Wal-Mart: Template for 21st Century Capitalism?

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Abstract: Lichtenstein contrasts the corporate structure and culture of Wal-Mart with that of General Motors 50 years ago and argues that Wal-Mart is now the new corporate prototype.

Giant corporations are the most important institutions shaping the character of world capitalism. As Peter Drucker, the founder of modern management science, put it nearly 60 years ago, the great corporations of our time are “the representative social actuality” shaping the general condition of “modern industrial society.” The “emergence of Big Business as a social reality during the past fifty years is the most important event in the recent social history of the Western world.” He wrote all that in 1945, but his understanding is just as true today, if on a scale that includes not only the West, but the East and global South as well.

In each historical epoch a prototypical enterprise embodies a new and innovative set of technological advances, organizational structures, and social relationships. They become the “template” economic institutions of their time and place. By template, we mean not just the internal organization of the business, or the character of the market it taps or creates, but the entire range of economic, social, and political transmutations generated by a particularly successful form of business enterprise. These template businesses are emulated because they have perfected for their era the most efficient and profitable relationship between the technology of production, the organization of work, and the new shape of the market. Thus at the end of the 19th century the Pennsylvania Railroad declared itself “the standard of the world.” In the mid-twentieth century, General Motors symbolized sophisticated, bureaucratic management, and technologically proficient mass production. When Peter Drucker wrote *The Concept of the Corporation* in 1945 it was the General Motors organization, from the Flint assembly line to the executive offices in Detroit, that exemplified corporate modernity in all its variegated aspects. And in more recent years, first IBM and then Microsoft has seemed the template for an information economy that has transformed the diffusion and production of knowledge around the globe.

At the dawn of the twenty-first century Wal-Mart has emerged as just the kind of world transforming economic institution Peter Drucker analyzed at the end of World War II. As even a casual glance at the newspapers and television makes overwhelmingly clear, Wal-Mart is an inescapable touchstone for so many of the social, urban, labor, and global issues that confront 21st century Americans. In California, where Wal-Mart’s actual footprint is still tiny, the expectation that this corporation will build scores of giant new “supercenters” has generated one high profile conflict after another. A bitter, four-month grocery strike that began in the fall of 2003 was provoked by Wal-Mart’s downward competitive pressure on the old-line supermarkets. In April 2004, Inglewood residents won their 15 minutes of fame when that majority black and Latino city voted down a Wal-Mart sponsored referendum, designed to pave the way for construction of a huge supercenter. Then, in August 2004, the Los Angeles city council enacted an ordinance requiring “big box” stores like Wal-Mart to fund an “economic impact” analysis to determine their effect on community wages, existing businesses, and traffic patterns. The next month the Democratically-controlled legislature passed a similar law designed to apply to the entire state, but Governor Schwarzenegger vetoed the bill. And while all this was going on, a San Francisco judge gave the Berkeley-based Impact Fund permission to seek higher pay and back pay for more than a million women workers at Wal-Mart, in the largest class action employment discrimination suit ever certified by a federal court.

Founded just over 40 years ago by Sam Walton and his brother Bud, this Bentonville, Arkansas, company is today the largest profit making enterprise in the world, with sales of more than a quarter of a trillion dollars, and 1.4 million employees. As of the end of 2003 it had 4,688 stores worldwide, about 80 percent of them in the United States. Twenty million shoppers visit its stores each day and more than four out of five U.S. households purchase at least some products from the retailer each year. It does more business than Target, Sears, Kmart, J.C. Penney, Safeway, and Kroger combined. It's trucking fleet is the largest private carrier in the United States. Wal-Mart is the single largest U.S. importer from China and the largest private employer in both the United States and Mexico. If this corporation were an independent country it would have been China's eighth largest trading partner, ahead of Russia and Britain.

In selling general merchandise and groceries, it has no real rivals. A Harvard Business School study estimates that by 2008 the company will double its sales and employ at least 2.2 million "associates" worldwide. In March 2003, *Fortune* magazine ranked Wal-Mart—for the first time—as America's most admired, as well as its largest company. Many observers expect Wal-Mart to gross a trillion dollars a year by 2013. Indeed, Wal-Mart perfectly embodies the process of "creative destruction" identified by the early twentieth century economist Joseph Schumpeter as the engine by which one mode of capitalist production and distribution is replaced by another. And as Schumpeter made clear early in the twentieth century, every set of technological and organizational innovations not only reconfigures the immediate economic landscape, but it also casts a social and political shadow across all of society.

