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Wal-Mart and the Politics of American Retail

by Zachary Courser

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EXECUTIVE SUMMARY

The current public debate surrounding Wal-Mart fits within a historical context of democratic responses to changes in the retail sector. From Sears Roebuck and the emergence of the mail order industry in the late 19th century to the various chain stores that emerged during the 1920s, the American public has proven wary of retail innovations. Wal-Mart, as the largest retailer in America and the pioneer of the large discount chain store, is currently experiencing this same public wariness regarding its business practices and its role in the American economy. This report attempts to place Wal-Mart within the context of economic change and democratic protest that has replayed itself many times in retail history and to ask whether or not its business is good for America.

Given the high levels of interest in Wal-Mart's business and the level of criticism it is currently enduring, it is important to reflect on past changes to the American retail sector to better understand how consumers and politicians should react to the perceived challenge that its critics claim it presents today. Beginning with the rise of Sears Roebuck and mail-order catalog houses in the late 19th century, continuing during the pioneering of chain store retail under Woolworth and A&P in the 20th century, and persisting into today with Wal-Mart's "big-box" discount stores, Americans have always met changes to their retail economy with fear and loathing. Despite the tremendous benefits in value, efficiency, and service that have accrued to the consumer through the passing of each era of retailing, Americans do not react well to such change. Judging from history, capitalism's creative destruction is felt unusually strongly in retail. The same story has repeated itself through each major change to retailing: Groups mobilize against a vanguard of a new retail paradigm, public campaigns begin to rock the foundations of that enterprise, and eventually legislatures react to restore "normalcy" by regulating that business' practices, allegedly in the public interest. The tragedy in each instance is that the American consumer loses most in this drive for control over the forces of retail innovation. By placing Wal-Mart in this context, it becomes clear that the current debate raging over its business is not new, but rather part of a cycle of political response to retail innovation.

This report additionally asks the question of whether or not Wal-Mart is good for America, analyzing how Wal-Mart treats its employees, its effect on the American economy, and on small towns and small retailers. The conclusions reached are that Wal-Mart fits very well within a pattern of retail innovation and displacement, by which consumers benefit from new systems of retail, that Wal-Mart is very much in line with the rest of the American retail sector in terms of benefits and pay, and that the dissolution of Main Street retail is not caused by Wal-Mart per se, but is part of a larger overall change in consumer habits. Considering the discount retail sector as a whole, most of the criticisms directed toward Wal-Mart are largely shared throughout the industry.

The growing public distrust over Wal-Mart may have less to do with its business practices and more to do with its relationship with the American public. Largely due to the influence of its founder, Wal-Mart has sought to remain aloof from the attentions of a curious and uncertain American public—a strategy that the company can no longer afford to continue given its size and influence. Today's large corporations, especially those who represent entire sectors of our economy, cannot forge ahead to do the business of America without first justifying themselves to the people

they serve. Effective communication between American business and the American people eases the anxiety that many experience as the next phase of economic change displaces the last. This is a lesson that many different companies and industries have had to learn. As this report details, those companies that fail to engage with the public and inform them of how they benefit the consumer often engender public distrust which can lead to onerous government regulation.

The growing pains of capitalism can exact a toll on the patience and understanding of the American people, especially when their jobs or habits are altered by innovation and change to economic conditions. But, as the history of American retail demonstrates, these pains are often short term, a part of the process of creative destruction that sometimes bewilders but ultimately benefits consumers. We all relate to the economy not only as consumers seeking the best value, but also as citizens with protected rights and political beliefs. Businesses need to recognize this duality to American life and realize that “making friends and making customers are two different jobs—separate but related.” Wal-Mart is succeeding like few other businesses before it in appealing to and supporting the needs of consumers by offering the lowest prices and demanding efficiency in all aspects of its business. An analysis of Wal-Mart’s business demonstrates that it is capable of this level of efficiency while still supporting its employees with wages and benefits on par with the rest of the retail sector. Moreover, Wal-Mart brings great advantages in price and selection, especially to consumers who are most in need of low prices, and maintains high productivity across the U.S. economy. Where the company is failing is in its belated recognition of its obligation to engage in open communication with citizens about its business practices and as to why it ultimately provides a benefit to American consumers and to the broader American economy.

Introduction

Hardly a week goes by in which Wal-Mart does not make headlines, and the news is mostly bad: A rural community agonizes over whether to introduce Wal-Mart into its fragile economy, or a suburban community fights to keep Wal-Mart out of its neighborhood to preserve its quality of life. The media speaks anxiously of the retail giant's growing influence over the American and world economy, and, increasingly, legislatures are focusing on Wal-Mart's dominance in their states. From its employment and buying practices, to its remarkable success, America is increasingly ambivalent about Wal-Mart. How does a company founded in America's heartland by a folksy Oklahoma native, dedicated to customer service, low prices, and innovative retailing inspire this level of enmity and anxiety? Wal-Mart has certainly earned some of its criticism, as any company will suffer setbacks and missteps, but disproportionately so compared with other companies in U.S. retailing today. What drives this ambivalence has less to do with Wal-Mart specifically and more with a process that has repeated itself every time a major change has swept through and displaced established patterns of American retailing.

This report attempts to place Wal-Mart within the context of economic change and democratic protest that has replayed itself many times in America's history. Given the high levels of interest in Wal-Mart's business and the level of criticism it is currently enduring, it is important to reflect on past changes to the American retail sector to better understand how consumers and politicians should react to the perceived challenge that its critics claim it presents today. Additionally, this report asks the question of whether or not Wal-Mart is good for America, analyzing how Wal-Mart treats its employees, its effect on the American economy, and on small towns and small retailers. The conclusions reached are that Wal-Mart fits very well within a pattern of retail innovation and displacement, where consumers benefit from new systems of retail, that Wal-Mart is very much in line with the rest of the American retail sector in terms of benefits and pay, and that the dissolution of Main Street retail is not caused by Wal-Mart per se, but is part of a larger overall change in consumer habits.

Beginning with the rise of Sears Roebuck and mail order catalog houses in the late 19th century, continuing during the pioneering of chain store retail under Woolworth and A&P in the 20th century, and persisting into today with Wal-Mart's discount "big-box" retailing, Americans have always met changes to their retail economy with fear and loathing. Despite the tremendous benefits in value, efficiency, and service that have accrued to the consumer through the passing of each era of retailing, Americans do not react well to such change. Judging from history, capitalism's creative destruction is felt unusually strongly in retail. The same story has repeated itself through each major change to retailing: Groups mobilize against a vanguard of a new retail paradigm, public campaigns begin to rock the foundations of that enterprise, and eventually legislatures react to restore "normalcy" by regulating that business'

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Today Wal-Mart stands at the threshold of the last phase of public reaction: the regulation of its business by government “in the public interest.” Wal-Mart’s challenge in the near future is the effective management of its public image to prevent—or at least stave off—this interference in its affairs. From its constant innovations to American retail, to its singular dedication to lower prices for customers, Wal-Mart is expanding economic opportunity for millions of Americans and setting the pace for global retail. As it has in the past, government regulation of retailing would drive up costs for consumers and contribute to inefficiencies in the retail sector that would lead to higher costs and reduced purchasing power for the whole country. In Wal-Mart’s case especially, government obstacles to its expansion would most hurt Americans who rely on discount retailing to increase their buying power.

This report offers some historical perspective on the current maelstrom concerning Wal-Mart and public policy, facts regarding Wal-Mart’s impact on the American economy, and, lastly, a new way of perceiving economic change in our democratic society.

As a corporation, largely due to the influence of its founder, Wal-Mart has sought to remain aloof from the attentions of a curious and uncertain American public—a strategy that the company can no longer afford to continue given its size and influence. Today’s large corporations, especially those who represent entire sectors of our economy, cannot forge ahead to do the business of America without first justifying themselves to the people they serve. Effective communication between American business and the American people will ease the anxiety that many experience as the next phase of economic change displaces the last. The continuing need for effective and open communication by business in a democratic society is not limited to Wal-Mart or to the retail sector. While our free enterprise system offers many advantages to business, our system of government is at its core a democracy. This is a lesson that many different companies and industries have had to learn the hard way. As this report details, those companies that fail to engage with the public and inform them of how they benefit the consumer often engender public distrust which often leads to onerous government regulation. Moreover, this report is of value to all consumers interested in how the democratic process operates within American business, and how the rights of consumers may be negatively impacted through fear and misunderstanding. At a recent investor’s conference, Wal-Mart CEO Lee Scott said that, “over the years, we have thought that we could sit in Bentonville, take care of customers, take care of associates, and the world would leave us alone. It just doesn’t work that way anymore.”¹ Yet, as the history of American retailing shows, it has never worked that way.

