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WAL-MART

THE FACE OF TWENTY-FIRST-CENTURY CAPITALISM



EDITED BY NELSON LICHTENSTEIN

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THE NEW PRESS

NEW YORK
LONDON

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Acknowledgments

Dick Hebdige, Director of the Interdisciplinary Humanities Center at the University of California, Santa Barbara, deserves the greatest thanks because he was the first to ask me, "Hey Nelson, why don't we have a conference about Wal-Mart?" So we did, with much moral and financial support from his Humanities Center, where Theo Alexopoulos, Carly Andrews, and Tom Bennett pitched in to make the conference a success. Along the way, Richard Appelbaum, Eileen Boris, Richard Flacks, Dana Frank, Meg Jacobs, Jennifer Klein, Julio Moreno, Eric Rappaport, Amy Stanley, and most of the contributors to this collection offered good advice and much encouragement.

Our April 2004 conference, "Wal-Mart: Template for Twenty-First-Century Capitalism?" was supported by the Center for Work, Labor, and Democracy at the University of California, Santa Barbara; by the Hull Center for Research on Women and Social Justice; by the UC Institute on Global Conflict and Cooperation; by UC MEXUS, the UCSB College of Letters and Science, and the Divisions of Humanities and Fine Arts, and Social Sciences. After it was over dozens of journalists rang me up, and they deserve a word of thanks as well because their questions, whether pointed or superficial, convinced me that the historical and sociological research we were undertaking was an important way that we could fulfill our responsibility as citizens.

As the conference papers were turned into book chapters, Marc Favreau at the New Press proved himself a supportive and creative editor. Sarah Fan and Melissa Richards were most professional. Copy editor Adam Goldberger was wonderfully thorough, and in Santa Barbara undergraduate assistant Taylor Ernst helped put together many of the pictures, graphs, and tables in the collection. And finally, Eileen Boris has once again proven herself my most thoughtful critic, the staunchest supporter, and the loving presence that makes life, academic and otherwise, all so much richer.

Preface

Nelson Lichtenstein

This book had its origins in a strike. On October 11, 2003, fifty-nine thousand grocery workers struck, or were locked out of, more than 850 Southern California supermarkets. They were fighting to maintain the wages and health care insurance that the United Food and Commercial Workers had negotiated with their employers over nearly half a century of relatively peaceful labor-management relations. But this strike was different. It was bitter, it was long, and it ended in a decisive defeat for the union when workers finally filtered back to their cash registers, produce stands, and deli counters in February and March 2004. Safeway, Albertsons, and other national chains forced the union to accept a new contract that slashed starting wages, capped health insurance payouts, and reduced overall labor costs.

The strike was convulsive because the most important player was not at the negotiating table. Supermarket executives, in Southern California and elsewhere, were taking a hard line against their employees because Wal-Mart was ready, willing, and anxious to eat their lunch. By 2003 Wal-Mart was the largest company in the world, and it was moving rapidly into the grocery business by building hundreds of “supercenters,” mammoth big box stores of two hundred thousand square feet that combined under one roof a full-sized grocery supermarket with a sprawling general merchandise outlet. And Wal-Mart was notorious for the low wages it paid its million-plus nonunion workers. When the strike began, Wal-Mart had but 1 percent of the retail market in California, but the Bentonville, Arkansas, retailer made clear that it intended to build at least forty supercenters in the Golden State during the next few years, perhaps two or three hundred in a decade.¹

With the strike on, and no end in sight, reporters from across the country started to look at the story from a different angle. They sought out historians, like myself, familiar with the relationships between labor, business, and politics during the last century. What’s at stake in this endless strike? they asked. Why is everyone so afraid of Wal-Mart? And what makes that company such a fierce competitor? How did this Arkansas-based retailer become such a giant presence with more than 3,500 stores in the United States and a workforce that was not the largest of any nongovernmental institution in North America?

Well, I’m an academic, and when confronted with a puzzle, academics do what

comes naturally: hold a conference, which we did in April 2004. There is no such field as “Wal-Mart Studies,” at the University of California or elsewhere, but the gravitational force exerted by this global phenomenon has made itself felt throughout numerous academic disciplines. It was therefore not difficult to identify key scholars who were delighted to share their expertise. Indeed, they leaped at the chance to compare notes and perspectives, both on Wal-Mart and on the global manufacturing-transport-distribution chain in which the corporation is the largest and most significant link.

The theme of this book, and of the conference from which it arose, is “Wal-Mart: A Template for Twenty-First-Century Capitalism?” There’s a question mark after the last word because we are still exploring the degree to which the company will in fact establish the frame for an entirely new era in the history of world capitalism. That is a rather large issue, which is why we think the study of this corporation—or of any large business enterprise—is too important to be left to Wall Street, to the business schools, or to the economists alone. By “template,” we mean not just the internal organization of a business, or the character of the market it taps or creates, but the entire range of economic, social, cultural, and political transmutations generated by a particularly successful form of business enterprise.