And it is precisely Wal-Mart's enormous social, economic, and cultural weight that makes Wal-Mart not just an organizing imperative for American labor, but a subject of increasingly intense political and social scrutiny. For no company of Wal-Mart's size and influence is a "private enterprise." By its very existence and competitive success, it rezones our cities, determines the real minimum wage, channels capital throughout the world, and conducts a kind of international diplomacy with a score of nations. In an era of weak unions and waning governmental regulation, Wal-Mart management may well have more power than any other entity to "legislate" key components of American social and industrial policy.

The last time an American company had such power was 50 years ago when General Motors was the largest and most profitable American corporation, with sales that amounted to about three percent of the gross national product, which made the car maker an even larger economic presence than Wal-Mart is today. (Wal-Mart's share of the GNP is still only 2.3 percent.) Both Wal-Mart and GM are both template enterprises, but the patterns they have both done so much to establish have had a very different impact on working-class America.

In 1953 when President Eisenhower appointed General Motors President Charles E. Wilson to his cabinet, the GM executive appeared before Congress to defend his views and qualifications. When asked if there was any conflict between his career as an auto executive and his new governmental duties, Wilson famously replied, that what was "good for the country was good for General Motors, and vice versa."

Congress eventually confirmed Charles Wilson as Secretary of Defense, but his bold declaration generated a howl of outrage that has not quite lost all its voltage even after half a century. Wilson's quip might have been arrogant, but it was controversial precisely because there was a plausible case for making it. In its heyday, from the late 1920s through the 1970s, General Motors was the largest corporation in the United States, dominating the country's most important industry. And it was not just the largest manufacturer of cars, but also of heavy trucks, locomotives, and military equipment. It was a major player in aircraft production, and in household appliances, and the GM Acceptance Corporation was by far the largest retail credit institution in the United States. Like Wal-Mart today, it had no competition that could threaten its market supremacy. And also like Wal-Mart, whose ever-present TV spots claim a beneficial link between the corporation's fortune and that of workers, customers, and community, one might scoff at the claim, but no one could ignore it.

It is therefore useful to juxtapose these two corporate templates, if only to gain some purchase on how the history, economics, and sociology of these giant enterprises can generate insights and questions that may help us see what is uniquely transformative about Wal-Mart, and what is merely a function of its sheer size and market leverage. Does this compare apples and oranges? General Motors and Wal-Mart might seem to be in quite different lines of business. One is primarily the manufacturer of durable consumer goods, while the other is essentially a retailer. One firm typifies industrial America, the other "post-industrial" consumer society.

But upon closer inspection, these differences seem less salient. GM did manufacture lots of cars, but its franchised dealer system, which was always kept on a tight leash, sold them by the millions, and its wholly owned GMAC subsidiary financed them, and sometimes made as much profit as did the production side of the corporation. Wal-Mart is obviously a big retailer that buys its goods from thousands of supplier firms. But the relationship between Wal-Mart and its suppliers is an increasingly intimate one that is transforming Wal-Mart into a de facto manufacturing company. At GM the manufacturing end of the enterprise squeezed the car dealers; at Wal-Mart the retail sales operation wags the manufacturing tail, but in the end it may not matter all that much. When it comes to giant global enterprise, we still live in an industrial world. More people work in factories today than at any time in human history. Still more sell, talk, or manipulate a keyboard under assembly line conditions. The post-industrial age has not yet arrived.

Both General Motors and Wal-Mart are themselves high productivity workplaces, and both generate economies of scale that have had a substantial ripple impact throughout the rest of the economy. They did not invent the technologies and the organizational innovations that generated this productivity dividend—Ford was more creative in the early years of the 20th century, and Chrysler pioneered many of the innovative engineering breakthroughs we associate with the mid-century automobile. Likewise, the Walton brothers always acknowledged their debt to such retail innovators as Price Club, J. C. Penny, and Kmart. The Waltons took the idea of self-service from Ben Franklin, the large purchase discount store from Price Club, and the Supercenter from the French Carrefour markets. But Wal-Mart, like General Motors, perfected, integrated, and systematized technological and marketing ideas put in play by their competitors. And in doing so they both ratcheted up their own overall productivity, and made it impossible for any competitor to survive without emulating the template firm. Thus Ford imitated GM in 1946 by purging the managerial men and methods put in place by the original Henry Ford in order to make itself fit the GM template.

