The Wal-Mart Effect and a Decent Society: Who Knew Shopping Was So Important?

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Executive Overview

The phrase "The Wal-Mart Effect" has made its way into the culture as a shorthand for the range of effects resulting from Wal-Mart's way of doing business. A megacorporation with sales that consistently rank it as the number-one or number-two publicly traded company in the United States and in the world, Wal-Mart has impacted wage rates, prices, and economies on a local, national, and global scale. It is arguably the world's most important privately controlled economic institution. It not only has no rivals, it actually influences the prices set by its suppliers and has often seemed impervious to challenge, let alone accountability. Many of the most basic and most urgent questions about Wal-Mart, those at the core of a public debate over the "Wal-Mart Effect," go unanswered. Wal-Mart's own 40-year history of absolute secrecy, including forbidding its suppliers to talk about their relationship with Wal-Mart, has only deepened the mystery of its impact. Answering the questions is vital—not just to understand the impact of Wal-Mart but to understand the behavior and impact of all kinds of megacorporations emerging in the global economy.

> The question of how to assure that American capitalism creates a decent society is one that will engage all of us in the era ahead.
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> —*Wal-Mart CEO H. Lee Scott, February 2005*

Starting in the early 1990s, a change swept through a line of products that most adult Americans use every day. Until then, nearly every brand and style of deodorant—roll-on and solid, powder-fresh and unscented—came in a paperboard box. You opened the box, pulled out the container of deodorant, and pitched the box in the garbage. In the early 1990s, Wal-Mart, among other retailers, decided the paperboard box was a waste. It added nothing to the customer's deodorant experience. The product already came in a can or a plastic container that was at least as tough as the box, if not tougher. The box took up shelf space. It wasted cardboard. Shipping the weight of the cardboard wasted fuel. The box itself cost money to design, to produce—it even cost money to put the deodorant inside the box, just so the customer could take it out. With the kind of quiet but irresistible force that Wal-Mart can apply, the retailer asked deodorant makers to eliminate the box—to unbox the antiperspirant.

The box turned out to cost about a nickel for every container of deodorant. Wal-Mart typically split the savings—letting deodorant makers keep a couple pennies and passing a couple pennies in savings along to its antiperspirant customers.

Walk into a Wal-Mart today, and pause in the deodorant aisle: eight shelves of deodorant, 60 containers across. In a well-tended Wal-Mart store, nearly 500 containers of deodorant face you. Not one box. Walk into any large chain store now—Walgreens, Target, Eckerd, CVS—and go to the deodorant aisle. Not one box.

Entire forests have not fallen in part because of the decision made in the Wal-Mart home office at the intersection of Walton Boulevard and SW 8th Street in Bentonville, Arkansas, to eliminate the box. The nickel savings may seem trivial, until you do the math. With 200 million adults in the United States, accounting only for the nickel from the container in their medicine cabinets right

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now, the savings is $10 million, of which customers got to keep half, $5 million, just for one small change that went unnoticed more than a decade ago. The savings brought about by the change is permanent. American consumers are saving $5 million in nickels five or six times each year on just one product. The nation has saved hundreds of millions of dollars since the deodorant box disappeared. It's a perfect Wal-Mart moment—the company used its insight and its influence to help make a substantial change with an impact that reached beyond the product aisle. Millions of trees were not cut down, acres of cardboard were not manufactured only to be discarded, one billion deodorant boxes didn't end up in landfills each year. It's all unseen, all unnoticed, and all good. Right?

Unless, of course, you were in the paperboard-box-making business. During those years when you took a call from every single deodorant maker in America canceling their standing order for boxes—those were rough times.

Wal-Mart changes markets across the globe in this way every day, and has for decades. A wasteful routine, often long entrenched, is detected and eliminated, while a new standard of efficiency that lowers costs for everyone, especially ordinary consumers, is established. In the wake of the change comes a ripple of consequences—if not quite unintended, at least unacknowledged. This ripple is the Wal-Mart effect: the ways both small and profound that Wal-Mart has changed business, work, the shape and well-being of communities, and everyday life in the United States and around the world.

The phrase itself—"the Wal-Mart effect"—has made its way into the culture as a shorthand for the range of effects resulting from Wal-Mart's way of doing business. As a phrase, the Wal-Mart effect itself reveals our own conflicted feelings about the company. The Wal-Mart effect is never used as simply a description; it is never neutral. But neither is the Wal-Mart effect presumptively negative, or presumptively positive. It takes its spin from the context.

The Wal-Mart effect is when Wal-Mart starts selling groceries in a new area, bringing lower prices to its own shoppers and, through competition, driving down the prices of established grocery stores as well.

The Wal-Mart effect is when Wal-Mart, or any big-box retailer, comes into town, reshapes shopping habits, and drains the viability of traditional local shopping areas or mom-and-pop shops.

The Wal-Mart effect is the relentless downward pressure on the prices of everyday necessities that a single vast retailer can exert on behalf of consumers.

The Wal-Mart effect is the suburbanization of shopping; the downward pressure on wages at all kinds of stores trying to compete with Wal-Mart; the consolidation of consumer product companies trying to match Wal-Mart's scale; the relentless scrutiny of unnecessary costs that allows companies to survive on thinner profits; the success of a large business at the expense of its rivals and the way in which that success builds on itself.

Wal-Mart's brilliant, obsessive focus on a single core value—delivering low prices—created what became the largest and most powerful company in history. And yet the drive for low prices is also the cause of the troubling elements of the Wal-Mart effect: low wages, unrelenting pressure on suppliers, products cheap in quality as well as price, and offshoring of jobs.

Wal-Mart is arguably the world's most important privately controlled economic institution. It not only has no rivals, it has often seemed impervious to challenge, let alone accountability. Many of the most basic and most urgent questions about Wal-Mart, those at the core of the public debate, are unanswered. Wal-Mart's own 40-year history of absolute secrecy, including forbidding its suppliers to talk about their relationship with Wal-Mart, has only deepened the mystery of its impact.

How much does Wal-Mart really lower prices? Does Wal-Mart raise our standard of living while it lowers prices? Does Wal-Mart bring businesses to the communities where it opens, or does it kill businesses already in them? Does Wal-Mart really make its suppliers more efficient? Is doing business with Wal-Mart good for a company's financial health? Does Wal-Mart send factory jobs overseas?

And where exactly does all that merchandise made overseas come from, who makes it, and are they happy new members of the global economy or indentured factory serfs? Are we shopping ourselves out of not only good factory jobs in the United States but also out of a safe environment, since overseas factories make toys and apparel and power tools for us without the need to adhere to safety and pollution regulations?

In the end, the real question is about how much Wal-Mart really saves the consumer, as well as whether or not those savings dramatically offset the costs of the Wal-Mart effect. Put another way, do the costs of the Wal-Mart effect, scattered in factories and towns across the country and around the world, add up to far more than the dimes and dollars Wal-Mart allows each of us to keep in our pockets?

The very range of questions, their complexity, and their significance demonstrate the importance of the Wal-Mart effect. Answering the questions is vital—not just to understanding the impact of Wal-Mart but to understanding the behavior and impact of all kinds of companies in the global economy. Wal-Mart is so large, its reach so great, that it has created an ecosystem in which its suppliers and competitors, and their suppliers and competitors, and their customers, all operate. Wal-Mart sets the metabolism, it sets the rules, of that ecosystem. Wal-Mart has inexorably changed our expectations as shoppers—and the Wal-Mart effect also extends to consumers who never shop at Wal-Mart. Likewise, Wal-Mart has reshaped the companies that supply it—and it has also reset the pace and the competitive landscape even for companies that try to do business outside the Wal-Mart ecosystem.

Supercenters, Supersized

At about the same time deodorant was coming out of its box, Wal-Mart began experimenting with the idea of doubling the size of some of its new stores in order to start selling groceries alongside general merchandise in a format it called Supercenters. When Wal-Mart first started nudging into the grocery business, everyone in the United States already had well-established grocery-buying habits. No one was waiting for a Wal-Mart to open to buy a gallon of milk or a jar of spaghetti sauce or a package of boneless chicken breasts. The supermarket business was dominated by well-established, deeply experienced, well-run national chains. Albertsons was founded in 1939. Safeway was founded in 1915. Kroger was founded by Barney Kroger in 1883. Into that familiar group 15 years ago stepped Wal-Mart, which had established just nine Supercenters by the end of 1990.