Great corporations are the “representative social actuality,” wrote Peter Drucker, the founder of modern management science, in *The Concept of the Corporation*, a pioneering study that illuminated the world engendered by General Motors in its mid-twentieth-century heyday. The “emergence of big business is the most important event in the recent social history of the Western world,” declared Drucker.² He wrote that in 1946, but his understanding is just as true today, if on a scale that includes not only the West, but the East and global South as well. Thus it was entirely appropriate that the Interdisciplinary Humanities Center at the University of California, Santa Barbara, served as the official sponsor for the conference, along with the Center for Work, Labor and Democracy at that university.

No one from Wal-Mart accepted our invitation, but executives did take note of the scholarly effort to link their company to a new and problematic stage of American capitalism. And they were not long in responding. When Wal-Mart CEO H. Lee Scott delivered a defense of his company before a Los Angeles town hall meeting early in 2005, he entitled it “Wal-Mart and California: A Key Moment in Time for American Capitalism.” Business executives do not normally cast the fate of their company in such sweeping terms, but Scott seemed anxious to take up some of the issues we had posed at our conference, which had been publicized in the national press and in a couple of television documentaries.³ “Let me be direct,” he told an audience of influential Californians. “I believe we meet at an auspicious moment, when large questions about the future of American capitalism are being confused in the public mind.” Scott then went on to defend the wages and working conditions of those who worked at his company, and the multibillion-dollar rise in the purchasing power enjoyed by tens of millions of Wal-Mart shoppers. But he also took pains to refute the notion, discussed at the conference

and in this collection, that low-wage Wal-Mart had replaced a high-wage, high-benefit General Motors as the template corporation setting the work, wage, and benefit standards for so many American workers and the enterprises for which they labored.⁴

This collection continues that dialogue, with contributions from social and cultural historians, sociologists, economists, anthropologists, students of American management, and union advocates participating in the conversation. In my introductory essay, I frame some of the questions posed by the emergence of discount retailers, who have become the template businesses of our era. Led by Wal-Mart, they are legislating de facto wage and benefit standards, reshaping and subordinating the once-powerful manufacturing sector, and generating the most profound transformation in the spatial and demographic landscape since the emergence of suburbia in the immediate post-World War II years. In the second contribution to the volume Susan Strasser, a noted historian of consumer culture, explains that many of the phenomena we identify with Wal-Mart, including high turnover for low-paid female clerks, the squeeze on suppliers, sophisticated technology, and the eager search for public subsidies, were pioneered by the great retailers of the past. Woolworth, Sears, and A & P helped construct the nation's consumer culture. Wal-Mart is but the latest enterprise to figure out the best way to make a profit on it.

But Wal-Mart is more than just an enlarged version of those early twentieth-century retailers. Social historian Bethany Moreton explores the southern neopopulist roots of Wal-Mart's distinctively cohesive managerial culture. Sam Walton founded his company in northwest Arkansas when it was almost entirely white, rural, nonunion, and desperately poor. But the managerial ethos that proved so effective in that "backward" region has proven adaptable, profitable, and competitive in the far more densely populated and ethnically cosmopolitan America of the early twenty-first century. Likewise, the management historian James Hoopes demonstrates that Wal-Mart is successfully breaking another set of business expectations. Although many business icons like Lucent Technology, General Electric, and Verizon have deployed new telecommunications and data control technology to outsource and downsize themselves, Wal-Mart has moved in just the opposite direction. Wal-Mart does more insourcing than outsourcing because it uses a variety of technological and organizational innovations to make it a far more efficient and more centralized firm than its competitors. From Bentonville outward, the visible hand of management has replaced the invisible hand of the market. This is nowhere clearer than in the realm of labor management and employment cost control. As the labor historian Thomas Adams makes clear, the post-World War II emergence of discount retailing could flourish only if management slashed labor costs and instituted the kind of tight, controlled labor-relations regime that was once exemplified by the auto assembly line or the garment-industry sweatshop. Wal-Mart did not invent this "new shop floor" in the 1960s and 1970s, but it did perfect and enlarge it more than any other retailer.