What makes for giganticism in big business? Why was GM so big at mid-century and why is Wal-Mart so huge today? In their theory of the firm, business economists have described the corporation as an "island of conscious power" in an "ocean of unconscious cooperation, like lumps of butter coagulating in a pail of buttermilk." Every firm has an optimal size beyond which the risk of loss from mismanagement more than offsets the chance of gain from the economies of scale it can realize. In the first half of the 20th century GM became a vertically integrated conglomerate because teletype, telephones, and good roads enabled the corporation to deploy its famous system of centralized control and decentralized operations across dozens of states and scores of major production facilities. But such highly integrated production and distribution within a single firm may not always be the most cost efficient way to make the most money. If new technologies and sociopolitical mores make it cheaper and faster to purchase rather than make these same goods and services, then executives will begin to dismantle the huge firm. According to the most savvy, technologically hip business writers, the contemporary corporation is doomed to disaggregation within a world of cheap, rapid communications and increasingly efficient markets in goods and services. The "virtual" corporation of the 21st century should consist of a few thousand highly skilled managers and professions who contract out nonessential services to cheaper, specialist firms.

Thus we have the outsourcing of both call center work and janitorial services to an ever shifting coterie of independent firms, while "branded" companies like Nike and Dell farm out virtually all the manufacturing work that goes into their core products. This has been the path followed by General Motors, which has created and spun off Delco, once a vertically integrated parts division. Except for final assembly and the manufacture of key components, GM and the other big car companies seek to outsource as much work as possible, even sharing space with suppliers under the same roof and on the same shop floor. So the GM payroll, white collar and blue, is about half the size it was in 1970. Giving all this a metahistorical punch, Forbes columnist Peter Huber declared that it was "market forces and the information age" that had beaten the Soviets and would soon force the dissolution of America's largest corporations. "If you have grown accustomed to a sheltered life inside a really large corporation," he advised, "take care. The next Kremlin to fall may be your own."

But Wal-Mart has found giganticism efficient and profitable. This is because the price of goods and services it purchases on the market has not fallen as rapidly as has the cost of "managing" within a single organization the production or deployment of those same economic inputs. The same technologies and cost imperatives that have led to the decomposition of many manufacturing firms, have enabled Wal-Mart and other retail distribution companies to vastly enhance their own managerial "span of control." As we shall see, this is not just a tribute to Wal-Mart's clever deployment of sophisticated control technologies, but arises from the politics and culture of a business system that has arisen in the post-New Deal world.

By 1988 Wal-Mart had the largest privately owned satellite communications network in the country, a system with six channels that not only lets Sam Walton give pep talks to hundreds of thousands of employees, but on which a buyer could demonstrate for department heads in every store the precise way to display new products. As Walton biographer Bob Ortega summarized these pioneering innovations, "Wal-Mart was building a system that would give its executives a complete picture, at any point in time, of where goods were and how fast they were moving, all the way from the factory to the check out counter." And they knew precisely the labor costs involved, from the truck driver, to the warehouse, to the wages, hours, break time, and benefits of each sales clerk in each store. Indeed, when in 2004 it became clear that Wal-Mart store managers were routinely failing to give check out clerks their breaks—a violation of the wage and hour law—Wal-Mart announced that the computers in Bentonville would henceforth shut off the cash registers at the prescribed interval, overriding, if necessary, the local manager's wishes. Here was the kind of centralized control never quite achieved in even the most authoritarian manufacturing enterprises. Ortega reported that at Wal-Mart even individual store thermostats were manipulated from Bentonville.

But technology alone is not responsible for Wal-Mart's size and success. Discount retailing depends on continuous, near-obsessive attention to wages and labor costs. Discounters must have two or three times the turnover of traditional department stores, like Sears and Macys, in order to make the same profit. Stock movement of this velocity depends on a low markup, which in turn demands that labor costs remain below 15 percent of total sales, about half that of traditional department stores. And

Wal-Mart is clearly at the head of this discount class, with selling and general administration costs—wages mainly—coming in at about 25 percent less than K-Mart, Target, Home Depot, and other contemporary big box retailers. In 1958 when manufacturing jobs outnumbered those in retail by three to one, the impact of this downward wage pressure might have been limited. Today, when non-supervisory retail workers compose a larger proportion of the work force than those in the production of durable goods, we get a downward ratcheting of the pay scale for tens of millions.