A Brief History of American Retail

The Rise of the Department Store

American retailing in the late 19th century was a local affair. Small independent stores predominated at all levels, supplied by a network of wholesale distribution.² These independent merchants often ran crowded, unattractive stores that offered few values and little choice.³ In the 1890s, a new retail innovation began to emerge in large cities with the founding of several major department stores, which offered an enormous variety of goods attractively presented under one roof. Their appearance was met with outspoken hostility by the legions of smaller merchants who then dominated retail in both large and small American cities. Groups of small retailers began to organize against the threat that department stores presented to their way of life. Despite the fact that the department store affected the mere selling of goods, and that it promised to bring great benefits to the consumer, the battle quickly took on a moral character. In the eyes of many, it was not just small businesses that were in peril, but the American way of life itself. Said one retailer, the “big store removes much in the matter of independence for men and women in small ways, and compels a dependence which, while it may give more money to the fortunate ones, renders them subject to a central power which in time becomes a tyranny which will leave no boundless America offering homes to the oppressed.”⁴

The independence and freedom of the consumer were perceived as threatened by the newfangled department store, and legislatures responded to the outcry with states like New York and California proposing new taxes to restrain the burgeoning retail giants. In 1897, the Chicago City Council passed a law to limit the ability of department stores to sell meats and liquors in order to curb their growth. Yet throughout this period the leaders of these enterprises worked to reassure the public that they provided a needed service to their cities, creating spectacular stores with imaginative displays that sought to educate the public as well as entice the consumer. For example, John Wanamaker, who founded the first department store in Philadelphia in 1876, promoted his store as a boon to the city, making it a civic centerpiece by hosting concerts and exhibitions of art and architecture.⁵

By 1900 the department store was beginning to be accepted by American consumers, the concept having proved itself a benefit to shoppers and the broader economy. The governments that had enabled—and ennobled—the fight against department stores began to endorse them as a *benefit* to smaller, single-line retailers, noting that the threat they presented had been “much less than the public [had been] disposed to believe.”⁶ A 1901 federal government report commended department stores for helping to create “a nation of large consumers in the way of comfortable wearing apparel, comforts and decorations for our homes as well as luxuries of all kinds.”⁷ Many major department stores soon became symbols of civic pride and American prosperity.

Mail Order: Serving the Countryside

The conflict that occurred in the big cities in response to departments stores repeated itself throughout rural America.

While pioneering retailers such as John Wanamaker of Philadelphia, Marshall Field of Chicago, and Rowland Macy of New York brought tremendous selection, quality, spectacle, and value to the urban shopper, most Americans lived in rural areas and could not enjoy such benefits. This would soon change thanks to the innovation of a young telegraph operator and railroad station agent named Richard Warren Sears. Sears saw an opportunity to sell goods through the mail, avoiding the need for a storefront or a wholesaler, passing the savings on to customers through lower prices. Initially selling watches, Sears quickly expanded his business into a full service mail-order catalog that for the first time offered the quality, price, and selection of big city department stores to the rural consumer. The two cornerstones of Sears's business model were low prices and a focus on rural farm communities. By offering strong values to an underserved market, his business grew at a phenomenal rate, from just over \$100,000 in sales in 1891 to over \$40 million by 1908.⁸

Once again, what should have been seen as a benefit was soon derided by some in rural communities as a threat to their way of life. Small-town newspaper editors attacked catalog houses like Sears and Montgomery Ward as leeches on their economy that drove out local merchants, paid no local taxes, offered no jobs, and gave no civic benefit to the communities they claimed to serve.⁹ In a particularly ugly episode, hostile merchants spread rumors that Sears and his partner A.C. Roebuck were African American in an attempt to repel potential white customers. The rumor became so widespread that the company began to include color pictures of Sears in their catalogs and shipments.¹⁰ Small town merchants became so intense in their vitriol that they were able to “compel townfolk to burn their mail-order catalogues in the public square in a grand but ineffective” gesture.¹¹ Some merchants offered prizes to citizens that brought the most catalogues to burn or a set payment for each book burned; others offered free movie admission to children “who brought a mail-order catalogue for destruction.”¹² Despite the outcry, Sears's struggle for acceptance among the rural public managed mostly to avoid the attentions of Congress.¹³

The conflict that occurred in the big cities in response to departments stores repeated itself throughout rural America. Many rural communities interpreted the encroachment of the mail order business on retailing as a moral issue. As historians Boris Emmet and John Jueck noted in their study of Sears Roebuck, “as folkways tend to become mores and thus to become endowed with strong moral sanction, the retail merchants tended...to endow their own system of distribution with the virtues of morality and patriotism, while associating mail order with various evils.”¹⁴ Sears understood this, and attempted to communicate directly with his customers through his catalog to assuage their concerns and convince them of his business' legitimacy. In many of his folksy editorials that prefaced each catalog, Mr. Sears indirectly attacked small town retailers by assuring his customers that their local merchants paid exactly the same price as did all of Sears's mail-order customers. He went as far as

to print a notice to all merchants assuring them of the confidentiality of their orders, despite the fact that very little of Sears's trade came from retailers.¹⁵ Sears placed a premium on communication with his customers; it was established policy during his leadership of the company that every letter from a customer, or from anyone requesting information, would be answered.¹⁶ This policy of openness with the public and a concern for communicating with customers helped establish Sears and the concept of the mail-order house as legitimate in the eyes of the public, making the Sears Roebuck Company one of the most successful retailers in American history.

Chain Stores Across America

Alongside the rise of mail order and department stores, the chain store also emerged as an innovation that would transform retail. Chains such as the Atlantic and Pacific Tea Company, better known as A&P, and the Woolworth Five and Dime stores began spreading out to all areas of the country by the 1920s. Perhaps unsurprisingly, these chains met with hostility from local merchants for many of the same reasons as department stores and mail order companies had. Chains offered lower prices than local retailers, uniform and well-organized stores, and stocked products of consistently high quality. The founder of U.S. Cigar Stores, an early chain store in New York State, commented that the tobacco store of his era "hardly deserved to be called a *store* at all. Certainly it followed none of the fundamental principles of retail merchandising which even the poorest merchant recognizes today. It was inadequately stocked, the fixtures were of the most primitive kind, and little or no attempt was made at window or inside display."¹⁷ By introducing the chain store concept to tobacco, U.S. Cigar stores went from about \$93,000 in sales in 1901 to over \$76 million by 1921.¹⁸

During the 1920s, as chain stores spread throughout the country, opposition began to form against them. Many local merchants, independent retailers, and politicians began to assail the chain store as a menace to their towns and their citizens' prosperity. The continued existence of the chain store model became an issue of national debate in the late 1920s and early 1930s. The Speaker of the Indiana House of Representatives echoed the sentiments of the anti-chain store movement in writing to his constituents:

The chain stores are undermining the foundation of our entire local happiness and prosperity. They have destroyed our home markets and merchants, paying a minimum to our local enterprises and charities, sapping the life-blood of prosperous communities and leaving about as much in return as a traveling band of gypsies.¹⁹

An editorial from *The St. Louis Post Dispatch* attacked the low wages that chain stores offered, wondering if "mothers and fathers realize what will happen to their children when they have to go to work for chain stores at \$20 per week, or less?"²⁰ Sen. Royal Copeland (D-N.Y.) referred

to chain stores as “parasites,” and Sen. Hugo Black (D-Ala.), later to be a Supreme Court Justice, decried the “wild craze for efficiency in production, sale and distribution” that had “swept over the land.”²¹

In the mid-1920s, local merchants began to sponsor “trade at home” campaigns that exhorted local consumers to shop only at community stores. Using inflammatory rhetoric, these print campaigns in local newspapers claimed everything from “the future of the children” being jeopardized by chain stores to the chains being “a parasite upon legitimate business and a menace to [a] city’s prosperity.”²² One common criticism was similar to one leveled against Sears: that the chain stores did not contribute to the local community, and that their profits were directed back to major cities. By 1930, over 400 cities and towns had “trade-at-home” campaigns.²³

The agitation of the “trade-at-home” campaigns finally succeeded in urging several state legislatures to place a special tax on chain stores to limit their growth and generate tax dollars that some believed were being lost to their expansion. Between January 1929 and October 1930 over 142 anti-chain store bills were introduced in state legislatures.²⁴ Aided by a Supreme Court decision that found these taxes constitutional in 1933²⁵, state legislatures passed over 45 anti-chain store bills by 1941.²⁶ The most radical legislative attack upon chain stores was made by Rep. Wright Patman (D-TX) in 1938.²⁷ He proposed a “death penalty” bill that would tax interstate chain stores out of existence. The tax would increase incrementally depending on the number of stores operated to a maximum of \$1,000 annually—but the per-store tax was multiplied by the total number states in which the chain store did business. For example, the grocery chain A&P, which did business in 40 states and operated over 12,000 stores in 1938 would owe an annual tax of over \$471 million dollars—over 50 times its earnings.²⁸ Over the next two years Rep. Patman aggressively pursued killing interstate chain stores, with testimony being heard from both sides in the House on Ways and Means Committee. Patman was relentless, but his bill was never reported out of committee and the industry did much to discredit many of the claims made against it by Patman and other enemies of chain stores.²⁹ After the defeat of the Patman bill, the chain store concept in retailing was largely accepted by the American people and the wave of anti-chain store legislation that began in the late 1920s ebbed by 1941.