Wal-Mart is a global corporation, but it is more than a company that buys and

sells products in several nations. Wal-Mart's relentless search for new markets, more customers, and cheaper goods has begun to establish the template for a new structure in which manufacturers, transport companies, and the retailers themselves must now function. The Wal-Mart supply chain, increasingly focused on the movement of vast quantities of merchandise from East Asia to North America, has become the axis around which the economies of more than a score of countries revolve. Sociologists Misha Petrovic and Gary Hamilton explain how Wal-Mart has constructed a market in which the retailer, not the manufacturer, holds the pricing and contracting power; finds, retracts, and disciplines commercial partners; and establishes the framework by which products are moved through the global trading system. In their contribution, sociologists Edna Bonacich and Khaleelah Hardie illuminate the fascinating complexity and strategic importance of that portion of the Wal-Mart supply chain which moves thousands of giant container ships through the port of Los Angeles, the nodal center of global commerce today. Containerization, which began in the 1960s, has played a critical role in making transnational production chains possible, because the intermodal transport of all those forty-foot-long containers—from ships to port to rail and truck—has been essential to Wal-Mart's cheap and timely import strategy.

Although Wal-Mart is the dominant retailer in the United States and Canada and the second largest in the United Kingdom, it is not merely an Anglo-American phenomenon. During the 1990s, as economist Chris Tilly reminds us, Wal-Mart became the largest retailer in Mexico. Wal-Mart prospered there in part because of the free trade pact with the United States and the rise of a middle class. But the increasingly radical stratification of the Mexican economy, and the polarization of the consumer market, may well put a ceiling on Wal-Mart's growth in Mexico despite the company's efficient supply links to the United States. Not a single country in Latin America has proven as conducive to Wal-Mart's expansion as Mexico. In Brazil, Carrefour arrived first, and in Argentina a currency crisis, a radical drop in the standard of living, and a failure to find adequate suppliers have thwarted Wal-Mart growth.⁵

Wal-Mart's employment practices and its aggressive expansion plans have become extraordinarily controversial within the United States. In her study of retail sales "production" sociologist Ellen Rosen demonstrates that each store manager has an extremely tight labor budget that forces him (and sometimes her) to speed up the work, avoid overtime pay, and constantly struggle to "put out fires." Despite repeated assertions from Wal-Mart's top executives that the company obeys all labor and safety laws, store managers find it very difficult to meet cost-containment goals or increase sales without illegally exploiting themselves and the two hundred-plus "associates" who are employed in each Wal-Mart store. Gender discrimination is rife in such an authoritarian management hierarchy, a contention that attorney Brad Seligman is moving through the courts in the largest sex-discrimination case in U.S. history. His findings in *Dukes v. Wal-Mart* confirm that the pattern of patriarchal management described by Bethan Moreton has been institutionalized at Wal-Mart to a far greater degree than a

competitors like Kmart, Home Depot, and Target.

Wal-Mart's impact on the urban environment is just as controversial as its employment practices, which is why anthropologist David Karjanen frames the company's effort to site stores in urban America in the widest possible terms. During the era of nineteenth-century commercial urbanism and twentieth-century industrial development, the growth of corporations coincided with the rise of those cities and towns that were their manufacturing host or sales outlet. But with the rise of globalized markets, capital liquidity, and exurban production, many firms, above all Wal-Mart, have become detached from specific communities and specific labor pools. Indeed, Wal-Mart is the quintessential example of the spatial dislocation of production from consumption. In a close study of Wal-Mart's entry into exurban San Diego, Karjanen demonstrates that the opening of a new generation of supercenter stores has had little net impact on overall employment, but these new stores have had a highly negative impact on traffic, municipal finances, small business competition, and freeway sprawl. Wal-Mart is therefore one of the great engines driving the growth of American inequality: economic, social, and spatial.

In the concluding essay, unionist Wade Rathke considers the question "What is to be done?" He argues that Wal-Mart is too powerful, labor laws are too weak, and U.S. trade unions are too small to actually "organize" the company at any point in the foreseeable future. But this does not mean that those who seek reform at Wal-Mart are without leverage. Drawing upon a wealth of recent experiments and experiences, Rathke advocates the formation of a "Wal-Mart Workers Association" that does not seek to bargain formally with the company but instead provides a voice and a vision for current and former Wal-Mart workers. In alliance not only with the unions, but also with local government officials, environmental and land-use activists, and living-wage advocates, such an association might well provide the long-term pressure necessary to gradually modify the Wal-Mart business model so that this template enterprise eventually generates a far better level of wages, jobs, health benefits, and supply-chain relationships.

For the writers in this book, as well as for millions of others, Wal-Mart has become an object of fascination, admiration, denunciation, and wonder. Like the railroads and steel mills of the nineteenth century and the great automotive factories of the twentieth, it has become the enterprise that embodies so much of what we fear about a system of production and distribution that has an utterly pervasive impact, but whose control lies so far beyond our grasp. But knowledge is power, so if we understand the nature of this retail phenomenon, perhaps we can learn to master it.

