. imports from China. It is noted for highly sophisticated global inventory management as it brings to foreign markets quintessential American values -- Darwinian competition, ever-widening consumer choice, and increasing shareholder value.

But the essence of Wal-Mart is that it is propelled by one thing: offering products at the lowest possible price. The big question, which Stephen J. Kobrin of the Wharton School recently posed to me in an interview, is: What does society pay for that benefit? Yes, Wal-Mart provides critical savings for low- and middle-income families. Yes, we can thank the company for contributing to today's low inflation and growing productivity. But the darker side of the story is how Wal-Mart achieves its fabled low prices in part by taking unfair advantage of employees and communities.

A FEDERAL GRAND JURY IS examining whether the company has knowingly hired contractors who employ undocumented immigrants to drive down costs. Some 40 lawsuits in 25 states accuse Wal-Mart of denying overtime pay to those who have earned it. Many workers complain about unreasonable eligibility criteria and prohibitive costs for company-sponsored health-care plans. Charges of sexual discrimination in employment could soon precipitate the biggest civil-rights class action in U.S. history.

On a recent PBS program, NOW With Bill Moyers, former Wal-Mart employees said their wages forced them to resort to taxpayer-funded public assistance for emergency medical care and even food stamps. The program also documented instances -- for example, in Cathedral City, Calif. -- of the company establishing stores to take advantage of temporary tax breaks and then abandoning them when the fiscal incentives expired. In so doing, it left the local community with empty structures and huge shortfalls in public revenues.

The company vigorously denies all these allegations, but for me there is too much smoke for there not to be a fire. And of course, what Wal-Mart does, every other competing retailer must try to emulate if it wants to survive. Exhibit A is the 70,000 worker strike at supermarkets such as Safeway where employees are protesting reduced health-care benefits that the grocery chains say are needed to compete with Wal-Mart.

Benjamin R. Barber, author of *Jihad vs. McWorld: How Globalism and Tribalism Are Reshaping the World*, bemoaned in an interview that there are scant economic, legal, or political restraints on Wal-Mart. But recent polls, such as one conducted by Harris Interactive Inc., show that public awareness of Wal-Mart's labor practices is growing. A company that ignores its workers and its communities will surely have trouble succeeding in today's brand-conscious world. In addition, employees and citizens are consumers, too; if they are treated badly, their purchasing power will either erode or be directed elsewhere.

Still, in the contest between ruthlessly competitive forces and decent employment in cohesive communities, we should be rooting for the latter. If Wal-Mart succeeds with its low-price-at-any-cost strategy, what kind of message does this send about the ability of U.S. companies to be good corporate citizens? What kind of backlash against international trade and investment would it eventually provoke?

Sam Walton, Wal-Mart's late founder, wrote in his book, *Sam Walton: Made in America*, that the company reflects the principles that made America great. On some counts, he is right. But in terms of representing the best of this country at home and abroad, Corporate America can do better.

Biography:

Jeffrey E. Garten is dean of the Yale School of Management and author of *The Politics of Fortune: A New Agenda for Business Leaders* (jeffrey.garten@yale.edu)

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