The rapid success of chain stores in the drug and grocery sectors also posed a challenge to manufacturers. One of the last major obstacles to chain store retailing developed out of the stores’ practice of discounting brand name goods below the manufacturer’s retail price. Many drug manufacturers made agreements with wholesalers that they would sell only to retailers who would agree to sell at a set price, which put discounters at a disadvantage. To be competitive, chains would purchase goods from manufacturers at wholesale—enticing them to break their agreements with wholesalers by purchasing in high volume—and then

sell below the manufacturer's retail price. The federal courts upheld the manufacturers' agreements with wholesalers not to sell to discounters, rejecting chain stores' claims that the practice restrained competition under the Sherman Antitrust Act.³⁰ But soon after the courts ruled these price-fixing agreements could apply only to products that were protected by a patent or copyright, thus allowing discounting on a number of brand name products.³¹

Under the strains of the Great Depression and the resulting losses in profits, large chain stores began to combine with independent druggists in attacking discount retailing to protect their bottom line. Chains like Walgreens and People's Drug, which had earlier promoted discounting, came out for price fixing. A nationwide campaign was begun to petition state legislatures to legalize these agreements. The proposals became known as "Fair Trade" laws, and 42 states would enact these laws by 1937. That same year, Congress gave its blessing to the practice on an interstate basis through passage of the Miller-Tydings Act.³² Under these laws, all retailers, whether or not a party to an agreement with a manufacturer to fix prices, had to abide by that manufacturer's retail price. Discount retailers sued to overturn these laws. After repeatedly losing on the federal level to repeal or invalidate Fair Trade laws, they began to realize success on a state-by-state basis by suing on the basis of state constitutions. By 1962 over 24 state courts had invalidated Fair Trade laws, opening the way for the next retailing revolution—the discount store.

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The Rise of Discounting and the Wal-Mart Revolution

After serving in the Army during World War II, Sam Walton started out as a merchant as a franchisee of Ben Franklin chain stores in Newport, Arkansas in 1945. By this time, the chain store had become the dominant retailer in rural areas, especially in the South. Walton quickly became discontented with the business model imposed by Ben Franklin stores' parent company Butler Brothers, which asked franchisees to purchase at least 80 percent of their goods from them at a 25 percent markup.³³ Walton began looking to small manufactures in Tennessee and New York that could sell at wholesale prices, sometimes traveling by car and trucking items back to his store in Arkansas. He found that by placing a small markup on these items purchased at wholesale, he would earn less per item, but he would sell many more times as many items. Walton described his stumbling upon what would become the core of retail discounting while operating his first store—that he could lower his markup “but earn more because of the increased volume.”³⁴

After moving to Bentonville, Arkansas to open a new store, and opening several chain store franchises in northwestern Arkansas, Walton became convinced that discounting was the future of retail. In the 1950s several discount chains began to spring up in different parts of the country, and Walton followed the trend with interest, closely monitoring their successes and failures, and visiting their stores to find out what made them

work. In 1962 Walton decided to build his first discount store in Rodgers, Arkansas. It didn't go well at first. David Glass, who was later to work for Wal-Mart, described the scene of the opening of one of the first Wal-Marts in Harrison, Arkansas:

It was the worst retail store I had ever seen. Sam had brought a couple of trucks of watermelons in and stacked them on the sidewalk. He had a donkey ride out in the parking lot. It was about 115 degrees, and the watermelons began to pop, and the donkey began to do what donkeys do, and it all mixed together and ran all over the parking lot. And when you went inside the store, the mess just continued, having been tracked all over the floor. He was a nice fellow, but I wrote him off. It was just terrible.³⁵

Presentation and quality were not initially hallmarks of Walton's strategy, but offering the lowest prices was, and customers began to flock in from miles away to take advantage of Wal-Mart's incredibly low prices.

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1962 proved to be a pivotal year for discount retailing as two other retailers launched their own discount chains. The S.S. Kresge Company, a large variety store chain, opened its first K-Mart in Garden City, Michigan, and the Dayton-Hudson department store chain opened its first Target store in Minneapolis.³⁶ These chains focused on low prices, but were located mostly in the suburban North. After initial small-scale successes in the rural southern communities in and around Arkansas, Missouri, and Oklahoma, Walton's business began to take off in the early 1970s after he took the company public. Using a strategy that R.W. Sears pioneered through mail order, Walton focused on having the lowest prices, and in building his customer base in the underserved rural South; Wal-Mart sales grew from \$32 million in 1970 to \$1.2 billion in 1980.³⁷

In Wal-Mart's first three decades, Sam Walton focused on constant growth and innovation. Wal-Mart led the way in computerizing its inventories and pioneering just-in-time delivery distribution that helped to further cut costs. Walton was famous for carrying around a yellow legal pad and looking at the competition's stores to find out their best practices to bring them to Wal-Mart. His constant expenditures on technology and management innovations allowed Wal-Mart to routinely keep operating expenses extremely low. Wal-Mart's modest Bentonville, Arkansas headquarters epitomize the company's focus on the bottom line, which is always having low prices. By January 2005, 13 years after the death of Sam Walton, Wal-Mart's sales totaled \$288 billion—making it the biggest retailer in the world.

As Godfrey Lebhar, former editor and publisher of *Chain Store Age*, noted in his study of the history chain stores in America, "the history of retailing reveals that every innovation in distribution methods has been opposed by those fearful of the impact on the existing order."³⁸ This phenomenon, as we have seen, has become axiomatic in American retail and well describes the current campaigns against Wal-Mart. While the

sources of discontent have shifted somewhat, the same pattern—from local unrest to national campaigns to legislative action—is taking shape against Wal-Mart. Organized labor is leading the charge, while local anti-sprawl advocates and local businesses agitate for something to be done to stem Wal-Mart’s influence in retail. Wal-Mart has led the latest revolution in American retailing, that of the “big-box” discount store, offering a wide selection, low prices, and relying on a business model that promotes efficiency and low costs. And, like its predecessors, it has become a lightning rod for criticism from those it has displaced.

While the Wal-Mart Corporation has benefited greatly from Sam Walton’s retail genius, it also inherited many of his shortcomings regarding public scrutiny. Walton, while an eager and public representative of his stores, was wary of public interest in the policies and prerogatives of the company. Moreover, Walton rejected the idea that Wal-Mart should spend its corporate resources on public or government relations. Walton stalled on the creation of a media unit until 1989, which he ensured was kept small.³⁹ Wal-Mart, despite being the largest retailer in America since 1990, only established a government relations department in 1999; as of 2002, its staff consisted of four people.⁴⁰ Walton’s attitude against managing Wal-Mart’s corporate image has carried over in the period since his death and has contributed to the rise of public misunderstanding, resentment, and protests over its business. Walton himself recognized this shortcoming, writing in his autobiography, “[the Wal-Mart family] have always pretty much kept to ourselves; we’ve been very protective of our business dealings and our home lives, and we still like it that way...as a result, a whole lot of misinformation and myth and half-truths have gotten around about me and about Wal-Mart.”⁴¹ The company has been very slow to change the bad public relation habits it learned early on from Walton. In the earlier epochs of retail change, a key ingredient to public acceptance has been an active campaign of public information and openness. R.W. Sears, John Wanamaker, and other retail entrepreneurs all took public relations seriously as a means of gaining the public’s acceptance and trust and in staying off governmental interference in their business. While Wal-Mart does an incredible job of selling goods to the public, it is much less adept at selling itself.