History, Culture, Capitalism

Wal-Mart: A Template for Twenty-First-Century Capitalism

Nelson Lichtenstein

Wal-Mart, the largest corporation in the world, provides the template for a global economic order that mirrors the right-wing politics and imperial ambitions of those who now command so many strategic posts in American government and society. Like the conservatism at the heart of the Reagan-Bush ascendancy, Wal-Mart emerged out of a rural South that barely tolerated New Deal social regulation, the civil rights revolution, or the feminist impulse. In their place the corporation has projected an ideology of family, faith, and small-town sentimentality that coexists in strange harmony with a world of transnational commerce, stagnant living standards, and a stressful work life.¹

Founded less than fifty years ago by Sam Walton and his brother Bud, this Bentonville, Arkansas, company is today the largest profit-making enterprise in the world. With sales over \$300 billion a year, Wal-Mart has revenues larger than those of Switzerland. It operates more than five thousand huge stores worldwide, 80 percent in the United States. In selling general merchandise, Wal-Mart has no true rival, and in 2003 Fortune magazine ranked Wal-Mart as the nation's most admired company.² It does more business than Target, Home Depot, Sears, Kmart, Safeway, and Kroger combined. It employs more than 1.5 million workers around the globe, making Wal-Mart the largest private employer in Mexico, Canada, and the United States. It imports more goods from China than either the United Kingdom or Russia. Its sales will probably top \$1 trillion per year within a decade.³ Sam Walton was crowned the richest man in America in 1985; today his heirs, who own 39 percent of the company, are twice as wealthy as the family of Bill Gates.⁴

The competitive success and political influence of this giant corporation enable Wal-Mart to rezone our cities, determine the real minimum wage, break trade unions, set the boundaries for popular culture, channel capital throughout the world, and conduct a kind of international diplomacy with a dozen nations. In an era of waning governmental regulation, Wal-Mart management may well have

more power than any other entity to legislate key components of American social and industrial policy. The Arkansas-based giant is well aware of this leverage, which is why it is spending millions of dollars on TV advertisements that tout, not its “always low prices,” but the community revitalization, happy workers, and philanthropic good works it believes come when it opens another store.⁵

Wal-Mart is thus the template business setting the standards for a new stage in the history of world capitalism. In each epoch a huge, successful, rapidly emulated enterprise embodies a new and innovative set of technological advances, organizational structures, and social relationships. It becomes the template economic institution of its age. At the end of the nineteenth century the Pennsylvania Railroad declared itself “the standard of the world.” U.S. Steel defined the meaning of corporate power and efficiency for decades after J. P. Morgan created the first billion-dollar company in 1901. In the mid-twentieth century General Motors symbolized bureaucratic management, mass production, and the social, political enfranchisement of a unionized, blue-collar workforce. When Peter Drucker wrote the pioneering management study *The Concept of the Corporation* in 1946 it was the General Motors organization, from the Flint assembly lines to the executive offices in Detroit and New York, that exemplified corporate modernity in all its variegated aspects. And in more recent years, first IBM and then Microsoft have seemed the template for an information economy that has transformed the diffusion and production of knowledge around the globe.

Wal-Mart is now the template business for world capitalism because it takes the most potent technological and logistic innovations of the twenty-first century and puts them at the service of an organization whose competitive success depends upon the destruction of all that remains of New Deal-style social regulation and replaces it, in the U.S. and abroad, with a global system that relentlessly squeezes labor costs from South Carolina to south China, from Indianapolis to Indonesia. For the first time in the history of modern capitalism the Wal-Mart template has made the retailer king and the manufacturer his vassal. So the company has transformed thousands of its supplier firms into quaking supplicants who scramble to cut their costs and squeeze the last drop of sweated productivity from millions of workers and thousands of subcontractors.

The Wal-Mart Phenomenon

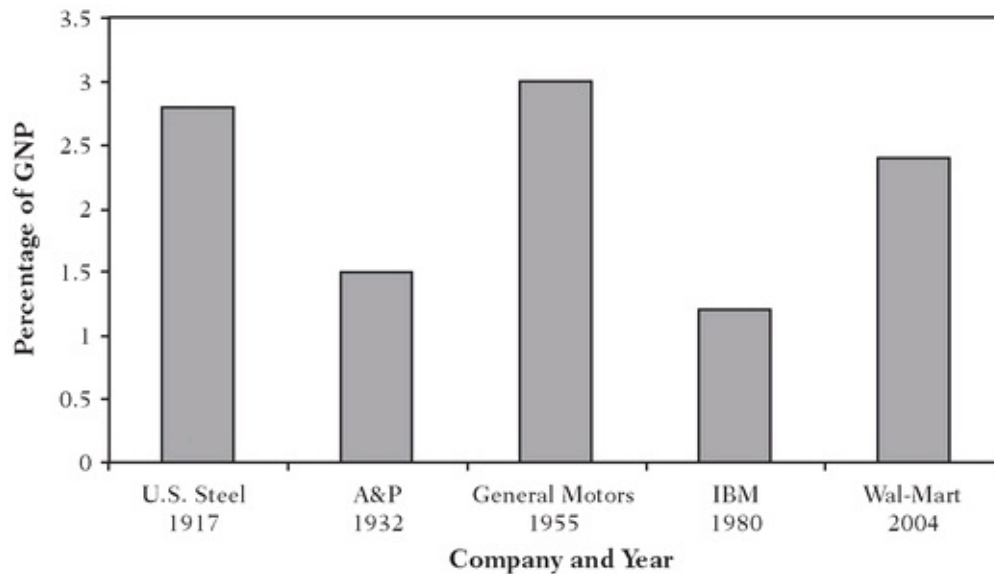
Snapshots from the lives of four women help us understand the impact of the Wal-Mart phenomenon upon the lives of tens of millions of ordinary people.