Ten years later, by the end of 2000, Wal-Mart had opened 888 Supercenters, an average of seven new Supercenters per month, 120 months in a row. Wal-Mart had become the number-one food retailer in the nation. In little more than a decade, from a standing start, Wal-Mart mastered the U.S. grocery business and remade what turned out to be a complacent industry in its wake. It is an astonishing achievement. Today, Wal-Mart sells more groceries than any company not just in the United States but in the world. It now operates 2,074 Supercenters, 1,200 more than it had five years ago. That is, in the last five years, having already conquered the supermarket business, Wal-Mart has dramatically increased the pace of its grocery invasion; it has opened an average of 16 new Supercenters each month over the last five years.

In fact, we find the pull of Wal-Mart irresistible, and Wal-Mart itself has not hesitated in the face of our appetite. In 2004 alone, in the United States, the company opened 245 new Supercenters—the combined general merchandise and grocery stores—in 35 states. That's four new Supercenters a week. Although 90 percent of us already live within 15 miles of a Wal-Mart, the company picked up the pace in 2005. The company opened 267 new Supercenters in the U.S. in 2005—five per week, one every business day of the year.

In groceries, as in other areas of retail, Wal-Mart is not simply the first among equals; it is unchallenged. The company that essentially did not exist as a grocer 15 years ago now sells more food than Kroger and Safeway combined. Nationwide, Wal-Mart's share of the grocery market is approximately 16 percent. Within individual cities, however, it has a 25 or 30 percent share of the grocery market. In places like Dallas, Memphis, and Oklahoma City, one out of four, or one of three, families do their food shopping at a Wal-Mart Supercenter.

Wal-Mart's grocery departments—in Supercenters, about 40 percent of the floor space is devoted to groceries—are not particularly appealing places to shop. The aisles are long, the staffing is thin, the stocking often spotty and chaotic, the produce ample but undistinguished. But when Wal-Mart starts selling groceries in a new city, it quickly wins business in a simple, potent way: Its prices are about 15 percent lower on exactly the same foods sold elsewhere. You can buy fresh salmon from the Wal-Mart seafood display case for $4.84 a pound, a price so low it almost seems too good to be true. For a family of four who might spend $500 a month on groceries, Wal-Mart's 15 percent lower prices translate into savings of hundreds of dollars a year, just for driving to a different store.

Wal-Mart didn't just change the lives and spending habits of grocery shoppers, though. It changed the very ecosystem and rhythm of the supermarket business, often with devastating consequences for those who couldn't adjust. In the same decade that Wal-Mart has come to dominate the grocery business in the United States, 31 supermarket chains have sought bankruptcy protection; 27 of these chains cite competition from Wal-Mart as a factor. That, too, is the Wal-Mart effect.

Wal-Mart isn't just a store, or a huge company, or a phenomenon anymore. Wal-Mart shapes where we shop, the products we buy, and the prices we pay, even for those of us who never shop there. It reaches deep inside the operations of the companies that supply it and changes not only what they sell, but also how those products are packaged and presented, what the lives of the factory workers who make the products are like, sometimes even the countries where those factories are located. Wal-Mart reaches around the globe, shaping the work and the lives of people who make toys in China, or raise salmon in Chile, or sew shirts in Bangladesh, even though they may never visit a Wal-Mart store in their lives.

Wal-Mart has even changed the way we think about ourselves—as shoppers, as consumers. Wal-Mart has changed our sense of quality, it has changed our sense of what a good deal is. Wal-Mart's low prices routinely reset our expectations about what all kinds of things should cost—from clothing to furniture to fresh fish. Wal-Mart has changed the lens through which we see the world. It has reshaped the economic life of the towns and cities where it opens stores; it also has reshaped the economic life of the United States—a single company that steadily, silently, purposefully moves the largest economy in history. In essence, Wal-Mart has become the most powerful, most influential company in the world.

Who knew shopping would turn out to be so important?

Wal-Mart's Marketplace

More than half of all Americans live within five miles of a Wal-Mart store, less than a ten-minute drive away. Ninety percent of Americans live within 15 miles of a Wal-Mart. On the nation's interstates, it is rare to go a quarter-hour without seeing a Wal-Mart truck.

Wal-Mart now has 3,889 stores in the United States (including 10 in Alaska and 10 in Hawaii); this distribution means there is more than one Wal-Mart store for every single county in the country. In most of America, Wal-Mart is not just unavoidable, it has become a kind of national commons. Every seven days more than 130 million Americans shop at Wal-Mart— equivalent to 40 percent of the country. Each year, 93 percent of American households shop at least once at Wal-Mart. Wal-Mart's sales in the United States are equal to $2,172.72 spent there by every U.S. household in the last year. (Wal-Mart's profit on that $2,172 was just $79.) If your family didn't spend $2,000 at Wal-Mart last year, well, someone else's spent $3,000.

And it's not just the United States. Wal-Mart is the largest retailer in both Mexico and Canada, and the second largest grocer in England. Worldwide, so many people shop at Wal-Mart that this year 7.2 billion people will go to a Wal-Mart store. The Earth's population is only 6.4 billion, so this year the equivalent of every person on the planet will visit a Wal-Mart, with nearly a billion visits left over.

Wal-Mart's scale can be hard to absorb. The company isn't just the largest retailer in the nation and in the world. For most of this decade, Wal-Mart has also been both the largest company in the world, and the largest company in the history of the world. In 2006, Wal-Mart was bumped from the number-one spot on the Fortune 500 list of the largest companies by ExxonMobil, whose sales surged past Wal-Mart's, but only because the world price of oil has risen by a third in the last year. Wal-Mart's dominance really remains unrivaled, as revealed by a single statistic. ExxonMobil employs about 84,000 people worldwide; Wal-Mart employs 1.8 million. ExxonMobil is growing by raising prices; Wal-Mart is growing despite lowering prices.

As a store, Wal-Mart isn't just the largest; it no longer has any near rivals. Wal-Mart is as big as Home Depot, Kroger, Target, Costco, Sears, and Kmart combined. Target, which is considered Wal-Mart's nearest direct rival and its most astute competitor, is small by comparison. Each year Wal-Mart sells more by Saint Patrick's Day, March 17, than Target sells all year.

In the last two years, Wal-Mart has added more dollars in sales than Target's total sales per year. It is precisely that scale, built out of our own purchases, $5 and $10 and $20 at a time, that powers the Wal-Mart effect. In many ways, we all now live in the Wal-Mart economy—the literal version, if not the metaphoric one. The reach would be bemusing if it weren't so encompassing.

No business comes close to Wal-Mart's dominance across not just the consumer economy, but the economy as a whole, or ever has. The Wal-Mart effect is evident every day. Sears and Kmart were crippled by effective competition from Wal-Mart—their merger is just a desperate grasp at survival in the face of Wal-Mart's relentless competence. It won't be clear for several years whether their marriage will reveal some previously hidden strategy for success. Still, Sears and Kmart combined are now the size Wal-Mart was in 1993, one-fifth of Wal-Mart's current size.

Toys "R" Us, the company that invented the "category killer" store back in the 1950s and transformed the way toys were sold in the United States, wilted in its race against Wal-Mart. Since 1998, Wal-Mart has sold more toys in the United States than Toys "R" Us. In early 2005, Toys "R" Us sold itself to a trio of private equity investors who were as interested in the chain's real estate as its toy business. As a result, Toys "R" Us is expected to shrink further rather than win back toy customers from Wal-Mart.

Winn-Dixie, the venerable if increasingly shabby $11 billion grocery chain, was forced into bankruptcy in 2005 because of its inability to compete with Wal-Mart. It closed one-third of its 920 stores, and laid off 22,000 employees.

Procter & Gamble and Gillette, two of the world's most stable and innovative consumer products companies, agreed to a merger that will cost P&G $57 billion and create a single company that sells everything from Duracell batteries to Tampax tampons, Pringles potato chips to Oral-B toothbrushes. Together, the companies have 21 brands that each has $1 billion in sales or more. The merger was motivated in part by the companies' need to maintain scale in the face of Wal-Mart. The combined company will have sales of $62 billion a year, of which $10 billion will be at Wal-Mart, 16 percent of the business. Deep inside its financial filings with the U.S. government, P&G reports that before the merger, Wal-Mart was 17 percent of its business. It also reports that its top-ten retail customers are 33 percent of its business. What this share means is that Wal-Mart is not just P&G's number-one customer—it's bigger than the next nine customers combined. So the really interesting question is whether the purchase of Gillette by P&G gives the company more leverage with Wal-Mart—or whether it gives Wal-Mart yet more muscle with a bigger P&G.

Beyond its ascendancy in sales, Wal-Mart is the nation's, and the world's, largest private employer, with 1.8 million "associates," as the company refers to its employees. In the United States another 3.5 million people have jobs directly dependent on purchases from Wal-Mart, according to Wal-Mart's figures. Most of us shop at Wal-Mart, but many of us are also dependent on the company for our income, or know someone who is, even if that person doesn't actually work at Wal-Mart but at one of its suppliers.