Perhaps Wal-Mart’s chief benefit to the American economy derives from its incredibly high productivity and the resulting low prices it is able to offer.

Is Wal-Mart Good for America?

In order to place Wal-Mart in the same category as retail innovators of the past, some analysis of how its business has impacted the American economy is necessary. Early department, mail order, and chain stores were eventually accepted as a boon to consumers and the economy, but all were initially distrusted and feared by the workers and businesses that they displaced. Wal-Mart is still in the early stages of transforming how retail operates in the United States, and a debate among media, academics, consumers and elected officials is intensifying on whether Wal-Mart is good for America. The volume of stories in the media devoted to Wal-Mart has grown dramatically: In 2001, the company was the subject of 950 articles a week; in 2004 the number was 2,165 a week.⁴² Wal-Mart

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has inspired a recent academic conference at the University of California, Santa Barbara, and has been the sole subject of seven books in the last five years. In 2004, the Democratic staff of the House Education and the Workforce Committee produced a report attacking Wal-Mart's labor practices as the "lowest common denominator in the treatment of working people."⁴³ The report concludes by charging that "Wal-Mart's success has meant downward pressures on wages and benefits, rampant violations of basic worker's rights, and threats to the standard of living in communities across the country."⁴⁴ But what has been Wal-Mart's real effect on the U.S. economy and is it as dire as some of its critics suggest?

Perhaps Wal-Mart's chief benefit to the American economy derives from its incredibly high productivity and the resulting low prices it is able to offer. A study done by McKinsey Global Consulting finds Wal-Mart alone accounted for 4 percent of the growth in U.S. productivity from 1995 to 1999 "through ongoing managerial innovation that increased competitive intensity and drove the diffusion of best practice."⁴⁵ Something that many studies fail to recognize about Wal-Mart's impact on local economies is that much of the value they offer is in lowering the cost of living for consumers in the areas they enter. A recent study finds that, "when Wal-Mart enters a market, prices decrease by 8 percent in rural areas and 5 percent in urban areas."⁴⁶ Pankaj Ghemawat, a professor at the Harvard School of Business, and Ken Mark, a Toronto business consultant, estimate that Wal-Mart saves its consumers about \$16 billion a year. They contend that, "the costs that Wal-Mart supposedly imposes on society... wouldn't add up to anything like \$16 billion."⁴⁷ Moreover, Wal-Mart's cost cutting mostly benefits America's poorest and most rural consumers. Ghemawat and Mark show that, "Wal-Mart operates two-and-a-half times as much selling space per inhabitant in the poorest third of states as in the richest third. And within that poorest third of states, 80 percent of Wal-Mart's square footage is in the 25 percent of ZIP codes with the greatest number of poor households."⁴⁸ They conclude that the rural poor would pay much more for retail goods if Wal-Mart didn't exist.

One of the criticisms most often levied against Wal-Mart is that it destroys small businesses, especially in rural communities, and monopolizes retail in the areas it enters. Since the 1980s, citizen groups and city councils have challenged Wal-Mart's move into their areas fearing traffic, increased suburban sprawl, and the perception that it would close down local merchants and eclipse retail diversity. One of the first major challenges to Wal-Mart's entry into a community occurred in 1989 when residents of Steamboat Springs, Colorado sued their city council and won a referendum barring the building of a store.⁴⁹ That same year citizens in Iowa City, Iowa organized to prevent the building of a Wal-Mart on the outskirts of the town. In both circumstances Wal-Mart was eventually permitted to build, but the volume of rejections and challenges continues to increase.

Sprawl-Busters, an anti-development group, offers consulting services to towns attempting to keep out Wal-Mart and other big-box retail

companies. According to the Sprawl-Busters website, 270 communities in the United States have successfully prevented Wal-Mart and other big-box retailers from locating in their area. Its founder, Al Norman, described by the CBS news magazine *60 Minutes* as “the guru of the anti-Wal-Mart movement,” started out by successfully preventing a Wal-Mart opening in his hometown of Greenfield, Massachusetts in 1993.⁵⁰ As it expands into more urban centers, Wal-Mart increasingly faces opposition from labor unions, anti-development activists, and local merchants.

A handful of academic studies have analyzed the impact of Wal-Mart and other large discount retailers’ effects on the communities they enter. One of the first studies, by John Ozment of the University of Arkansas and Greg Martin of the University of Wisconsin, used U.S. Economic Census data to determine the effects of what they called discount retail chains (DRCs) on rural business environments in three southern states.⁵¹ Looking at the period 1977–1982, and looking at county level data, they determined that overall DRCs benefited the communities they entered by increasing wages and employment, and strengthening other businesses that did not compete directly with the new DRC. Counties that did not have a DRC experienced an overall decline in per capita retail sales and payroll.⁵² And while counties with DRCs experiences a 3.5 percent reduction in the number of retail establishments over five years, counties without a DRC experienced a much greater loss of 10.9 percent.⁵³ The authors conclude that the presence of DRCs “may create alternative opportunities for businesses that are unable to compete with large discount retail chains,” and “new businesses emerge that provide either services or products that complement the DRC’s offerings.”⁵⁴ The picture of rural business implied by their research is a much more adaptable one, in which rather than shutting down retail activity, the presence of DRCs actually stimulates dynamic local retail growth.

Kenneth Stone, a professor of economics at Iowa State University, has written several articles regarding the specific effects of Wal-Mart on the health of rural and urban business. (He has turned his experience into a consulting practice, instructing businesses and civic leaders on how best to adapt to the entry of Wal-Mart into their communities.) Using retail sales tax data from the Iowa Department of Revenue and Finance, Stone analyzed the effects of Wal-Mart after entering into a town in Iowa from 1988 to 1993. Stone is unable to isolate Wal-Mart sales figures as all retail establishments are consolidated into one category in the Iowa data, but he attempts to extrapolate the effects of Wal-Mart alone by measuring the overall change in retail sales before and after their entry into a specific town. He found that certain retail categories such as home furnishings and eating and drinking establishments improved their sales over five years in towns with a Wal-mart, with overall sales figures increasing 6 percent.⁵⁵ Businesses that were in direct competition with Wal-Mart, such as building supply, apparel, and specialty stores, all experienced an average 15 percent decline in sales over five years. Non-Wal-Mart towns fared much worse over the same five years, losing retail sales in every major category except food stores for an overall loss of 10.4 percent.⁵⁶ Stone points out that

*“I grew up in Pennsylvania; my father had a corner market there. When I was three or four, the A&P moved in and put him out of business. That was tough, but I don’t think anyone would go back and say we shouldn’t have supermarkets.”—
California Chamber of Commerce President Alan Zaremborg*

small towns within a 20-mile radius of a Wal-Mart lost almost 8 percent more in sales than similar towns farther away. This would suggest that towns with a Wal-Mart draw in consumers from a larger area and help consolidate retail markets within larger towns. The largest retail sales losses sustained within the state occurred in towns with less than 5,000 inhabitants. Stone’s overall conclusions indicate a huge change in the retail habits of Iowa consumers from 1983 to 1993. Statewide, every single retail category selected by Stone lost market share over those 10 years except department stores, which include large discount retailers such as Wal-Mart.⁵⁷ During this period, department stores gained over 31 percent of the overall market share statewide.