Chastity Ferguson kept watch over a sleepy three-year-old late one Friday as she flipped a pack of corn dogs into a cart at her new favorite grocery store: Wal-Mart. At this Las Vegas supercenter, pink stucco on the outside, a wide-isled, well-lit emporium within, a full-scale supermarket is combined with a discount megastore to offer shoppers everything they might need in their daily life. For

Ferguson, a harried twenty-six-year-old mother, the draw is obvious. "You can beat the prices," said the hotel cashier, who makes \$400 a week. "I come here because it's cheap."

Template Corporations Sales as a Portion of U.S. Gross National Product

Source: Jerry Useem, "One Nation Under Wal-Mart," *Fortune*, March 3, 2003.



Across town, another mother also is familiar with the supercenter's low price. Kelly Gray, the chief breadwinner for five children, lost her job as a Raley's grocery clerk late in 2002 after Wal-Mart expanded into the supermarket business in Las Vegas. California-based Raley's closed all eighteen of its southern Nevada stores, laying off 1,400 workers. Gray earned \$14.98 an hour with pension and family health insurance. Wal-Mart grocery workers typically make less than \$10 an hour, with inferior benefits. "It's like somebody came and broke into your home and took something huge and important away from you," said the thirty-six-year-old. "I was scared. I cried. I shook." [6](#)

Halfway around the world, twenty-year-old Li Xiao Hong labors in a Guangzhou factory that turns out millions of the Mattel toys that Wal-Mart sells across America. She is part of an army of 40 million newly proletarianized peasants who are turning south China into the workshop of the world. The plant's work areas are so poorly lighted that they seem permanently shrouded in gray. A smell of solvent wafts across the facility as rows of workers hunch over pedal-operated sewing machines and gluepots.

Li is the fastest worker on a long, U-shaped assembly line of about 130 women. They put together animated Disney-themed dolls that can be activated by the nudge of a small child. Li's hands move with lightning speed, gluing the pin bottom, screwing it into place, getting the rest of the casing to adhere, tamping down with a special hammer, pulling the battery cover through its slats, soldering

where she glued, then sending it down the line. The entire process takes twenty-one seconds.

Li generally works five and one-half days a week, up to ten hours at a time. Her monthly wage—about \$65—is typical for this part of China, enough for Li to send money back home to her rural family. But Li pays a heavy price. Her hands ache terribly, and she is always exhausted, but she seems resigned more than angry. “People at my age should expect some hardship. I should taste some hardship while I’m young.”⁷

And finally there is Crystal, the wife of a Wal-Mart assistant store manager, who brings home about \$40,000 a year after a decade of hard, devoted work. Crystal took umbrage at the invective posted on one of the many anti-Wal-Mart Web sites that current and former employees have created in recent years. So she fired back.

“Wal-Mart has been very good to us. The people at the store work not only as a team but as a family unit. When families in our community have trouble Wal-Mart is there to help. Wal-Mart helps with tuition for college, they give out scholarships. Every company has its faults, no job site or company is perfect. You are only upset because Wal-Mart is Pro-Associate and Anti-Union. And I pray to GOD as a Christian woman that it stays the way it is. Wal-Mart is a good place to work, they do care about their Associates. I think that Sam Walton would be proud of the store that my husband works at.”⁸

The experience of these four women provides a set of markers for understanding this giant firm. Hundreds of millions of shoppers agree with Chastity Ferguson: Wal-Mart prices are low, cheap enough to enable hard-pressed working-class families to stretch their dollars and survive until the next paycheck. But the experience of Kelly Gray has also made Wal-Mart a touchstone for political and economic controversy. The famed economist Joseph Schumpeter might well have been thinking of a dynamically successful firm like Wal-Mart when he coined the phrase “creative destruction,” the process by which one mode of capitalist production and distribution replaces another. As Schumpeter made clear early in the last century, such transformations are not inevitable, nor do they come without an immense social cost, which is why Wal-Mart’s growth has generated one high-profile conflict after another.⁹