It's not just Wal-Mart's presence as a merchant and employer that is so pervasive. Each month Wal-Mart's announcement of its sales is good for a full 24-hour cycle of news coverage, more if Wal-Mart surges or stumbles, because Wal-Mart's performance is considered a vital indicator of trends in the U.S. economy overall—are we spending confidently or not?

In the last five years, a national debate about Wal-Mart's impact—about the wide spectrum of the Wal-Mart effect—has escalated into a series of skirmishes being fought not only in the media and at zoning hearings but also in the courtroom. Wal-Mart's practices, the way it treats its employees, the way it treats its suppliers, the way it treats communities, and its motivation—its very soul—are all subjects of such bitter contention that it is hard to imagine that partisans are actually describing the same institution. Wal-Mart is either one of the boldest, most democratic creations in human history, a validation of free markets, harnessing its enormous power on behalf of the needs of ordinary people; or it is an insatiable, insidious beast, exploiting the people it pretends to defend.

The Birth of a Giant

Wal-Mart's beginnings in a remote corner of Arkansas are now, quite rightly, the stuff of American business legend. The first Wal-Mart opened in 1962; that same year also saw the opening of the first Target and the first Kmart. Wal-Mart was the creation of a single man, Sam Walton, who latched onto a single idea that he somehow knew in his gut was singularly powerful: Sell stuff that people need every day just a little cheaper than everyone else, sell it at that low price all the time, and customers will flock to you. That single idea drove Walton to keep the costs of his own company as modest as possible, and soon caused Wal-Mart to ask whether its suppliers couldn't be more frugal too and lower the price of their products. As Wal-Mart gained scale, growing in rural areas where it brought a range of selection and price not previously available, the questions to suppliers became a way of doing business, a culture of looking for every penny of cost savings that could be wrung out of designs, packaging, labor, materials, transportation, even the stocking of stores. It is that cascade of frugality, questions, and pressure that creates the Wal-Mart effect.

Sam Walton did not set out to create the largest company in history, nor was Wal-Mart born with power and impact. Wal-Mart #2, in Harrison, Arkansas, 90 miles east of Bentonville, originally opened in a shaggy strip mall, set up in such a way that if the Wal-Mart idea didn't work out that well, the store itself could be chopped back, and the unneeded selling space walled off and subleased to some other store. That was in 1964, when #2 started out at about 8,000 square feet. It has moved twice in Harrison, and today #2 is a Supercenter 20 times the size of the original.

As hard as it sometimes is for people outside Bentonville to believe, the stories of Sam Walton's modesty, unpretentiousness, and frugality are authentic. You can be modest, unpretentious, frugal—and also driven, tireless, and determined to drive a hard bargain. Those are the values that Sam Walton infused into his company—into his stores, his managers, his staff, his way of doing business every day. And if you look at Wal-Mart today—at the peak of its power—it still embodies those values: modesty, unpretentiousness, frugality, drive, energy, and determination to drive a hard bargain.

It is part of what is so confounding about Wal-Mart—how bad could a place be if the vice presidents furnish their headquarters offices with cast-off samples of lawn chairs from vendors? Those values are the source of Wal-Mart's success. It is no accident that the largest company in history grew up in rural Arkansas, far from the distractions, the noise, the competing priorities and muddled values of the big cities. It's easy to make fun of little ol' Bentonville, but only if you've never been there.

But Wal-Mart has outgrown Bentonville. Not physically, but psychologically, politically, sociologically. Wal-Mart has literally outgrown the values that governed its incredible growth in the last 40 years, the values that powered that growth.

The source of almost all of Wal-Mart's troubles can be traced not to some evil conspiracy spun out of the home office, but to the slogan printed right on every Wal-Mart bag: "Always low prices. <u>*Always*</u>." The second *always* is in italics and underlined, just so there's no confusion about the mission.

Does Wal-Mart pay modestly? Absolutely. They do so on behalf of us—their customers—to enable Wal-Mart to deliver always low prices. All of Wal-Mart's profit wouldn't get its workers to $12 an hour—still less than $500 a week. So Wal-Mart could pay better—it could offer better health insurance—but it would have to raise prices. And that violates the fundamental mission of the company.

Does Wal-Mart squeeze its suppliers to deliver merchandise at the lowest possible price? Does Wal-Mart hold the trump card of substituting lower-cost imported goods if a supplier is too finicky to do what's necessary to get the costs down? Absolutely. That's the very reason for Wal-Mart's existence—and it's hardly a secret. If a supplier can't cope, sell elsewhere. Not a problem.

Does Wal-Mart extract concessions from local governments for roads and property taxes and zoning as it builds stores? Absolutely. Anything less would be a waste of money—a waste of customers' money.

Does Wal-Mart come into a town and compete hard for business against the local hardware store, and the local clothing shop, and also against the big chain grocery stores and other national discounters? Absolutely. It is common for local merchants to complain that they can literally buy their own stock more cheaply at Wal-Mart—at retail—than their wholesale suppliers sell it to them. But here's the thing: No matter how the competitive landscape evolves, Wal-Mart never looks around and decides to raise prices. Whether the local merchants, or Wal-Mart's big-box colleagues, find a way to compete in a particular town, or go out of business, Wal-Mart does not exploit its customers in victory. Wal-Mart is brutally competitive, but it is not technically predatory. It's not "low prices until the competitors are strangled"—it's "*always* low prices." It is that very Olympian, almost austere, relentlessness that comes directly from Sam Walton that makes Wal-Mart so difficult to compete against. Wal-Mart never takes a breath. If you take a breath, you might have to raise prices.

The mission is so imperative that it now sometimes comes unmoored from ordinary restraints and causes people at Wal-Mart to do things that are appalling, unethical, even illegal. The motivation—always low prices—doesn't begin to excuse the behavior, or justify it. But it does explain it.

Did Wal-Mart lock its employees inside some stores overnight? Absolutely. Lightly supervised employees have a tendency to steal stuff, and theft ultimately costs customers money. Employees who are locked inside stores can't walk off with the merchandise.

Did some managers force store employees to punch out, and keep working? Absolutely. Store-level managers have a certain amount of autonomy, and a lot of responsibility. One of the most urgent responsibilities is to control their labor budget. Bonuses are tied to store performance, and store performance is really built on two big items: sales and staff costs. What better way to keep personnel costs under control than to insist that hourly associates haven't gotten their assigned jobs done in the allotted time, and then force them to finish that work off the clock.

Did Wal-Mart end up using hundreds of illegal immigrants to clean its stores overnight? Absolutely. Wal-Mart hired the least expensive cleaning contractors it could find—it turned out they were cheap for an unpleasant reason.

It is remarkable that almost all of Wal-Mart's behavior—even the bad behavior or the seemingly diabolical behavior—can be explained by taking Wal-Mart at its word. It really is all about "always low prices." That's a testament to the shaping power of that one idea, which Wal-Mart has turned into an obsession, almost a corporate fetish. And it's testament to the consistency and discipline of Wal-Mart's culture.

Wal-Mart literally behaves in almost every way as if it were still Sam Walton's curious experiment to see what happens if you cut costs, and cut prices, to the bare margins of survival. Wal-Mart acts as if it is still a company with 30 stores, or 300, instead of 3,000.

Wal-Mart is not greedy, Wal-Mart is not spendthrift, Wal-Mart is not complicated, Wal-Mart is not disingenuous. Walk into the stores—walk into headquarters—what you see is what you get. That is what is so frustrating for Wal-Mart's "conflicted" customers, for Wal-Mart's opponents, even for Wal-Mart's leaders. How could a company so modest, so unpretentious, so frugal, a company so driven, so tireless, so determined to drive a hard bargain be bad?

Because as odd as it may at first seem, Wal-Mart has literally outgrown those values. Scale matters—we know that intuitively—but it can sometimes be hard to remember that when size changes gradually.

It is one thing to have a few hundred stores clustered in the middle of the country, for which you furiously buy stuff as cheaply as possible, always on watch for someone willing to make you a deal. It is quite another to have so much buying power that instead of simply scrounging for good deals or willing suppliers, you can literally reach into the factories of your suppliers and determine how they operate—or even where they operate. The reason the evolution is so confusing is that the fundamental operating principle—the determination to deliver stuff cheap—doesn't change. It's even possible to grant that the motivation of Wal-Mart's buyers doesn't change. And the results on the shelf don't appear to change.

What changes is the scale. What changes is the intangible—the power, the impact that comes with scale.