There is little evidence that Wal-Mart itself blighted Iowa retail, and, in fact, Wal-Mart may have served as a bulwark against retail losses in the rural areas it entered. What is clear is that Iowa consumers changed their buying habits dramatically over 10 years, preferring to shop at discount retail chains in cities rather than at small rural stores. If this change in preference can be considered a sign of consumer satisfaction, rural consumers vastly preferred spending at discount chains. The overall scenario described by the data is one of gradual displacement of one mode of retail practices with another, much like mail order catalog companies displaced rural general stores in the late 19th century. This is not to say that there was no collateral damage done to the outmoded retail order. According to the U.S. Economic Census, within Iowa from 1982 to 1992, adjusted for inflation, sales for general merchandise increased by 37 percent, while all other categories rose by 5 percent. From 1992 to 2002 all categories of retail except general merchandise lost 27 percent of their workforce and the number of stores shrank by 31 percent. Within the general merchandise category, which includes Wal-Mart, Wal-Mart Supercenter, Sam’s Club, Costco, Target, and others, the number of stores rose 3 percent, adding 16 percent to their workforce. These stores may seem destructive to their competition, but they are a boon to consumers and the economic areas they serve. While the benefits of discount retail may seem cold comfort to displaced small businesses, it is part of the cycle of retail change that has brought better prices and greater convenience to consumers. California Chamber of Commerce President Alan Zaremborg, commenting on Wal-Mart’s entry into California, tells a story that sums up this idea: “I grew up in Pennsylvania; my father had a corner market there. When I was three or four, the A&P moved in and put him out of business. That was tough, but I don’t think anyone would go back and say we shouldn’t have supermarkets.”⁵⁸

Another major criticism levied against Wal-Mart is that it offers low wages, poor benefits, and limits its number of full time employees. Yet in terms of wages and full-time employment, the company is in line with the rest of the retail sector. According to the Bureau of Labor Statistics (BLS), the average wage for the retail industry in 2004 was \$10.25 per hour; Wal-Mart reports its overall average hourly wage to be \$10.⁵⁹ In 2004, retail cashiers earned \$8.25 per hour; in 2003, Wal-Mart paid cashiers an average of \$8.50.⁶⁰ The company maintains 74 percent of its

workforces as full-time, which it defines for the purposes of benefits as 34 or more hours per week.⁶¹ According to BLS, 80 percent of workers in non-agricultural industries were considered full time in 2004; this number is most likely lower when considering the retail sector alone.⁶² While it cannot be said that Wal-Mart distinguishes itself from the rest of the retail sector in terms of wages and full time employment, it is very close to the average—in no way deviating from accepted labor practices.

Where Wal-Mart distinguishes itself from the rest of retail is in health care benefits. At first glance it would appear that the company offers much less to its employees than other retailers. For instance, in 2003 retailers spent an average of \$4,400 per employee on health care benefits; Wal-Mart spent \$3,100.⁶³ Company employees can pay as little as \$31 per month for individual coverage or \$66 for families, but the annual deductible is \$1,000. Deductibles, which are the amount that have to be paid before coverage initiates, are available as low as \$350, but the cost per month is higher.⁶⁴ What is represented in these numbers is not necessarily stinginess, but rather a philosophy of cost containment that seeks to encourage economization of health care usage. Wal-Mart offers affordable coverage at a high deductible in order to encourage economization of lesser health care needs. This logic is borne out by considering the fact that the company has no lifetime benefit limits on cost, and pays 100 percent of costs over \$1,750 per year, something only 42 percent of other retailers offer.⁶⁵ Also, a deductible that requires \$1,000 in out-of-pocket medical expenses is not out of line with the rest of the economy: The average out of pocket medical expense per person in the United States was \$791 in 2003.⁶⁶ Another cost containment method Wal-Mart employs is a \$100 surcharge if a spouse is covered under the company's plan who is also able to receive coverage from another employer.⁶⁷ Eighty-six percent of Wal-Mart employees have health insurance. Of those, 60 percent opt to use Wal-Mart's plan, compared to a 72 percent sign-on rate for the entire retail sector.⁶⁸ Overall, 52 percent of Wal-Mart employees are directly covered under the company's plan. The bottom line consideration of Wal-Mart's health care plan is: If an employee has an illness or condition that would be financially ruinous, the plan covers all costs.

The trend in retail health care coverage has been one of cost containment. The retail sector cut health care spending per employee by 9 percent in 2003, and only 44 percent of employees in the retail sector have employer-provided health care insurance.⁶⁹ Target Corporation, a major Wal-Mart competitor, cut all health care benefits to part-time employees who work 20 or fewer hours per week.⁷⁰ Wal-Mart continues to offer health care benefits to part-time workers who have been with the company for at least two years.⁷¹

On balance, considering the evidence, Wal-Mart seems to be good for America. When Wal-Mart enters a town, the tendency is toward economic stabilization and growth in the local retail economy. While not

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going above and beyond, its wages are on par with the rest of the retail sector. And while its health care spending seems to lag behind the rest of the industry, Wal-Mart has been very successful in containing health care costs while ensuring employees are protected from financially ruinous medical bills.

Many will still criticize the company's health care plans as stingy and mean, but it may turn out, given the trends in retail, that Wal-Mart's policy is the future of private health insurance plans. The trend in all sectors of the economy is toward health care cost containment. From Medicaid programs breaking state budgets to Fortune 500 corporations weighed down by providing benefits, out-of-control spending on health care is turning some companies and states into HMOs. Wal-Mart's plan presents a compromise on cost that sacrifices minor medical costs to protect the physical and financial health of employees.

Despite the fact that Wal-Mart is mostly in line with the rest of the American retail sector, the ire felt by labor unions, consumers, and politicians about low wages and benefits is focused primarily on Wal-Mart. Much of the reason for this focus is, of course, Wal-Mart's size and success, but some of the blame may be placed on the company's late and half-hearted recognition that, in addition to selling goods, it needs to sell itself to the American public.

“A company's job is simply to make goods and sell them.”—GE Chairman Charles Coffin

Mismanaging an Image

In the early 20th century, the General Electric Company (GE) was considered by many Americans to be an enormous, powerful, and completely impersonal corporation. After a contentious battle with federal antitrust charges in 1911, an informal survey undertaken by the head of the legal department found GE had left an impression on the American public as being “the owner and master of most of the public utilities of the country,” and the “head and front . . . of a ‘power trust.’”⁷² These public impressions reinforced an attitude among GE's management of reserve and distance from the public eye. One executive remarked that GE did not buy any newspaper advertising because “we were then constantly on the defensive and anything and everything we said in public print was apt to be misconstrued and made the basis of unfriendly, and in many cases vicious, criticism.”⁷³ As Roland Marchand observed in his work on the birth of American corporate public relations, *Creating the Corporate Soul*, the attitude of GE Chairman Charles Coffin in the early 1920s represented much of why GE was perceived this way. Coffin was “a paragon of the old school of management, which concerned itself greatly with production and very little with ‘image,’ . . . Coffin defined the GE agenda succinctly: ‘A company's job is simply to make goods and sell them.’”⁷⁴ But as GE's size outstripped the American public's perceived use for it, its ability to do business was severely hindered.

When a new president and chairman were installed in 1922, the company hired advertising *wunderkind* Bruce Barton, of the firm of Barton,

Durstine, and Osborn, to improve the company's image.⁷⁵ Owen Young, the lawyer who had worried in 1911 about the public's perception of GE, had become chairman, and was still concerned about how image was affecting GE's bottom line. As Young related to Barton, and Barton related to GE's management, "the one danger...is that your growth will outrun public appreciation of the necessity for that growth."⁷⁶ Marchand writes:

A business as immense as GE, Young had warned, could not remain a "purely private" business if it expected to endure and grow. It had to become an "institution," with its leaders serving as trustees. As late as 1925 Young was still worrying that GE had not done enough to cultivate a favorable impression as "a public service concern" and looked ahead wistfully to a day when the company would enjoy such public goodwill as to stand "invulnerable to the attacks of politicians."⁷⁷

Barton undertook to give GE an institutional character and "soul" by portraying GE's business as freeing women from domestic toil and their efforts as a force for progress and freedom from hard labor. By the late 1920s, GE was a much more recognized and trusted brand name, and its profitability and stock price had appreciated greatly. When GE entered into the refrigerator business in 1927, it captured 34 percent of the U.S. market within two years.⁷⁸ While this success could not be attributed entirely to Barton's reworking of GE's image, Marchand contends that, "it is difficult to imagine that same degree of success of GE had enjoyed no greater public visibility in 1927 than it had back in 1922."⁷⁹ Marchand's example of GE's early success with molding a corporate image illustrates how many large companies, such as General Motors, AT&T, DuPont, and others, weathered government regulation and public distrust by garnering support through public relations. This is a lesson that Wal-Mart is slowly and painfully learning.

In making decisions for the company, Wal-Mart executives often ask themselves and others "What would Sam do?" Sam's Choice products still serve as Wal-Mart's house brand, and its wholesale discounting division is still called Sam's Club. At the opening of a new Wal-Mart in Shenzhen, China, Walton's smiling picture has a place of honor, and his rules for business are displayed in both English and Chinese. It is undeniable that Sam Walton's philosophy and personality continue to dominate the direction and focus of the company he founded. Since Walton's passing in 1992, Wal-Mart has continued its incredible growth and expansion within the U.S. and overseas based on his vision, but the poor public relations habits it inherited from Walton are presenting obstacles for the company as it attempts to expand its dominance of discount retail. As the experiences of previous retail innovators have borne out, the success of a new retail paradigm is predicated both on its profitability and its acceptance by the public. Wal-Mart has been inattentive to the latter, and the growing skepticism among the American public is starting it down the road to government intervention in its business.