In California, where Wal-Mart’s actual footprint has been modest, the expectation that this corporation will build scores of supercenters, staffed by low-wage workers, helped ignite a four-month strike by unionists in the old-line supermarkets, who wanted to preserve their wage and benefit standards. The strike ended in a bitter defeat in February 2004, but barely a month later Inglewood residents created a stir when that majority black and Latino city voted down a Wal-Mart-sponsored referendum designed to pave the way for construction of one of the first supercenters in Southern California. Energized by this anti-Wal-Mart show of strength, the Los Angeles city council enacted an ordinance requiring big-box stores like Wal-Mart to fund an “economic impact analysis to determine their effect on community wages, existing businesses, and traffic patterns.”¹⁰ But Wal-Mart struck back in the November 2004 election.

helping fund a referendum that overturned a recently enacted California law requiring large, labor-intensive firms to pay substantially more of the health insurance costs of their employees.¹¹ And while all this was going on, a San Francisco judge gave the Berkeley-based Impact Fund permission to seek higher pay and back pay for more than a million women workers at Wal-Mart, in the largest class-action employment-discrimination suit ever certified by a federal court.

Li Xiao Hong does not work directly for Wal-Mart, but the conditions of her life are inexorably bound to the capitalist template the corporation is now putting in place around the globe. She is a participant in the most sweeping process of proletarian industrialization since the dawn of the factory revolution nearly two centuries ago. Li is a cousin to the mill girls of Lowell, the immigrant needleworkers of the Lower East Side, and the Mexican women who poured into the border region maquiladoras just one generation ago. Now she stands on the lowest rung of a supply chain that feeds the enormous buying power assembled by the big-box stores that are becoming dominant throughout the global North. Although Wal-Mart deploys the most sophisticated telecommunications system to efficiently channel her labor power, Li's sweated work life, and that of her tens of millions of workmates, demonstrates that we still live in an industrial world. More people labor on an assembly line today, making actual things, than at any other time in human history. Still more sell, talk, or manipulate a keyboard under assembly-line conditions. The postindustrial age, heralded by so many pundits and academics, has not yet arrived.¹²

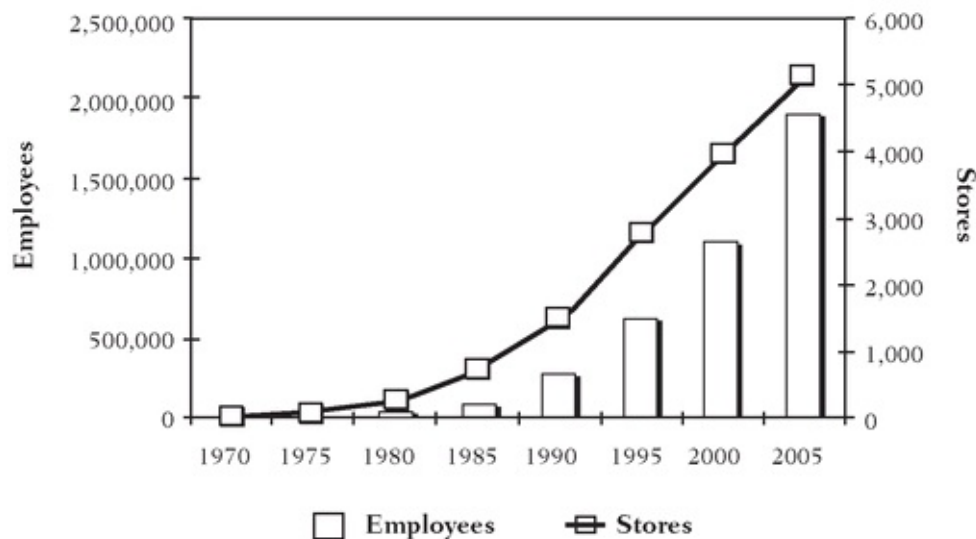
And finally there is Crystal, a product of the Wal-Mart "family" itself. Her husband, who worked his way up from maintenance, has the toughest job in the company. He is in the hot seat because he has to accommodate the insistent demands that flow down from the store and district manager, while at the same time keeping the shelves stocked, the cash registers staffed, and the store profits growing. Bentonville's computers assign Crystal's husband a labor budget that is as tight as a drum and a sales target that moves upward with inexorable momentum. He is in a constant squeeze, and when workers quit—Wal-Mart's annual turnover is above 40 percent a year, not far below that of McDonald's—Crystal's spouse has to fill in the gaps, which accounts for a managerial workweek of sixty hours and more. But none of this seems to have diminished the loyalty of people like Crystal and her spouse to Wal-Mart as an institution and an ideal. Promotion from within, frequent contact with upper management, a measure of paternalism, and a loosely cloaked Christian identity have helped generate a remarkably cohesive corporate culture in which a substantial proportion of those who pursue careers at Wal-Mart participate. "Ordinary people doing extraordinary things": there is a measure of truth in this Wal-Mart slogan.