Squeezing Pickle Prices

A gallon-sized jar of whole pickles is something to behold. The jar itself is the size of a small aquarium. The fat green pickles look reptilian, their shapes exaggerated by the glass of the jar. The jar weighs twelve pounds, too big to carry with one hand. Vlasic's gallon jar of pickles is a display of abundance and excess, and Wal-Mart fell in love with it, pricing it a $2.97. A year's supply of pickles cost less than $3! "They were using it as a 'statement' item," says Pat Hunn, who calls himself the mad scientist of the gallon jar of pickles at Vlasic. "Wal-Mart was putting it before consumers, saying this represents what Wal-Mart's about. *You can buy a stinkin' gallon of pickles for $2.97*. And it's the nation's number-one brand."

Because of Wal-Mart's scale, the Wal-Mart effect is not simply about delivering "always low prices." It is also about how Wal-Mart achieves those low prices, and what impact the low prices have far beyond Wal-Mart's shelves, and beyond our own wallets—the cost of low prices to the companies that supply Wal-Mart and to the people who work for those companies. That story can be found floating in Vlasic's gallon jar of pickles, the tale of how that gallon jar came to be sold at that price at Wal-Mart.

Back in the late 1990s, Vlasic wasn't looking to build its brand on a gallon of whole pickles. Pickle companies make money on "the cut," slicing cucumbers into specialty items like spears and hamburger chips. "Cucumbers in the jar, you don't make a whole lot of money there," says Steve Young, who was then vice president of marketing for pickles at Vlasic, but has since left the company. But a Wal-Mart buyer saw the gallon jar at some point in the late 1990s, and started talking to Pat Hunn about it. Hunn, who has also since left Vlasic, was then head of Vlasic's Wal-Mart sales team, based in Dallas.

The gallon intrigued the buyer. For Vlasic, it was a niche product aimed at small businesses and people having large events. Still, in sales tests in Wal-Mart stores, priced somewhere over $3, "the gallon sold like crazy," says Hunn, "surprising us all." The Wal-Mart pickle buyer had a brainstorm: What would happen to the gallon if they offered it nationwide, and got it below $3? Hunn was skeptical, but his job was to look for ways to sell pickles at Wal-Mart. Why not?

And so in 1998, Vlasic's gallon jar of pickles went into every Wal-Mart, 2,500 stores, at $2.97, a price so low that Vlasic and Wal-Mart were only making a penny or two on a jar, if that. The gallon was showcased on a big, freestanding pallet display near the front of stores.

"They went through the roof," says Hunn.

Says Young, "It was selling eighty jars a week, on average, in every store." It doesn't sound dramatic until you add it up: 200,000 gallons of pickles, just in gallon jars, just at Wal-Mart, every week. Whole fields of cucumbers were heading out the door.

The gallon jar of pickles became what you might call a "devastating success" for Vlasic. "Quickly, it started cannibalizing our non-Wal-Mart business," says Young. "We saw consumers who used to buy the spears and the chips in supermarkets"—where a small quart jar of Vlasic pickles cost $2.49—"buying the Wal-Mart gallons."

The gallon jar reshaped Vlasic's pickle business. It chewed up the profit margin of the business with Wal-Mart and of pickles generally; procurement had to scramble to find enough pickles to fill the gallons. The volume also gave Vlasic strong sales numbers, strong growth numbers, and a powerful place in the world of pickles at Wal-Mart.

The gallon was hoisting Vlasic and hurting it at the same time. Indeed, Steve Young, Vlasic's marketing guy, and Pat Hunn, Vlasic's Wal-Mart sales guy, agree on the details of the gallon, but years later they disagree over whether it was good or bad for Vlasic.

Hunn remembers cutting a deal with Wal-Mart whereby the retailer could only increase its sales of gallons if it increased its sales of the more profitable spears and chips in lockstep. The gallon was good.

Young remembers begging Wal-Mart for relief. "They said, 'No way,' " says Young. "We said we'll increase the price"—even $3.49 would have helped tremendously—"and they said, 'If you do that, all the other products of yours we buy, we'll stop buying.' It was a clear threat."

Hunn remembers the conversations differently. Things were more complicated, more subtle. "They did not put a gun to our head and say, 'It's $2.97 or you're out of here,' " says Hunn. "They said, 'We want the $2.97 gallon of pickles. If you don't do it, we'll see if someone else might.' I knew our competitors were saying to Wal-Mart, 'We'll do the $2.97 gallons if you give us your other business.' "

"We're all big boys," Hunn says. "We all make decisions."

Wal-Mart's business was so indispensable to Vlasic, and the gallon so central to the Wal-Mart relationship, that decisions about the future of the gallon were made at the CEO level. "One option was to call their bluff," says Young. But Vlasic was struggling as an independent spin-off of Campbell Soup Company, and couldn't afford to risk the Wal-Mart business. The pain didn't continue for weeks or months—the $2.97 gallon of Vlasic dills was on the shelves at Wal-Mart for two and a half years.

Finally, Wal-Mart let Vlasic up for air. "The Wal-Mart guy's response was classic," says Young. "He said, 'Well, we've done to pickles what we did to orange juice. We've killed it. We can back off.' "

Vlasic got to take the product down to a half-gallon of pickles, for $2.49. By that point, Young says, profits in pickles had been cut by 50 percent—millions of dollars in lost profit, even as the business itself grew. Devastating success, indeed.

The meaning of the Vlasic story is complicated, but it cuts to the heart of how Wal-Mart does business. Wal-Mart has 60,000 suppliers, and the story of the gallon-jar of Vlasic pickles is perhaps extreme, but it is hardly unique. It shows the impact of Wal-Mart's scale and power in what we all think is a market economy. Wal-Mart's focus on pricing, and its ability to hold a supplier's business hostage to its own agenda, distorts markets in ways that consumers don't see, and ways the suppliers can't effectively counter. Wal-Mart is so large that it can often defy the laws of supply, demand, and competition.

That's the scary part of the Vlasic story: The market didn't create the $2.97 gallon of pickles, nor did waning consumer demand or a wild abundance of cucumbers. Wal-Mart created the $2.97 gallon jar of pickles. The price—a number that is a critical piece of information to buyers, sellers, and competitors about the state of the pickle market—the price was a lie. It was unrelated to either the supply of cucumbers or the demand for pickles. The price was a fiction imposed on the pickle market in Bentonville. Consumers saw a bargain; Vlasic saw no way out. Both were responding not to real market forces, but to a pickle price gimmick imposed by Wal-Mart as a way of making a statement.

It's easy, of course, to point out that Vlasic walked into the gallon voluntarily, with years of experience doing business with Wal-Mart. But a product at a price isn't some kind of unbreakable vow. Right after the gallon was pulled out of the stores, in January 2001, Vlasic filed for bankruptcy. And while the gallon jar of pickles wasn't by any means the cause, Wal-Mart's behavior during Vlasic's struggle certainly wasn't that of a "partner" concerned about Vlasic's financial health.

The Consumer's Wallet

The Wal-Mart effect is dramatic not just in individual shopping carts, of course, but across the U.S. economy. Yet it is only in the last few years that economists have been both willing and able to tackle some of the most basic questions about Wal-Mart's economic impact: Does Wal-Mart lower prices, and by how much? Does the opening of a Wal-Mart employing hundreds of people increase the total number of retail jobs in the immediate community, or decrease it? Does Wal-Mart have an impact on wages in those communities? Does the arrival of a Wal-Mart put competing businesses out of business?

The first question to explore is: How much does Wal-Mart save consumers every year? Let's start out simply, and just consider groceries, where the low estimate is that Wal-Mart saves its shoppers 15 percent on a typical shopping cart of food.

In 2004, Wal-Mart shoppers spent $124 billion on groceries. That food, purchased at other supermarkets, would have cost $146 billion. So Wal-Mart grocery shoppers alone saved $22 billion. If the rest of the merchandise Wal-Mart sells is just 5 percent cheaper than at competing stores, that's another $8 billion. So a conservative estimate is that the people who shopped at Wal-Mart last year saved $30 billion. That's the equivalent of a $270 Wal-Mart rebate check for every family in America every year.

But no one shops "on average," and the figures have more immediacy, more power, at the level of a family. Consider a family of two adults and two kids, with an annual income of $52,000. This family might easily spend $125 a week on groceries, or $500 a month. If Wal-Mart comes to town, and they can save 15 percent on groceries, they save $75 a month. That $75 adds up to $900 over the course of a year—it's the equivalent of an extra weekly pay check; it's more than seven weeks of free groceries. And that's just for groceries.

Given the volume of public acrimony about Wal-Mart, it is possible to imagine that Wal-Mart's economic impact is well-settled. In fact, the debate grows noisier because few claims about Wal-Mart's economic impact—either good news from Wal-Mart, or bad news from its critics—are backed by solid economic research. Wal-Mart itself bears a great deal of the blame for the uncertainty, because until the academic conference it sponsored last year, the company refused to cooperate with even the most innocuous requests for data and information from researchers.