Many of the past losses Wal-Mart accrued through its aggressive legal approach cost the company dearly, both in reputation and in resources.

Wal-Mart is a shock to the system of American business, both within and outside retail. Some business consultants devote their entire focus to helping current businesses survive when Wal-Mart enters into a town. The company is a force to be reckoned with: Each week Wal-Mart stores draw 138 million shoppers into its over 5,300 stores in the U.S. Revenues last year topped \$288 billion, or 2.5 percent of the U.S. gross domestic product, more than any other company. In 2002, 82 percent of American households purchased at least one item at Wal-Mart.⁸⁰ As the largest private employer in 25 states, and the largest overall in the United States, the policies it adopts affect the entire American economy. The landscape of American retail is much different today than it was 10 or 20 years ago due to Wal-Mart's continuing expansion.

As much as Wal-Mart's everyday low prices have attracted legions of American consumers, its size and new ways of doing business are beginning to inspire fear among the public and creating enemies among the workers and businesses it displaces. In reaction against these sentiments, a siege mentality reigned at the head office during the 1990s that has made Wal-Mart seem insular and combative. Wal-Mart has often seemed intransigent and unreasonable in how it deals with opposition. Under the leadership of current CEO Lee Scott, attitudes have moderated somewhat, but undoubtedly much damage has already been done. At the insistence of company directors, CEO Scott undertook a survey to gauge the public's attitude toward Wal-Mart. Directors were worried about the public's perception of the company based on negative comments that they were hearing from their friends. The survey found that, while within the company employees were very positive about Wal-Mart, 10 percent of all consumers hated it, and 30 percent of consumers responded that they had "sincere questions about Wal-Mart" based on their perceptions of how it treated its workforce.⁸¹ Scott and others are waking to the realization that they need to do much more to improve Wal-Mart's public face. Scott, in recent interviews, has expressed regret that "we've let someone else define our reputation" and that "we were so busy minding the store we didn't realize we had become a political symbol."⁸²

Wal-Mart owes some of its bad reputation to its excessively combative attitude toward legal opposition. Its litigation practices have been particularly severe. In the past Wal-Mart has refused to settle most cases and has earned a reputation in the courts as a difficult plaintiff. More often than not, this approach has not brought legal success, nor has it stemmed the tide of cases brought against them. In the early 1990s, Wal-Mart had about 2,000 lawsuits against it pending in U.S. courts; by 2002 the number had grown to 8,000.⁸³ The majority of these cases were not necessarily related to business practices: Of these 8,000 cases, 5,100 related to personal injury claims such as customer slips in the parking lot or damages for crimes occurring on Wal-Mart property.⁸⁴ After becoming CEO in 2000, Lee Scott took steps to reform Wal-Mart's legal operations, hiring former Raytheon Corporation General Counsel Tom Hyde to reform Wal-Mart's legal culture.⁸⁵ Before Hyde's arrival, the company was often saddled with fines and sanctions by judges for

the way it conducted itself in court. Scott was being told the reason was because of “all the liberal judges that had been appointed,” but Hyde’s finding was that most of these sanctions had been deserved.⁸⁶ Three years after Hyde’s arrival, the company had no sanctions or fines levied against it by the courts. The legal department has taken on a more conciliatory attitude toward some cases and has demonstrated a willingness to mediate or settle more disputes. Many of the past losses Wal-Mart accrued through its aggressive legal approach cost the company dearly, both in reputation and in resources. And the stakes were raised significantly in 2004 when a U.S. district judge in San Francisco approved a gender discrimination class action suit against Wal-Mart on behalf of 1.6 million past and present female employees. The case could potentially cost Wal-Mart billions of dollars; how the company responds will be a test of Hyde’s ability and the new attitude of the legal department.

Wal-Mart’s combative attitude is not limited to its legal disputes. A core principle of Wal-Mart’s business practices—which Sam Walton outlines in his autobiography and which are displayed in many Wal-Mart offices—is to always control costs. Wal-Mart’s health care plan is extremely good at controlling costs—but sometimes the company has shown extremely poor judgment in knowing where to draw the line in order to maintain both its image and the goodwill of its workforce. For example, *The Wall Street Journal* reported in 2003 on the plight of Mittie Funderburk, a 52-year-old employee who claimed to have injured her back in 2000 while lifting goods at San Angelo, Texas Wal-Mart. She failed to report the incident until two months after she sustained the injury. Her doctor, and a second doctor appointed by Wal-Mart, recommended surgery, but the company refused, arguing that the surgery was unnecessary and that she did not report the injury in a timely fashion. After a year, Wal-Mart finally agreed to pay, but Funderburk continued to suffer debilitating pain after her surgery. The company refused to pay for further surgeries despite the recommendations of two doctors. After three judgments against it by the Texas State Workers’ Compensation Commission, Wal-Mart appealed the commission’s ruling in state district court. Wal-Mart fired Mittie Funderburk in 2002 because she had been out of work for over a year. Eventually, the state of Texas agreed to pay for a spinal fusion surgery and to pursue Wal-Mart for the cost.⁸⁷ In saving the health care plan \$30,000, Wal-Mart’s intransigence earned it the contempt of the state of Texas, several doctors, a former employee, and potentially several others. The cost to Wal-Mart’s image would seem to add up to significantly more than was saved.

In its relations with the press, Wal-Mart’s management could be described as once bitten, twice shy. Business journalist Robert Slater, in his book *The Wal-Mart Decade*, describes an event that would make the company wary of the press. After years of remaining mostly aloof from the press, Sam Walton agreed shortly before his death to allow the NBC news magazine *Dateline* to interview Wal-Mart management and film inside the company’s operations.⁸⁸ Assured by *Dateline* host Jane Pauley that the story would be complimentary toward Wal-Mart, Walton

By 1992, Wal-Mart had grown too big to simply go about its business. The corporate culture that Sam Walton developed continued to fuel a retail juggernaut, but enthusiasm for running an efficient operation and serving customers has not translated well to addressing the company's public relations challenge.

and then-CEO David Glass felt it would be good a public relations move. But when the story aired in December 1992, it proved to be a public relations disaster which Glass and others considered a betrayal. The story focused on Wal-Mart's "Buy American" campaign, which started in 1985, whereby Sam Walton had committed the company to buying American goods rather than relying on imports. *Dateline* went to factories in Bangladesh and later, confronting Glass, accused Wal-Mart of using overseas child labor, showing him video footage of factories allegedly producing clothing for Wal-Mart stores. After several denials, Glass's interview was abruptly called to an end by a company vice president. Two weeks later, Glass invited NBC back following a company investigation that could not substantiate NBC's claims. Glass and NBC reporter Brian Ross entered into a contretemps about whether the child labor depicted in the *Dateline* video was authentic, with NBC taking a few more shots at Wal-Mart's "Buy American" campaign. The incident left Glass and others at the company embittered and wary of further contacts with the press. Glass said in a 2002 interview with Slater regarding the *Dateline* debacle, "we sort of got blindsided about things that we didn't know about. We were naive. We hadn't been attacked before. Sam and I always said that if you do the right thing and if you have integrity, everything you do in business will work out all right. You don't have to spend a lot of time doing PR work or being active in Washington." Echoing the convictions of General Electric's former president Charles Coffin, Glass concludes: "[O]ur business is to buy and sell merchandise to customers, and we'll ignore all the outside distractions. That will take care of itself if we do the right thing."⁸⁹

Yet by 1992, Wal-Mart had grown too big to simply go about its business. A slow recognition of this has made public relations a priority for current CEO Lee Scott, who spends a great deal of his time dealing with the various controversies, attacks, and disputes over Wal-Mart's business practices. But Scott has not entered into this world of public relations willingly or with much enthusiasm. Asked by a reporter if he was having fun in his new role as public defender of his company, Scott responded "No, not at all. Fun is walking stores and seeing what is selling, seeing how we're taking care of customers. The rest is the lot I've drawn."⁹⁰ The corporate culture that Sam Walton developed continues to fuel a retail juggernaut, but enthusiasm for running an efficient operation and serving customers has not translated well to addressing the company's public relations challenge. Remembering the experience of General Electric, the chief danger to a large corporation is that "growth will outrun public appreciation of the necessity for that growth." Wal-Mart seems to be outrunning the public's appreciation of its size and continued dominance of retail.

