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Wal-Mart and economic change—creative destruction at work

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Few companies evoke as much fear and loathing as Wal-Mart.

It would take several columns just to give a bare outline of the criticisms, though if you'd like a place to start, try Wal-Mart Watch (http://walmartwatch.com/).

For now I'll address one question that local planning boards across the country face: Does Wal-Mart harm communities by driving local stores out of business?

You might ask "Driving competitors out of business? Isn't that what's supposed to happen in a capitalist economy?" But the reality is more complicated.

Let's start with some anecdotal evidence from two small towns on the prairie. In his book "Superior, Nebraska," Denis Boyles looks at politics and economics in small town Kansas and Nebraska. In one chapter he talks with people in McCook, Nebraska (population 7,994), and Concordia, Kansas (population 5,714), and finds reasons to think that having a Wal-Mart in town is actually good for a community.

In one year, the Wal-Mart Supercenter in Concordia put more than a few million dollars worth of taxes into the city treasury. Consumers in depopulating communities benefit in another way, Boyles says: Wal-Mart moves "into the void" left by the declining "small hardware stores, groceries, and variety stores."

Obviously some people should fear the Supercenter. "If you're a small-town merchant running your gadget shop the way your daddy did and his daddy did, your kids will be looking for a new line of work faster than you can say 'cheap Chinese gadgets.'"

Boyles finds other merchants, however, who adapt and survive, if not thrive. A grocer in Concordia doubles down his bet and expands his store, offering better service than the big box store. Other merchants sell upscale clothing that Wal-Mart won't sell.

But anecdotal evidence, which can also damn the retailer, is not enough. What do the numbers show us? Does a Wal-Mart in town squeeze the life out of the small-business sector?

In the spring 2008 edition of Regulation magazine, Andrea M. Dean and Russell S. Sobel of West Virginia University ask, “Has Wal-Mart Buried Mom and Pop?”

Their econometric analysis starts with the ubiquity of Wal-Mart in each state, as measured by the number of stores per capita. No surprises here: The discount retailer has a bigger presence in poorer states such as Arkansas and Mississippi than in wealthy states such as New York and California.

The authors measure the vitality of small businesses in each state three different ways: the percentage of the workforce that is self-employed, the number of small businesses (five to nine employees) per capita and the number of even smaller businesses (one to four employees) per capita.

Dean and Sobel create three simple graphs, plotting for each state the number of stores per capita (the X variable) against the measures of small-business presence. If Wal-Mart destroys small businesses, they argue, the effects should be visible in the graphs. (Visually, it should be seen in a steep line that slopes upward to the right.)

But, in fact, the graphs show no relationship. Some states have many Wal-Marts and few small shops, but others have many Wal-Marts and many small shops as well. Oddly enough, one of the graphs shows that a large number of Wal-Marts and a large number of businesses that employ five to nine people go hand-in-hand. Whatever that means, it’s not consistent with the argument that Big W kills small retailers.

Dean and Sobel use regression analysis to consider the effects of various factors traditionally used in studies of self-employment. These include the percentage of a state’s population that has a college degree, is nonwhite, or lives in an urban area.

They look at the possible relationship between the current number of Wal-Mart stores and small-businesses. They repeat the analysis, this time using not current numbers but recent rates of growth.

The result? “No [statistical] model displays any significant relation between the number of Wal-Mart stores per capita and the level of [small] business activity.” If Wal-Mart is destroying small companies as a group, it isn’t showing up in the numbers.

As Boyle’s account reminds us, some companies adapt.

In addition, the competition-induced death of some small companies indirectly causes the creation of others. In the long run, Dean and Sobel say, residents in a typical city enjoy a 10 percent savings when Wal-Mart enters.

Since Americans consume most of their income, these cost savings are spent. Where are they spent? Often it is in the new (or expanded) businesses that literally move into the spaces abandoned by the companies pushed over by Wal-Mart.

The country’s largest retailer interacts with governments and society in many interesting and controversial ways. I find things to both criticize and applaud about Wal-Mart. When it comes to the small business sector, the company creates not only losers, but winners.