Although what we now know for certain about the Wal-Mart effect, thanks to a handful of particularly determined researchers, is limited, it is fascinating, sometimes surprising, and often vitally important. A few of the most fundamental questions have been tackled, and the answers established. And each study suggests a fresh array of urgent questions worth their own examination.

Wal-Mart lowers prices—and not just for people who shop at its stores, but even for people who aggressively avoid Wal-Mart. Emek Basker, from the University of Missouri, looked at a tightly limited selection of products sold by Wal-Mart, across a wide range of geography (165 cities) and time (20 years). She found that Wal-Mart's arrival lowers prices between 7 percent and 13 percent over the long-term, at least on the products whose pricing she analyzed, which ranged from shampoo to cigarettes to Coke (Basker 2005).

Jerry Hausman of MIT and Ephraim Leibtag of the USDA studied the impact of Wal-Mart's Supercenters on grocery prices in the U.S. (Hausman & Leitbag 2005). Actually, the mission of Hausman and Leibtag wasn't to see how much lower grocery prices are at Wal-Mart—other research puts the range between 17 percent and 25 percent, depending on the city and the product mix (USB Investment Research 2003). Instead, they set out to analyze how far off the official U.S. inflation rate for food might be, given that the monthly method for calculating the Consumer Price Index systematically ignores—or zeroes out—Wal-Mart's impact on prices. They concluded that grocery price inflation for the years they studied (1998 through 2001) was overstated by 15 percent because the CPI ignores Wal-Mart. One grocery company's pricing policies and market share are so dominant that they single-handedly lower the national inflation rate for food. And the government's price tracking method is so antiquated that it can't account for a singularly powerful anti-inflationary force. What's more, it's not just groceries. Although Hausman and Leibtag only studied Wal-Mart's impact on grocery inflation, the CPI systematically ignores Wal-Mart's direct impact on the pricing of all products. The entire U.S. inflation rate doesn't know Wal-Mart exists.

In a second study (2005a), Hausman and Leibtag analyzed the ripples of Wal-Mart's lower grocery prices on competitors. Do people who shop at other supermarkets, but avoid Wal-Mart, also get "Wal-Mart prices" as those stores lower prices to remain competitive? The "indirect Wal-Mart effect" that Hausman and Leibtag measured was 5 percent—those who never enter a Wal-Mart Supercenter typically pay 5 percent less for their groceries if Wal-Mart is in their town. The dollars involved for American shoppers are dramatic, since the U.S. grocery bill is more than $750 billion a year. More tangibly, once Wal-Mart enters your town's grocery market (the company rolls out grocery sales one metro region at a time), Wal-Mart is buying your family nearly three weeks of free groceries a year, even if you never set foot in a Wal-Mart store. The same cascading effect—the efficiencies and competitive pressure Wal-Mart imposes—lowers the prices of all the routine household merchandise and apparel we buy, although the wider phenomenon has not yet been well-studied. (If it comes to 5 percent of all retail spending, Wal-Mart is saving consumers in excess of $150 billion a year—$1,500 for every family in the U.S., whether they shop at Wal-Mart or not.)

Employees' Paychecks

Wal-Mart earnestly portrays itself as family-friendly both inside and outside the company. But in Bentonville, there is a well-known role—the Wal-Mart wife. It's just like being a military wife: she has to run her family as if her spouse were never coming home. In January 2005, Wal-Mart CEO Lee Scott kicked off an aggressive nationwide campaign to correct what he says are the misimpressions Americans have of Wal-Mart. Tackling wages, for instance, Scott has said again and again, and with evident pride, that the average wage of hourly store employees is "almost twice the federal minimum wage." But it isn't clear that Scott has any idea what that means. In Wal-Mart's home state of Arkansas, the company says it pays store employees an average of $9.18 an hour. For a single mom with two kids, who opts to buy health insurance from Wal-Mart, that translates to take-home pay of $290 a week. If our single-mom Wal-Mart-associate is living in an apartment that costs only $500 a month, she's got just $660 a month left for everything else: the electric bill, car insurance, feeding and clothing her kids, saving for retirement. Even if she shops at Wal-Mart, that's lean living.

Wal-Mart has recently taken to explaining that retail jobs like those it offers, although paying double the minimum wage, are nonetheless intended as supplemental income, not as support for a family. The problem with this scenario is that for two-thirds of Americans, Wal-Mart is the single largest employer in the state where they live. And even at $9 an hour, a year's wages for a front-line Wal-Mart associate in a family of four totals below the 2006 federal poverty level of $20,000.

Less well understood, however, is that for its hourly employees, Wal-Mart's total profit comes to $3 an hour over a typical year. So although there may be some dispute about whether the average Wal-Mart store associate earns $8 an hour or $9 an hour, Wal-Mart could not afford to pay those people $12 an hour. There isn't enough money—at least not without raising prices.

As complicated as it is to measure what Wal-Mart saves us, the costs Wal-Mart imposes, directly and indirectly, are far more difficult to disentangle. One of the most basic and contentious questions is whether Wal-Mart creates jobs or, because of its own efficiency, ultimately destroys more jobs than it creates. Separating out the impact of Wal-Mart on a local job market from the effects of other events, like plant-closings, routine growth, and the larger impact of the national economy's ups and downs is daunting. David Neumark, Junfu Zhang, and Stephen Ciccarella (all associated with the Public Policy Institute of California) set out to do just that, helped by a wealth of data from Wal-Mart itself, as part of the company's effort to be more open about its operations (Neumark, Zhang, & Ciccarella 2005).

The trio looked at Wal-Mart's impact on employment and wage levels over 19 years in 3,094 counties (leaving out only Alaska and Hawaii). Their analysis included 2,211 Wal-Mart stores and Supercenters. And they seem almost reluctant about their own conclusions. "On balance, the evidence is more consistent with the claims of Wal-Mart's critics," they write in a paper presented at last fall's Global Insight conference sponsored by Wal-Mart itself, "although questions remain."

A typical Wal-Mart, they discover, after having been open about eight years, reduces retail employment in its county by 2 to 4 percent. That's not a correlation—the Wal-Mart store causes the overall reduction in jobs. Wal-Mart also causes retail wages to fall "by about 3.5 percent," the researchers conclude, "but this conclusion is less robust." The impact on wages goes beyond retail, however. "(T)here is stronger evidence that total payrolls per worker and per person decline, by about two and five percent, respectively, implying that residents of a local labor market do indeed earn less following the opening of Wal-Mart stores." As with shopping, even if you don't work for Wal-Mart, you feel the ripples of the Wal-Mart effect in your paycheck. In the South, where Wal-Mart's business is most robust and its presence most extensive and long-standing, the evidence that Wal-Mart reduces the number of jobs and the level of wages is "clear," the trio conclude.

Neumark and his colleagues are careful to say that they don't understand the mechanism that causes the reduction in both employment and wages. And they immediately qualify their own results by pointing out the next layer of complexity: "The earnings declines associated with Wal-Mart do not necessarily imply that Wal-Mart stores worsen the economic fortunes of residents of the markets that these stores enter." Since Wal-Mart also lowers prices dramatically, thereby increasing purchasing power, it's not clear how much of the reduction in jobs and wages is offset by the reduction in prices.

Still, the research of Neumark, Zhang, and Ciccarella is an important corrective to Wal-Mart's own constant promotion as a job-creation engine: 100,000 new jobs in the U.S. in 2004; 125,000 new jobs in the U.S. in 2005. In fact, Wal-Mart creates new Wal-Mart jobs. But if Neumark's exhaustive analysis of the data is correct, in the process of creating 125,000 new jobs in the U.S. last year, Wal-Mart destroyed 127,500 jobs.

Conflicted Consumers

Wal-Mart's decidedly mixed economic impact is reflected in the ambivalent feelings of Wal-Mart shoppers toward the largest store in history. In the summer of 2003, researchers for one of the world's largest advertising agencies, Foote Cone & Belding, went to Oklahoma City, Oklahoma, to try to better understand in a systematic way who shopped at Wal-Mart, and why (Shapiro & Foote, Cone & Belding 2003).

They chose Oklahoma City because it looked like America demographically, and because it had all four kinds of Wal-Mart stores (Supercenter, Wal-Mart, Sam's Club, Neighborhood Market). The researchers studied a whole range of things: shopping habits, number of trips to various kinds of stores, how competition changed as Wal-Mart grew.