A Difficult Labor

Sam Walton did not like unions. He felt that the fundamental logic of organized labor was to create divisions between management and labor, which made it difficult for managers to communicate with

employees directly. Walton thought that unions, “by breaking down direct communication, [make] it harder to take care of customers, to be competitive, and to gain market share.”⁹¹ As a consequence, Walton fought every attempt to unionize his stores, and during his tenure, no Wal-Mart ever unionized. The first moves for unionization came in the early 1970s, after the openings of Wal-Mart No. 20 in Clinton, Missouri and No. 25 in Mexico, Missouri. In both cases, Walton thought the employees had a legitimate reason to be dissatisfied because their managers “weren’t as open with their folks as they should have been. They didn’t communicate with them, they didn’t share with them, and consequently, we got in trouble.”⁹² In fact, Walton remarks in his autobiography that, “anytime we have ever had real trouble, or the serious possibility of a union coming into the company, it has been because management has failed, because we have not listened to our associates, or because we have mistreated them.”⁹³

Shortly after preventing unionization at the Missouri stores, the company decided to start a program called “We Care,” which initiated an open door policy whereby employees were encouraged to approach management with complaints. Walton also initiated a change to how Wal-Mart’s employees were to be called: From then on, they would be referred to as “associates.” Walton felt this better represented an idea of partnership between employees and management in making the company a success. Walton also started a profit sharing plan whereby any associate who had worked at least a year and 1,000 hours received a percentage of his or her wages in cash or Wal-Mart stock, and a stock purchase plan by which employees could buy Wal-Mart stock at a 15 percent discount.⁹⁴ Stores post the share price of Wal-Mart stock to let employees know how the company is doing and to encourage a spirit of shared enterprise. Overall, Wal-Mart became focused on treating all of its employees as partners in the enterprise, and ever since, it has focused on building a corporate culture that reinforces this idea. At the company’s spectacular shareholder meetings, where, in addition to shareholders, “associates” are flown in from stores around the country to represent their co-workers, the meetings proceed more like a sports rally than a sober recounting of the world’s largest retailer’s business over the past year. Morning employee meetings at Wal-Mart stores, at which managers recognize individual achievements and encourage employees to exchange ideas, always end with a loud rendition of the Wal-Mart cheer. The success of Wal-Mart’s partnership culture may be reflected in employees’ high opinion of the company, as reflected in a survey commissioned by Lee Scott in 2003. Also, the 1992 *Dateline* story served to rally employees to the company’s defense. David Glass received 100,000 signatures of support from employees, and *Dateline* received the largest reaction to any show it had aired up until then: 7,000 calls and letters, mostly from Wal-Mart employees complaining about the program.⁹⁵

The company has been very successful at keeping unions out of its stores, but there have been a few slips. Meat cutters at a Jacksonville, Texas Wal-Mart voted to unionize with the United Food and Commercial

Wal-Mart became focused on treating all of its employees as partners in the enterprise, and ever since, it has focused on building a corporate culture that reinforces this idea. The company’s spectacular shareholder meetings proceed more like sports rallies than a sober recounting of the world’s largest retailer’s business over the past year.

Workers (UFCW) in February 2000. Wal-Mart subsequently switched to pre-packaged meat in all stores, eliminating all need for meat cutters. A Wal-Mart store in Quebec voted to unionize in 2004, and the company subsequently closed the store, citing its future unprofitability as a union shop. Despite a sustained union campaign against it in 2002, Wal-Mart successfully expanded into the Las Vegas area, driving out some unionized grocery chains, and forcing other area retailers to cut prices.

The strongest union opposition Wal-Mart has yet faced began with its expansion into California as many unionized grocery stores recognized they were unlikely to be able to compete with Wal-Mart's low prices. According to a 2002 study by UBS Warburg, a cartful of groceries purchased at a Wal-Mart Supercenter is 17 to 39 percent cheaper than at a unionized supermarket.⁹⁶ At Safeway, a supermarket chain based in California, labor costs account for 15 percent of sales, whereas at Wal-Mart the figure is 9 percent.⁹⁷ Wal-Mart clerks earn \$8.50 an hour, near the average of \$8.25 for all clerks employed in retail. In California, unionized grocery clerks earn an average of \$17.90 an hour after two years on the job, plus benefits.⁹⁸ It is easy to see why unions are choosing California as a battleground. Since its entry into grocery in the early 1990s, Wal-Mart has contributed to the closing or bankruptcy of over 25 regional grocery chains across the U.S., eliminating 12,000 mostly union jobs, and forcing a fundamental reshaping of the grocery business.⁹⁹ The Strategic Resource Group of New York estimates that each Wal-Mart Supercenter that opens eliminates about 200 UFCW jobs.¹⁰⁰ In October 2003, the looming threat of Wal-Mart's expansion into California helped to precipitate a five-month strike by UFCW workers over attempts by the major grocery chains to renegotiate labor costs in order to be more competitive.

The recent disaffiliation by the Service Employees International Union (SEIU), UFCW, and other unions from the AFL-CIO was partly over differences on what to do about Wal-Mart. Led by UFCW and SEIU, some unions have switched tactics from seeking to unionize particular stores to fighting Wal-Mart's expansion. In 2003, UFCW ran its own candidate for city council in Inglewood, California to influence the council's vote on allowing Wal-Mart to open a new Supercenter in a vacant parking lot. The UFCW candidate won with 70 percent of the vote. Wal-Mart fought back with a city initiative to overturn the council and allow the Supercenter to be built,¹⁰¹ but the initiative failed to pass in a March 2004 vote on which unions spent and mobilized heavily. In 2004, unions helped to place on the California ballot Proposition 72, which would have required employers like Wal-Mart to provide health insurance to all their workers. The initiative lost narrowly following heavy political spending by Wal-Mart. That year Wal-Mart spent over \$2.4 million in California political races, more than in any other previous year.

Another more recent strategy unions have adopted is promoting bills in state legislatures to levy a tax on Wal-Mart to pay for state Medicaid

programs. In May 2005, Republican Maryland Governor Bob Ehrlich vetoed the Fair Share Health Care Act, which was passed by the legislature and heavily promoted by UFCW and Maryland's largest grocery chain, Ahold. The act would have required Wal-Mart to either spend at least 8 percent of its payroll on health care coverage or contribute to the state's Medicaid budget. Similar proposals are being made in New Jersey, Pennsylvania, and recently, in the U.S. Congress. In June 2005, Sens. Edward Kennedy (D-Mass.) and Jon Corzine (D-N.J.) and Rep. Anthony Weiner (D-N.Y.) introduced the Health Care Accountability Act, which would require companies with 50 or more employees on state Medicaid programs to report how many Medicaid recipients they have on their payroll to the federal government. Most of these proposals are based on the belief that Wal-Mart is a drain on state resources because so many of its workers belong to state-funded health care plans. In Tennessee, Wal-Mart has more employees than any other business—about 25 percent of its employees in the state—signed up for TennCare, the state's Medicaid program.¹⁰² In Georgia, a 2002 survey of the state's new children's insurance program, PeachCare, found that Wal-Mart topped the list of employees who signed on to the program with about 24 percent of its workforce enrolled. Tennessee officials warned about the accuracy of their survey because of high turnover rates at many of the companies in the report, and because it did not count employees at company franchises. Nonetheless, the numbers are difficult to argue with. Sen. Kennedy remarked at the press conference introducing the employee reporting bill that "every worker in America is paying a part of their taxes to pay for Wal-Mart."¹⁰³

The problem is a difficult one, and glib answers do not suffice. But some of the answers to why so many Wal-Mart employees are on state programs may have more to do with the state of health insurance in America than with Wal-Mart's policies. Being the largest private employer, Wal-Mart seems a good target, but the question of what counts as adequate health care coverage, who should be provided with it, and at what cost to the taxpayer is one that American policy makers have been deferring for years. Perhaps Wal-Mart can participate in helping to find a solution to America's dawning crisis over health care costs; but reflecting on the company's health insurance policies, it does not seem to bear the blame for it. Wal-Mart intends on continuing its battle against hostile legislation and union agitation against its business in state capitals. As Wal-Mart Vice President of Corporate Affairs Bob McAdam states: "Many of our opponents are trying to use the political system to stop our growth, and we are not going to sit back and take it without responding. We will respond."¹⁰⁴

Lessons from Retail History

Wal-Mart's battles with unions and others who seek to limit its growth will continue for the foreseeable future. While Wal-Mart seems to be holding its own, its aggressive tactics and fighting spirit have yet to yield many friends, and there is little hope that this strategy will

Now that Wal-Mart has entered into the final phase of retail change, the outcry for government intervention, it should concentrate on creating public acceptance if it wishes to avoid onerous regulation.