Why Is Wal-Mart So Big?

What makes for giantism in big business? Why was General Motors so big during the middle decades of the twentieth century and why is Wal-Mart so huge today? In his contribution to this collection, historian James Hoopes recalls the work of the Nobel Prize-winning economist Ronald Coase, who described the corporation as an “island of conscious power” in an “ocean of unconscious cooperation, like lumps of butter coagulating in a pail of buttermilk.” Every firm has an optimal size beyond which the risk of loss from mismanagement more than offsets the chance of gain from the economies of scale it can realize. In the first half of the twentieth century GM became a vertically integrated conglomerate because Teletype telephones, and good roads enabled the corporation to deploy its famous system of centralized control and decentralized operations across dozens of states and scores of factories. But such highly integrated production and distribution within a single firm may not always be the most cost-efficient way to make the most money. If new inventions and sociopolitical mores make it cheaper and faster to purchase rather than make the same goods and services, then executives will begin to dismantle the huge enterprise. According to the most savvy and technologically hip business writers, the contemporary corporation is doomed to fragment within a world of cheap, rapid communications and increasingly efficient markets. The “virtual” corporation of the twenty-first century should consist of a few thousand highly skilled managers and professionals who contract out nonessential services to cheaper specialist firms.

Wal-Mart Employee/Store Growth

Source: Wal-Mart annual reports.



Thus we have the outsourcing of both call-center work and janitorial services to an ever shifting coterie of independent firms, while “branded” companies like Nike and Dell farm out virtually all the manufacturing work that goes into their core products. This has been the path followed by General Motors, which has

spun off Delco, once a vertically integrated parts division. Except for final assembly and the manufacture of key components, GM and the other big car companies seek to outsource as much work as possible, even sharing space with suppliers under the same roof and on the same shop floor. So the GM payroll, white collar and blue, is about half the size it was in 1970. Giving all this a metahistorical punch, Forbes columnist Peter Huber declared that it was “market forces and the information age” that had beaten the Soviets and would soon force the dissolution of America’s largest corporations. “If you have grown accustomed to a sheltered life inside a really large corporation,” he advised, take care. “The next Kremlin to fall may be your own.”¹³

But Wal-Mart has found giantism efficient and highly profitable. This is because the price of goods and services it purchases on the open market has not fallen as rapidly as has the cost of “managing,” within a single organization, the production or deployment of those same economic inputs. For Wal-Mart it is still cheaper to build than to buy, and to employ workers rather than subcontract them. As Linda Dillman, the chief information officer at Wal-Mart, put it in 2004: “We’d be nuts to outsource.” And the reason for her disdain? “We can implement things faster than any third party,” Dillman says. “We run the entire world out of the facilities in this area [Bentonville] at a cost that no one can touch.”¹⁴ Thus the same technologies and cost imperatives that have led to the decomposition and decentralization of so many other institutions, including government, health care, entertainment, and domestic manufacturing, have enabled Wal-Mart and other retail distribution companies to vastly enhance their own managerial “span of control.”

By 1988 Wal-Mart had the largest privately owned satellite communication network in the country, a system with six channels that not only let Sam Walton give pep talks to hundreds of thousands of employees, but on which a buyer could demonstrate for department heads in every store the precise way to display new products. As Walton biographer Bob Ortega summarized these pioneering innovations, “Wal-Mart was building a system that would give its executives a complete picture, at any point in time, of where goods were and how fast they were moving, all the way from the factory to the checkout counter.” And they knew precisely the labor costs involved, from the truck driver, to the warehouse worker, to the wages, hours, break time, and benefits of each sales clerk in each store. Indeed, when it became clear that Wal-Mart store managers were routinely failing to give checkout clerks their breaks, a violation of the wage and hour law, Wal-Mart announced that the computers in Bentonville would henceforth shut off the cash registers at the prescribed interval, overriding, if necessary, the local manager’s wishes. Here was the kind of centralized control never quite achieved in even the most authoritarian manufacturing enterprises. Ortega reported that at individual Wal-Mart stores, thermostats were manipulated from Bentonville.¹⁵

Wal-Mart’s Asian Empire

One of the most important innovations enhancing Wal-Mart's span of control has been a worldwide "logistics revolution." Its icon is the intermodal container, a forty-foot-long metal box that has become pervasive at every port, warehouse, and rail yard. There are more than a million of them sailing to and fro on a never-ending maritime highway that stretches from Hong Kong and Singapore to Long Beach and Los Angeles, now the largest ports in the United States. This bridge of giant container ships is filled with products destined for the big-box stores of the United States. Of the top twenty importers, eight are retailers. Wal-Mart, Home Depot, and Target alone account for 45 percent of the merchandise imported by these big companies. Wal-Mart's insatiable sales engine pulls more than 230,000 containers across the Pacific each year. That is the equivalent of about one hundred mammoth containerships, hauling about 20 percent of everything transported shipped through Southern California ports.