For those skeptical that Wal-Mart touches the lives of virtually every American every day, the research found Wal-Mart owned 27 percent of the market for groceries in Oklahoma City, and that 93 percent of Oklahoma City residents had shopped at Wal-Mart in the previous year. In whatever stores the other 7 percent of residents were shopping, they had surely reshaped their own business to compete with Wal-Mart.

Perhaps the most interesting thing the researchers did, though, was ask questions about how Oklahomans felt about Wal-Mart, dividing Wal-Mart shoppers into something they called attitudinal segments. They discovered four basic kinds of Wal-Mart shoppers: champions, enthusiasts, conflicted, and rejecters.

The champions, 29 percent of Oklahoma City shoppers, are Wal-Mart missionaries. They love Wal-mart; most weeks they visit the stores twice (7.3 times in four weeks), and they spend more than $100 a week there ($402 in 4 weeks).

The conflicted shoppers—15 percent in Oklahoma City—actively dislike Wal-Mart because of its impact on communities, wages, and jobs. But by a wide margin, they are the second-most frequent shoppers at the store—they go more than once a week (5.6 times in a month), and they spend nearly as much at Wal-Mart as the champions—$289 a month.

Conflicted Wal-Mart shoppers spend three times as much money at Wal-Mart as those the study called enthusiasts, and they go to Wal-Mart nearly six times as often. The conflicted folks, who were "very Wal-Mart negative," are in real dollars more enthusiastic shoppers than the enthusiasts. (Even the Wal-Mart rejecters shop at Wal-Mart an average of nine times a year, and they spend more than $450 a year.)

The Foote, Cone & Belding research, released in early 2004, got almost no attention. But it suggests two remarkable, related insights. The first is the depth of feeling Americans have about what is, fundamentally, just a place to shop. The other important point the research makes is that the Wal-Mart effect is so powerful, the gravitational force the company exerts on us is so irresistible, that the second-most important group of customers for Wal-Mart actively dislikes the place. We've become so accustomed to a noisy public conflict about Wal-Mart, that it may be easy to slide past the significance of this point. How many companies can say that the amount of customers who use their services second most often, and spend the second most amount of money with them, are "very negative"?

Wal-Mart doesn't just reshape the economics of business, the dynamics of global manufacturing, the traffic patterns of American cities—Wal-Mart reshapes our own behavior. Indeed, the Oklahoma City study found that 62 percent of people routinely inconvenience themselves to shop at Wal-Mart.

So even within ourselves, we struggle unsuccessfully to answer the question we started with: Is Wal-Mart good or bad? The answer is surprising for both its simplicity, its obviousness, and also for its power: It is neither.

Wal-Mart is something utterly new.

Wal-Mart is carefully disguised as something ordinary, familiar, even prosaic. The business model is built on the shopping cart. But, in fact, Wal-Mart is a completely new kind of institution: modern, advanced, potent in ways we've never seen before. Yes, Wal-Mart plays by the rules, but perhaps the most important part of the Wal-Mart effect is that the rules are antiquated; they are from a different era that didn't anticipate anything like Wal-Mart. That is the source of the company's sweeping ability to suffocate inflation across the entire U.S. economy. And it is the source of the company's ability single-handedly to drive manufacturing jobs overseas.

Wal-Mart has outgrown the rules—but no one noticed. At the moment, we are incapable as a society of understanding Wal-Mart because we haven't equipped ourselves to manage it.

A National Conversation

Before the invention of machines powered by gasoline engines, there was no need to devise rules governing the exhaust gases from cars. But when there is one car for every two people in the country (1975), you very definitely need emission controls—they may in fact seem quite urgent. Yet between the time Ford started selling the Model T and the year catalytic converters were first required on cars, 67 years had passed.

The car—the car in America—is an instructive point of comparison to Wal-Mart. Is the car good for America? Absolutely. We love our cars—we love the freedom they have given us, the sense of control, the independence, the pleasure. Of course, cars have also given us air pollution, suburban sprawl, mindless mobility, the homogenization of regional culture, higher taxes, reliance on oil from foreign countries, the obliteration of the natural landscape, and violent death on an epic scale. Cars kill more than 40,000 Americans every year. But we do love our cars.

It took decades to understand and adjust to the impact of the automobile—decades to appreciate the opportunity, the costs, the nature of the forces at work, and the scale. Putting the proper limits on cars—not just pollution and safety controls, but also speed limits, fuel economy, zoning, and highway funding—has not been a quiet or easy process. It has been a series of battles, nationally and locally, involving information, priorities, profits, power, and accusations of bad faith on all sides. The effort to put the proper limits on cars, in fact, has often involved competing visions of what kind of country America is, and what kind of country it is going to be.

The national conversation about Wal-Mart is, in many ways, exactly the same kind of conversation. It is a conversation about priorities, about values, about what kind of country this is and what kind of country it's going to be. It is a conversation about power, and competing visions of the future. Do we value cheap merchandise more than good factory jobs? Do we value the convenience of buying everything from eggs and eyeglasses to Levi's and lawnmowers in a single place more than charming main streets with local shopkeepers? Do we value the freedom of a business to decide where and how to serve its customers more than the responsibility of a local government to safeguard the shape and character of a town? In a democracy, do we want a single company to have the reach and power that Wal-Mart has—a power that right now is accountable to no one?

On the other hand, what could be more democratic than a company that is literally built up from the choices made every day by ordinary Americans voting with their debit cards, compelled by nothing but their own choices. Do we value the "rules" of economic fair play as they happen to be written right now more than our ability to recognize and manage a totally new kind of economic power?

Why don't we give Wal-Mart more credit for doing exactly what it has promised—always low prices? No company can claim greater fidelity to its core value—no company, in that sense, is more truly trustworthy than Wal-Mart. Wal-Mart has the scale of the nineteenth-century trusts—Standard Oil, U.S. Steel—but those companies accumulated power on behalf of themselves and their executives and their priorities—ordinary people, and the rest of the country, be damned. That's why they weren't permitted to survive. Wal-Mart does exactly the opposite: It ostensibly accumulates power on behalf of us, the ordinary people. And it has been as steadfast, as reliable, in that mission as AT&T was, for instance, in delivering dial tone when you picked up the telephone. Of course AT&T wasn't permitted to survive either.

Wal-Mart Watch

There has been a dramatic increase in public criticism, and public wariness, of Wal-Mart in the last five years. Local fights over specific Wal-Mart locations—the sites of stores, their size, the zoning—often have Wal-Mart opponents who are as well prepared as Wal-Mart's local attorneys, opponents who have tapped into years of experience from activists in other communities. Nationally, a coalition of 50 groups, backed with millions of dollars in funding from labor unions and environmental groups, has created a Washington-based group called Wal-Mart Watch, whose purpose is to call Wal-Mart's business practices into question, and to try to hold the company accountable for the impact it has on the global economy—an impact Wal-Mart often insists it does not have, or has no control over. Wal-Mart Watch's seriousness, as well as its pedigree, is clear from the people on the board of directors of its parent organization, who include the executive director of the Sierra Club, the president of Common Cause, and the president of the Service Employees International Union (SEIU). Wal-Mart Watch's executive director is the former head of the Democratic Senatorial Campaign Committee.

Wal-Mart has acknowledged the rising level of criticism by launching a public relations campaign of its own. Critical stories in even small newspapers are often answered by letters to the editor from Wal-Mart officials; the company has an aggressive image advertising campaign featuring employees talking about how good a place Wal-Mart has been to build a career and support a family. Wal-Mart CEO Lee Scott does many more media interviews than any previous Wal-Mart chief, and he has probably done more than all previous Wal-Mart CEOs combined. When Wal-Mart proved far more effective at delivering supplies to victims of Hurricane Katrina than the federal government—Wal-Mart's business, of course, is delivering supplies better than anyone in the world—the company went out of its way to accommodate reporters trying to tell that story. Wal-Mart launched a website called walmartfacts.com, which is rich in a cascade of numbers, if not context.

The real problem in this conversation, however, is that we may need to change how we think about Wal-Mart—and not just Wal-Mart, but by extension, a whole class of megacorporations of which Wal-Mart is just the most extreme, vivid example. The easiest response to the Wal-Mart critics comes from people who shrug and say, the United States economy is capitalistic and market-based. Wal-Mart is large and ubiquitous—and powerful—because it does what it does so well. Wal-Mart is winning for no other reason than personal choice: Customers vote for Wal-Mart with their wallets; suppliers vote for Wal-Mart with their products. Any consumer, any businessperson who doesn't care for the way Wal-Mart does business is free to buy and sell products somewhere else.

The problem is that this free choice has become an illusion. The CEO of an instantly recognizable consumer products company whose products are sold at Wal-Mart, in the course of a 45-minute conversation in which he explained why there was no possible way he could talk about his relationship with Wal-Mart, said, "They have killed free-market capitalism in America."