“Motorists may buy at your service station but damn you because they think you are a monopoly. They may go out of their way to save a few pennies at your chain store and then denounce you for paying low wages. Making friends and making customers are two different jobs—separate but related.”—Don Francisco, Vice President, Lord & Thomas

win the company acceptance from the American public. Now that Wal-Mart has entered into the final phase of retail change, the outcry for government intervention, it should concentrate on creating public acceptance if it wishes to avoid onerous regulation. While Wal-Mart has a right to fight its battles anyway it chooses, perhaps it could take a lesson from a group of innovative retailers fighting a ballot proposition attempting to limit their business in California when Sam Walton was just graduating from high school. In 1936, the California legislature and governor sent a referendum to the people that would tax chain stores at an increasingly higher rate depending on the number of stores they operated.¹⁰⁵ The legislature was bowing to small retailers’ demands that something be done about “unfair competition” from chain stores. *Chain Store Age’s* Godfrey Lebhar observed that, “legislators could hardly have failed to be impressed by the claim that 80,000 California independent merchants demanded its passage—frankly admitting that the purpose of the tax was to drive the chains out of California.”¹⁰⁶ This referendum couldn’t have come at a worse time for the chain store trade: Wright Patman was in the midst of decrying chain stores in Congress, several state legislatures had passed special taxes to limit their growth, and the whole industry was on trial in the court of public opinion. The California Chain Stores Association knew that it would be unable to deal with the kind of public campaign required to defeat the referendum, so it hired Don Francisco, a vice president for the advertising firm Lord & Thomas.¹⁰⁷

Francisco immediately set about designing a campaign of cooperation and education, both for the voters and for the chain store operators themselves. Francisco wanted chain store operators to recognize that just because a business was successful and people shopped there, this didn’t necessarily mean that they liked the company: “Motorists may buy at your service station but damn you because they think you are a monopoly. They may go out of their way to save a few pennies at your chain store and then denounce you for paying low wages. Making friends and making customers are two different jobs—separate but related.”¹⁰⁸ Francisco understood the peril that chain stores faced and their need for public understanding in order to survive: “Without friends, without enlightened public opinion based upon self-interest, a business with a million customers can be crucified by a militant minority.”¹⁰⁹ Francisco believed that the chain stores had not done a good job of telling their story to the people of California, the story of why they were a benefit to the community. He set about telling the story that chain stores possessed many virtues useful to the public: “prime outlets for the farmers’ produce, the opportunity offered to deserving employees to climb to positions of responsibility, and the service performed for the average family by providing convenience, cleanliness, better merchandise and lower prices.” Francisco felt the referendum had passed because chain stores, “in the face of abuse” had been “singularly inarticulate, or, at most, had contented themselves with defensively debating the damaging thrusts of their opponents.”¹¹⁰

The campaign against Proposition 22, led by Francisco, lasted almost a year, starting with a “practical farm relief” initiative that helped distribute surplus California produce and beef throughout the country through the chain stores distribution system. Previously, food producers in the state were wary if not hostile to the chain stores, but the initiative showed “in a concrete way the important part the chain-store system played” in the economy. Many friends were won and profits made for both producers and the chain stores through this cooperative effort. The second phase was one of public education. The campaign employed the slogan “22 is a tax on you!” and, through various mediums, the chain stores told the story of how they benefit consumers. The campaign proved a great success—the proposition lost with only 44 percent voting in favor, and 57 out of 58 counties voting against.¹¹¹

Under siege, the chain stores were given an opportunity to publicly defend their business. Through education and cooperation they managed to turn the tide of public opinion, appealing to the self-interest of the state’s voters and producers. Wal-Mart may one day face a similar challenge, and could learn something from Don Francisco and the chain stores’ battle over Proposition 22. The story of Proposition 22 provides a useful example of how innovative businesses or industries may succeed in a complex political environment through effective communication and cooperation with consumers.

The growing pains of capitalism can exact a toll on the patience and understanding of the American people, especially when their jobs or habits are altered by innovation and change to economic conditions. But, as the history of American retail demonstrates, these pains are often short term, a part of the process of creative destruction that sometimes bewilders but ultimately benefits consumers. We all relate to the economy not only as consumers seeking the best value, but also as citizens with protected rights and political beliefs. Businesses need to recognize this duality to American life and realize that “making friends and making customers are two different jobs—separate but related.” Wal-Mart is succeeding like few other businesses before it in appealing to and supporting the needs of consumers by offering the lowest prices and demanding efficiency in all aspects of its business. An analysis of Wal-Mart’s business demonstrates that it is capable of this level of efficiency while still supporting its employees with wages and benefits on par with the rest of the retail sector. Moreover, Wal-Mart brings great advantages in price and selection, especially to consumers who are most in need of low prices, and maintains high productivity across the U.S. economy. Where the company is failing is in its belated recognition of its obligation to engage in open communication with citizens about its business practices and as to why it ultimately provides a benefit to American consumers and to the broader American economy. This is a lesson that is as important today as it was in Don Francisco’s day.

We all relate to the economy not only as consumers seeking the best value, but also as citizens with protected rights and political beliefs.

Notes

- ¹ Ann Zimmerman, “Counterpunch – Wal-Mart Boss’s Unlikely Role: Corporate Defender-in-Chief,” *Wall Street Journal*, July 26, 2005.
- ² William Leach, *Land of Desire* (New York: Pantheon Books, 1993), 20.
- ³ *Ibid.*, 72-3.
- ⁴ *Ibid.*, 27.
- ⁵ Roland Marchand, *Creating the Corporate Soul* (Berkeley, CA: University of California Press, 1998), p. 11.
- ⁶ Leach, 30.
- ⁷ *Ibid.*
- ⁸ Boris Emmet and John E. Jeuck, *Catalogues and Counters: A History of Sears, Roebuck and Company* (Chicago, IL: University of Chicago Press, 1950), 172-3.
- ⁹ *Ibid.*, 152.
- ¹⁰ *Ibid.*, 159.
- ¹¹ *Ibid.*, 151.
- ¹² *Ibid.*
- ¹³ Congress held hearings on extending parcel post rates further into rural areas in 1910, which brought a storm of protest from retailing groups. The rates were extended, but the contentious hearings demonstrated the strong antipathy for mail-order companies among retailers.
- ¹⁴ *Ibid.*, 150.
- ¹⁵ *Ibid.*, 160-163.
- ¹⁶ *Ibid.*, 150.
- ¹⁷ Godfrey M. Lebhar, *Chain Stores in America, 1859 – 1962* (New York: Chain Store Publishing Corp., 1963), 108.
- ¹⁸ *Ibid.*, 110.
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- ²⁰ *Ibid.*
- ²¹ *Ibid.*, 160.
- ²² *Ibid.*, 168-9.
- ²³ *Ibid.*, 170.
- ²⁴ *Ibid.*, 179.
- ²⁵ *Liggett v. Lee*, 288 U.S. 517 (1933).
- ²⁶ Lebhar, 142.
- ²⁷ Originally designated as H.R. 9464 in 1938, reintroduced as H.R. 1 in 1940.
- ²⁸ *Ibid.*, 257.
- ²⁹ *Ibid.*, 293.
- ³⁰ *Dr. Miles Medical Co. v. Jaynes*, 149 Fed. R. 838 (1906).
- ³¹ *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911).
- ³² Lebhar, 113.
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- ³⁸ *Ibid.*, 125.
- ³⁹ Robert Slater, *The Wal-Mart Decade* (New York: Penguin Group, 2003), 110.
- ⁴⁰ Slater, 111-112.
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⁷⁷ Ibid..

⁷⁸ Ibid., 160.

⁷⁹ Ibid.

⁸⁰ Greenhouse, *ibid.*

⁸¹ Zimmerman, *ibid.*

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⁹⁶ Cleeland and Goldman, *ibid.*

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