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Killing the Golden Goose: How Walmart's Left-Wing Critics Destroy Job Creation

Published on *Show-Me Institute* (https://showmeinstitute.org)

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Under three different CEOs, Wal-Mart has done all kinds of somersaults to appease left-wing critics. In 2005, Lee Scott set goals of "zero waste" and "100 percent" conversion to renewable energy. In 2009, Mike Duke, the next CEO, took on Obamacare – as an outspoken supporter of the unpopular health care bill. This was "a stunning metamorphosis," the *Wall Street Journal* declared in a company profile. Wal-Mart had gone from being "a whipping boy to the political left to corporate leviathan now welcomed with open arms by a Democratic White House."

This February, Doug McMillon – the current CEO – agreed to raise the hourly wage at Wal-Mart to no less than $9 an hour in April and to $10 an hour (or 33 percent above the current federal minimum wage) in early 2016.

How is the sharply elevated internal "minimum wage" working out for the world's largest retailer and (by a wide margin) the nation's largest private employer?

So far, not at all well.

In announcing the company's third-quarter results this Tuesday, McMillon acknowledged that the wage hike had been "by far the biggest driver" in causing a 13.3 percent reduction in corporate earnings over the first nine months of its current fiscal year (ending on Jan. 31, 2016). Higher wages have added $1.2 billion in annual costs in this fiscal year and will add another $1.5

billion in costs next year.

Net income at Wal-Mart hit an all-time high of $17.0 billion in calendar 2012 (fiscal 2013, ending in January 31, 2013). According to Value Line estimates, it will drop to $14.8 billion at the end of this year and to $12.6 billion next year, which would be the lowest annual earnings for Wal-Mart in a decade.

That is no big deal to critics like Robert Reich, who served as Secretary of Labor under President Clinton. Reich pointed to Walmart and McDonald's in a petition that he launched on MoveOn.org in 2013 urging the biggest employers to increase wages so workers can finally "get a fair share in this economy." "Your typical employee is now earning $8.25 to $8.80 an hour," Reich wrote. "They [Walmart and McDonald's] can easily afford to pay [workers] $15 an hour without causing layoffs or requiring price increases."

In regarding *any* profit as proof that a company can afford to pay more to its workers – without doing harm to its customers – that viewpoint disregards the realities of a competitive marketplace.

For one thing, Wal-Mart competes with other public companies in striving to maximize returns to shareholders. To say that Wal-Mart has been getting hammered in this regard is something of an understatement.

Wal-Mart's shares have lost a third of their value since the beginning of this year – falling from a high of $90 a share in January to $60 at the close of business on Nov. 17. Meanwhile, its biggest rivals have done substantially better. Costco has climbed from $140 a share to $159, and Amazon.com has more than doubled in price.

In July, Amazon passed Wal-Mart to become the most highly valued company in the retail sector and it has shot further and further ahead since then. It now has a total market capitalization of $308 billion, compared with $195 billion for Wal-Mart.

Wal-Mart lags far behind both Amazon and Costco in productivity – measured in sales per employee, with Wal-Mart at $219,000, Costco at $565,000, and Amazon at $578,000. It is clear that Wal-Mart is intent on closing the gap by slowing the growth of bricks-and-mortar stores while putting much greater emphasis on e-commerce. As McMillon put it in his presentation on Tuesday:

> We will be the first to deliver a seamless shopping experience at scale. No matter how you choose to shop with us – through your mobile device, in a store or a combination – it will be fast and easy. Online retailers are testing physical store experience because they recognize the same customer desire that we do. There's a race to do this right.

But consider the impact on total employment at Wal-Mart if the company were to close the productivity gap between itself and Amazon by 25 percent over the next three years while also achieving its stated objective of growing annual sales from about $485 billion to $530 billion or more.

In this situation, Wal-Mart would need a global workforce of 1.7 million associates, compared to the 2.2 million it has now – a loss of approximately 500,000 jobs. That would entail a loss of about 320,000 associates out of the U.S. workforce of 1.4 million associates.

While those numbers are speculative, they clearly point to the conclusion that Wal-Mart will no longer be the great job-creation machine that it was years past, which is something that self-declared champions of working class should be thinking about in agitating for higher wages. Paying higher wages has made the company more focused on achieving higher levels of productivity.

At the same time the company may water down if not abandon its historic commitment to serving less affluent shoppers with rock-bottom prices across a vast array of merchandise. The late founder Sam Walton said his dream was "to serve the under-served." That is less of a priority today. "Globally, we know growth will come from middle- and upper-income households in years ahead," McMillon stated at an analysts' meeting in October.

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A former foreign correspondent who spent four years in the Middle East and served as Business Week's London bureau chief during Margaret Thatcher's first two terms as Britain's prime minister, Andrew is a regular contributor to leading national publications, including the American Spectator, the Weekly Standard, and the Wall Street Journal.

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