In many categories of products it sells, Wal-Mart is now 30 percent or more of the entire market. Wal-Mart sells more than 30 percent of the skincare and haircare products used in the United States and more than 30 percent of small kitchen appliances, housewares, and toys sold in the country. It sells 31 percent of the pet food used in the United States, 37 percent of the fresh meat, 45 percent of the office and school supplies bought by consumers, and 24 percent of the bottled water. In the state of Texas, 25 percent of all groceries sold are bought at Wal-Mart.

That kind of dominance at both ends of the spectrum—dominance across a huge range of merchandise and dominance of geographic consumer markets—means that market capitalism is being strangled with the kind of slow inexorability of a boa constrictor. It's not free-market capitalism; Wal-Mart is running the market. Wal-Mart's suppliers can't consider themselves serious players—in dog food or deodorant, in turkeys or toothpaste—unless they are doing business with Wal-Mart. Once they are doing business with Wal-Mart, though, they are doing business on Wal-Mart's terms because the company already dominates whatever business their suppliers are in.

This is true even among Wal-Mart's megacorporation partners. The newly merged Procter & Gamble and Gillette has sales in excess of $64 billion a year—not only bigger by far than any other consumer products company, but bigger than all but 20 public companies of any kind in the United States. But remember: Wal-Mart isn't just P&G's number-one customer; Wal-Mart is bigger than P&G's next nine customers *combined*. Cheerful discussions of partnerships notwithstanding, Wal-Mart owns P&G's business. P&G and Wal-Mart may in fact have a constructive partnership—but it's a partnership built out of a healthy respect for the fact that P&G needs to keep Wal-Mart happy. If the relationship should go sour, it would be too bad for Wal-Mart. It would be devastating for P&G.

That's why businesspeople are scared of Wal-Mart. They should be. And if a corporation with the scale, vigor, and independence of P&G must bend to Wal-Mart's will, it's easy to imagine the kind of influence Wal-Mart wields over the operators of small factories in developing nations, factories that just want work and have no leverage with Wal-Mart or Wal-Mart's vendors.

It can be hard to absorb exactly what kind of advantage scale now gives Wal-Mart, and what kind of reach, speed, and opportunity for dominance. Wal-Mart didn't have a single store outside the United States before November 1991. It had only two—in Mexico—when Sam Walton died in April 1992.

Wal-Mart is now the largest corporate employer in both Mexico and Canada. From doing no business at all in Mexico 15 years ago, Wal-Mart is now the nation's largest retailer and the largest grocer in the country—bigger than its next three competitors combined. Wal-Mart is the largest retailer in Canada. Wal-Mart is the second largest grocer in England.

The fear of Wal-Mart among businesspeople, and the deference to Wal-Mart, is dramatically magnified by Wal-Mart's way of doing business. Wal-Mart isn't greedy for profit; Wal-Mart isn't strictly speaking, greedy for power. Wal-Mart is greedy for control. Wal-Mart has created the most elaborate, sophisticated ecosystem in the history of business. The ecosystem isn't a metaphor; it is a real place in the global economy where the very metabolism of business is set by Wal-Mart. The fear of Wal-Mart isn't just the fear of losing a big account. It's the fear that the more business you do with Wal-Mart, the deeper you end up inside the Wal-Mart ecosystem, and the less you are actually running your own business.

Wal-Mart's leadership virtually never acknowledges this control, but the company clearly understands it, and even takes a sly pride in it. Wal-Mart has mastered market capitalism brilliantly. Its obsessive focus on price, its unrelenting discipline of itself and its suppliers, has powered its growth. Now Wal-Mart's scale allows it to constantly and quickly extend the area it controls deeper into the factories and offices and decisions of the chain of companies that feed it, across new lines of business, and across wider and wider geographies. That is the Wal-Mart effect writ large: The expansion of the terrain in which business must follow Wal-Mart's rules allows Wal-Mart to continue to grow. The growth feeds the ecosystem, and the ecosystem powers the growth.

And that is the sense in which Wal-Mart is out of control. It is actually in complete control—of itself, its surroundings, its suppliers, the very business climate in which it operates every day. As a new kind of megacorporation of a scale of economic power we haven't encountered before, Wal-Mart is out of the control of something much more important than wage-and-hour or child-labor laws. Wal-Mart is increasingly beyond the control of the market forces that capitalism relies on to enforce fair play. Wal-Mart isn't subject to the market forces because it is creating them.

The Mega-Information Gap

What Wal-Mart's size, power, and secrecy make clear is how antiquated, and how trivial, is the quantity of information we require from public companies. The problem has crept up on us as the size and dominance of corporations has crept up.

Wal-Mart is now so big that it's possible to ask a whole set of questions that would have been irrelevant, if not downright silly, 20 years ago. For example, what is the impact of Wal-Mart's wages not on its own workers, but on the wages in an entire town, or in an entire industry? What is Wal-Mart's impact on the variety and availability of consumer goods? What is Wal-Mart's direct impact on sending U.S. manufacturing jobs overseas? What is the impact on local economies of Wal-Mart's abandoning old stores? What is the impact of Wal-Mart—and its suppliers—on the environment?

These are important questions—they are important precisely because of Wal-Mart's scale—and the answers would be complicated and hugely revealing. The answers would also be contentious and controversial. But as a country, we have the right, the power, and indeed the responsibility to ask them. Yet, we aren't even close to getting answers to even these most basic questions about Wal-Mart because the company's secrecy snuffs out most serious academic and economic inquiry, and because the rules about what information should be public have so seriously lagged the sophistication of the corporations themselves.

Consider the example of Wal-Mart and health insurance. Even meaningful information has been difficult to get. Before improving its offerings in spring 2006, Wal-Mart, for instance, would tout that it made health insurance available to both full-time and part-time employees, and insisted that premiums were affordable. But Wal-Mart did not say that part-time employees—those working fewer than 34 hours a week—had to work for two years before becoming eligible to buy insurance, or that even after two years, part-time employees could not buy insurance for their families, only for themselves. Wal-Mart's insurance may or may not be "affordable," but until 2005 it did not even cover some basic things, like the cost of vaccinations for routine childhood diseases. (In spring 2006, the company cut the waiting period for part-time employees to a year—and now allows part-timers to buy insurance for family members.)

Even as Wal-Mart had begun using its health insurance benefits as a public image tool, highlighted in the company's newspaper ads, its TV spots, and Lee Scott's speeches, a series of embarrassing stories showed that tens of thousands of Wal-Mart employees, or their family members, actually get their health insurance from Medicaid, or from state government insurance programs for the poor.

Perhaps the most dramatic was the revelation that in Georgia, 10,261 children enrolled in the state's insurance program for poor children had a parent who worked at Wal-Mart. The employer with the next highest number of children was also a retailer, Publix Super Markets: 734 children in the Georgia program had a parent who worked at Publix. Even accounting for Wal-Mart's scale, the figure was stunning. Wal-Mart had one child in Georgia's kids' insurance program for every four Wal-Mart employees in Georgia. Publix had one child in the program for every 22 employees in the state. In Tennessee, 9,617 Wal-Mart employees were on the state's health insurance program for low-income people.

Wal-Mart has seemed at a particular loss on how to handle the health insurance question. In a presentation to reporters in Bentonville in April 2005, CEO Lee Scott, in answer to a question, said, "There are government assistance programs out there that are so lucrative, it's hard to be competitive, and it's expensive to be competitive." That would be the CEO of the most powerful company in history arguing that his company's insurance program can't compete with the insurance offered to poor people by the state of Tennessee.

Just trying to understand one company's impact on government health care costs shows how challenging getting information about important public policy questions can be.

Historically, of course, our ability to see a problem, to understand it, then to determine how to manage it necessarily lags behind the problem itself. When factories proved to be infernal, dangerous places to work, we put rules in place about hours and safety. When the developers of cities proved unable to organize their efforts reasonably, we put rules in place about zoning. When it turned out that the airline business—precisely because of competition—couldn't be trusted to create safer flying all the time, we imposed an actual technocracy that regulates everything about the safety of civilian jetliners, from minimum maintenance schedules, to onboard staffing, to the materials used in seat upholstery. When the carmakers proved unwilling to make cars more efficient, we imposed fuel efficiency standards.

Initial objections notwithstanding, most efforts like this end up being beneficial not just for the people with immediate problems, but for the people on whom the rules are imposed. Safer factories are hugely more efficient and less costly. Zoning quickly made property of all kinds more valuable. The airline business today suffers from all kinds of problems, but it rightly brags about its safety, which has been critical to enabling the industry to continue to flourish. The most dangerous part of the plane trip, as we all hear routinely, is the ride to the airport in the car. In a world with $70 a barrel oil, we all benefit from even the modest fuel economy standards imposed by Congress—the car manufacturers most of all.