As Edna Bonacich points out in her contribution to this volume, these containers are "pulled" across the Pacific, not "pushed." In a push system, characteristic of consumer manufacturing in the last century, long production runs generate efficiencies of scale, which lead to inventory surpluses. These are pushed out to retailers, which is why so many car dealers were in a chronic war with Detroit, and why garment makers have often dumped cut-rate product on the retailer. But under the pull system, the retailer tracks consumer behavior with meticulous care and then transmits consumer preferences down the supply chain. Replenishment is put in motion almost immediately, with the supplier required to make more frequent deliveries of smaller lots. This is just-in-time for retailers, or "lean retailing." To make it all work, the supply firms and the discount retailers have to be functionally linked, even if they retain a separate legal and administrative existence. Wal-Mart is therefore not simply a huge retailer, but increasingly a manufacturing giant in all but name.

Wal-Mart has installed its Asian proconsul in Shenzhen, the epicenter of Chinese export manufacturing. There a staff of four hundred coordinates the purchase of some \$20 billion worth of South Asian products. Because the company itself has an intimate understanding of the manufacturing process and because its purchasing power is so immense, Wal-Mart has transformed its three thousand Chinese suppliers into powerless price takers, rather than partner deal makers, or oligopolistic price administrators. While many of these suppliers are small and undercapitalized, a growing number of East Asian contractors manage factories that are of stupendous size. For example, Tue Yen Industrial, a Hong Kong-listed shoe manufacturer, employs more than 150,000 workers worldwide, most in low-cost factories throughout southern China. A factory complex in Dongguan employs more than 40,000 workers, and its Huyen Bin Chanh megafactory in Vietnam will soon be the largest workplace on the planet employing 65,000.¹⁶ To remember the last time so many workers were assembled in a similarly gigantic manufacturing complex you have to reach back to the armament factories of World War II—to the River Rouge, Willow Run, Boeing in Seattle, and Douglas-El Segundo in the United States, to Gorki and Magnitogorsk in the Soviet Union, and to Dagenham outside London—to find such proletarian

concentrations.

The Wal-Mart supply chain is just as tightly monitored within the United States as without. Here, those manufacturers that manage to survive do so only by bending the knee to their retail overlord.¹⁷ Take Procter and Gamble, for example. The venerable Ohio home product manufacturer long used its market power and sophisticated research on consumer buying habits to secure an outsized share of shelf space from traditional retailers. Although many drug and grocery chains considered P&G a self-aggrandizing bully, Wal-Mart turned this power relationship on its head. The retailer's superior point-of-sale data-collection system enabled Wal-Mart to more accurately and profitably source its home care products. Wal-Mart came to know more about the consumers of P&G products than did the manufacturer, so in the late 1980s P&G moved an entire sales office to northwest Arkansas. P&G received continuous data via satellite on sales, inventory, and prices, enabling it to replenish goods rapidly, accurately, and often directly from the factory to individual stores. By the mid 1990s, Wal-Mart was P&G's largest customer, generating more than \$3 billion in revenues, or about 2 percent of P&G's total sales. But executives at the Cincinnati soap maker were well aware that their good fortune turned on Wal-Mart's sufferance, which explains why they bought Gillette in 2005. The \$57 billion deal was designed to transform P&G into an even larger supply firm that could challenge Wal-Mart's pricing power and its private label brands. But even this megamerger may not be enough. "If you want to service Wal-Mart you have got to be more efficient," asserted the retail consultant Howard Davidowitz. "The power will stay with Wal-Mart."¹⁸

Wal-Mart vs. New Deal America

Wal-Mart's mastery of information technology and the logistics revolution explain only part but a slice of the company's success. Equally important, Wal-Mart has been the beneficiary and a driving force behind the transformation in the politics and culture of a business system that has arisen in a southernized, deunionized post-New Deal America. The controversies sparked by Wal-Mart's entry into metropolitan markets—Chicago, Los Angeles, the Bay Area—embody the large-scale conflict between what remains of New Deal America and the aggressive, successful effort waged by Sunbelt politicians and entrepreneurs to eviscerate it.

Discount retailing depends on continual, near-obsessive attention to wages and labor costs. Discounters must have two or three times the turnover of traditional department stores, like Sears and Macy's, in order to make the same profit. Stock movement of this velocity depends on a low markup, which in turn demands that labor costs remain below 15 percent of total sales, about half that of traditional department stores. And Wal-Mart is clearly at the head of this discount class, with selling and general administration costs—wages mainly—coming in at about 2

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