In that sense, Wal-Mart is a problem, but it's also an opportunity.

The five biggest public companies in the United States—with sales of $1.1 trillion—account for 9 percent of the economy. The top 20 companies account for 20 percent of the economy. Those numbers are arresting, and they are moving in the direction of increased concentration. Ten and 20 years ago, you had to add up the sales of the top 30 Fortune 500 companies before they accounted for 20 percent of the economy. Fifty years ago, in 1954, not even the total sales of the top 60 companies in the country equaled 20 percent of the economy. We don't often talk about the concentration of corporate power, but it is almost unfathomable that the men and women who run just 20 companies make decisions every day that steer one-fifth of the U.S. economy. (The United States has 7,500 publicly traded companies and more than five million companies of all kinds.)

Wal-Mart makes the lack of accountability, of control, even of information, vivid. But Wal-Mart is just a symbol of the era of the modern megacorporation, and we have been living in that era for perhaps 50 years. We don't properly understand the impact of a whole tier of companies—ExxonMobil, AOL Time Warner, GM, GE, Verizon, IBM, Dell, P&G, Southwest Airlines—whose operations are so large, and so dominant in certain industries or certain geographies, that like Wal-Mart they stand astride the market forces we rely on to harness them.

The information gap about megacorporations is often stunning, and we've become oddly acclimated to it. Wal-Mart is the largest corporate employer in the United States, with 1.2 million U.S. employees. Wal-Mart, as it happens, is also the largest corporate employer in two dozen of the 50 states. That doesn't necessarily follow: There could be a variety of number-one and number-two employers across the country, different from state to state, and Wal-Mart, coming in, say, as number three in almost every state, could still be the largest in the nation. But as it happens, in at least 16 states, and likely 24, Wal-Mart is the number-one employer.

Ironically, the exact number of states in which Wal-Mart is the number one employer is all but impossible to determine. In literally weeks of research, it has been impossible to determine because states, at the behest of corporations, won't tell you. Wal-Mart, to its credit (and as a way of showing how much it gives back to communities through jobs), posts figures on its walmartfacts.com website showing the number of full- and part-time employees in every state, updated every three months. In a few states, government officials happily supply a list of the largest employers, public and private. In at least another 15, government officials say that the list of the largest employers cannot be released because it is not public information. In what sense, exactly, are the names of the largest companies in a state, and the number of people they employ, not "public"? What could possibly be a more fundamental place to start understanding impact than a simple measure of size?

Lifting the Veil

It's time to do two things: To acknowledge in public policy terms that there is a difference between a $10 million corporation, a $100 million corporation, and a $100 billion corporation. We need to acknowledge that scale matters. And we need to start a fresh process of understanding by insisting on a level of information from megacorporations that they will vigorously resist providing. As with other shifts in corporate accountability, we can be absolutely confident that as soon as the new era of megacorporation transparency is in place, not only will we benefit, but also the companies themselves will benefit. Indeed, in an era when companies relentlessly gather and analyze data about us—all for our own benefit, of course, and Wal-Mart no less than others—it is far past time for those companies to provide far more data to us about themselves.

From what kinds of companies would we demand more information, and what level of information? That's a public policy question, an urgent one that is not even on anyone's agenda. The simple, perhaps simplistic, answer is that a megacorporation is one that is so large—either in terms of sales, or dominance of a certain market, or control of a certain market within a defined geography, or in terms of employment—that it has the power to reshape that market. What is clear is that companies should not be allowed to decide what information they should release—anymore than they should be allowed to determine the safety regulations of their factories, or the pollution rules under which their cars operate. To see that, one need to look no further than the stunning collapse and fraud around Enron and Worldcom—publicly traded companies whose public release of information wasn't quite detailed enough to show that they were essentially criminal enterprises.

Resistance from companies will be fierce, not simply because the corporate reflex has always been for a protective secrecy. Companies will fear, rightly, that once fresh cascades of information come out about their impact, there will be a movement to hold them accountable for those impacts—either from public pressure, or from regulation.

Minnesota legislators in 2005, curious about whether the employees and family members of Wal-Mart and other large employers use the state's public assistance programs, discovered that Minnesota state agencies don't gather that data. A bill introduced that would create such a list was vigorously, even angrily, opposed by Wal-Mart, which sent two officials to St. Paul to lobby against it, and sent each legislator a two-page letter outlining its opposition to the law. The letter said the new Minnesota law—similar to laws being drafted now in dozens of states—wouldn't "provide health insurance to anyone," and was simply "a misguided, destructive assault on a business trying to create 100,000 new jobs this year."

A Minnesota state representative supporting the law, Sheldon Johnson, said, "If it's true what people say, that big multinational companies are outsourcing health care to taxpayers, then it would be good to have a handle on which ones. It's just information."

It's just information. The scale of the resistance from companies to revealing more about the size and impact of their operations can be gauged from this one example: The Minnesota law Wal-Mart has worked hard against wouldn't create the slightest burden of any kind on Wal-Mart, or on any Wal-Mart staff in Bentonville. It would only create work for Minnesota's state government workers and, perhaps ultimately, for Wal-Mart's public relations staff.

In the last year, Wal-Mart's leadership seems to have awoken to the realization that secrecy isn't serving a company that is so large, and so deeply entangled in public policy debates involving everything from zoning to health care and outsourcing. Fitfully, Wal-Mart is trying to develop a more constructive, open working relationship with academics, regulators, and reporters. More significantly, Wal-Mart has started to talk about taking seriously the collateral impacts of its way of doing business, and to look for ways to lessen those impacts. The company has announced its determination to double the gas mileage of its truck fleet; it has said it will buy shrimp only from shrimp farms that follow a rigorous set of environmental standards, as certified by a third party; it has doubled the number of certified organic products it stocks in its stores—from 200 to 400. The cynicism and skepticism with which the announcements have been greeted are well-earned. The question is whether the changes are cosmetic, merely "positioning" to quiet the criticism, or whether they are fundamental, as Lee Scott says. Because for Wal-Mart to really start taking account of its impact, it will have to change the mission at the very core of its identity: It will have to be something in addition to "always low prices." That kind of cultural transformation would allow Wal-Mart to change the world, again. But it will require Wal-Mart to re-imagine itself, and how it does business.

In his letter to Americans, printed in 100 newspapers in January 2005, Wal-Mart CEO Lee Scott wrote, "Everyone is entitled to their own opinions about our company, but they are not entitled to make up their own facts." Of course, it is the ultimate irony to be scolded for "making up facts" by a company that has historically made secrecy an integral part of its corporate culture. At a speech to a Los Angeles business group a month after the open letter, Scott said, "The question of how to assure that American capitalism creates a decent society is one that will engage all of us in the era ahead. To argue, as our critics do, that this quest is somehow served by denying Americans the higher living standards that Wal-Mart's business efficiencies can bring is to make a mockery of American ideals under the guise of pursuing them."

Of course, by extension, to argue that the question of how to assure that American capitalism creates a decent society can be debated and answered in the absence of information and understanding of Wal-Mart's impact is also to make a mockery of American ideals, and of the very principles on which both a market economy, and a democracy, are built. Wal-Mart is a creation of us and our money. The Wal-Mart effect derives all its vast power from us and our spending. At one level, Wal-Mart is the ultimate form of democracy—we vote yes each time we buy something, and the vote is recorded in the vast database that Wal-Mart is constantly poring over to better understand what will make us buy more. But we vote yes with imperfect information—without understanding for what we are voting, when we vote for low prices.

Later in the same speech in Los Angeles, Scott said, "Our critics seem to have a broader and, I believe, more troubling aim: to warp the vital debate the country needs in the years ahead about the proper role of business and government in assuring that capitalism creates a decent society."

The most certain way to avoid a warped debate, of course, is to have at hand for everyone a wealth of data, of information, of analysis. Markets, market economies, democracies, even specific industries like the world of retailing all require information to work, and they work better and better—for everyone—the more information they have.

Wal-Mart is not just a store, or a company, or a powerful institution. It is also a mirror. Wal-Mart is quintessentially American. It mirrors our own energy, our sense of destiny, our appetite for bigness and variety and innovation. And Wal-Mart is not just a reflection of American society and values. It is a mirror of us as individuals. In a democracy, our individual ambivalence about such a concentration of economic power, even when that power is ostensibly on our side, is a signal. Both as individuals, and as a society, we have an obligation to answer the unanswered questions about Wal-Mart. Otherwise we have surrendered control—of our communities, of our economy, of some measure of our destiny—to decisions made in Bentonville.

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