Of course, Wal-Mart's success in establishing a pervasive low-wage standard in big box retailing is not just a product of retail economics, Sam Walton's thrifty ways, or technologically advanced control mechanisms. The company had its origins and began its stupendous growth at a particularly fortuitous place and time. Neither the New Deal nor the civil rights revolution had really come to northwest Arkansas when Walton began to assemble his small town retailing empire. But the agricultural revolution of the early postwar era was in full swing, depopulating Arkansas farms, and putting tens of thousands of white women and men in search of their real paycheck.

Walton took full advantage of these circumstances. His folksy paternalism was not a new management style, but he carried it off with brio. Meanwhile, like so many Southern employers, Walton frequently played fast and loose with minimum wage laws and overtime standards. And Walton was an early client of the anti-union law firms that were beginning to flourish in the border South. Wal-Mart staunched Teamsters and Retail Clerk organizing drives in the early 1970s by securing the services of one John E. Tate, an Omaha lawyer whose militant anti-unionism had its origins in the racially charged warfare that convulsed the North Carolina tobacco industry in the late Depression era. It was Tate who convinced Walton that a profit-sharing scheme for hourly employees would help the company generate good PR and avoid new union threats, while keeping wage pressures at a minimum. Indeed, profit sharing and low wages are Siamese twins. Low pay generated high turnover and high turnover insured that few employees could take advantage of the profit sharing plan, which required two years to qualify.

Finally, Wal-Mart proved far more successful than most retail firms in propagating this rural Southern culture well beyond its home region. In the 1970s and 1980s the company did not leapfrog into the rich but culturally alien suburban markets, but expanded like molasses, spreading through tier after tier of rural and ex-urban counties. The company spent heavily on internal propaganda and communications, and it was notable for promoting from within, which accounts for the loyalty of the managerial stratum as well as for the culture of male entitlement that the Impact Fund's class action lawsuit has shown to be so much stronger at Wal-Mart than at the other big box retailers. Thus the controversy sparked by Wal-Mart's entry into metropolitan markets embodies the larger conflict between what remains of New Deal America and the aggressive, successful effort waged by Sunbelt politicians and entrepreneurs to eviscerate it.

All this stands in stark contrast to the GM employment model. That corporation was not a charitable institution; it was a hard-nosed corporation that sought to insure a 20 percent return on shareholder investment, year in and year out. It even made a profit in 1932 when tens of thousands of its employees were on the street. But after 1937 GM was a unionized firm, strikes were frequent, and the organized pressure of its workers, seeking a larger share of the GM productivity dividend, was incessant. Right after World War II the United Automobile Workers actually struck on behalf of the low price policy that Wal-Mart would make famous 35 years later: Labor wanted GM to freeze car prices, but still raise wages, so as to share with the public the cost savings made possible by the World War II investment surge. To GM executives this seemed a union assault on cherished managerial prerogatives, and they battled the UAW all through the winter of 1946, successfully sidelining this idea.

Instead General Motors agreed, in the landmark collective bargaining negotiations of 1948 and 1950, that the corporation would guarantee an annual increase in the real income of its 300,000 blue collar workers regardless of inflation, recession, or corporate profitability. *Fortune* magazine called this "The Treaty of Detroit." Thus between 1947 and 1973 the real income of auto workers doubled, and because GM was the template firm of the mid 20th century, the auto industry wage pattern was quickly adopted by a large slice of all the big manufacturing firms, unionized or not. For the first and only time during the 20th century, the real income of those in the bottom half of the income distribution rose as rapidly as those in the top 10 percent. And given the growth of health and pension benefits, industrial workers secured a measure of life security never before enjoyed by blue-collar Americans.

Wal-Mart is having an equally potent, if altogether different, impact on wages and benefits. As late as 1970 retail wages stood at almost half that of manufacturing: but by 1983 they had plunged to but one-third and today stand at about two-fifths of an increasingly stagnant manufacturing wage. And if one compares the internal job structure at Wal-Mart with that which union and management put in place at GM during its mid-twentieth century heyday, one finds a radical transformation of rewards, incentives, and values. GM workers were often life-time employees so factory turnover was exceedingly low: these were the best jobs around, and they were jobs that rewarded longevity. Auto industry turnover is less than eight percent a year, largely a result of normal retirements. At Wal-Mart, in contrast, employee turnover is now 46 percent a year. One of the great curses of work at General Motors and at other high benefit firms was mandatory overtime, because the total cost of each additional hour of work was relatively low from the employer's perspective. But at Wal-Mart and other low-benefit firms store it is practically a capital offense to allow workers to earn overtime pay. Indeed, at Wal-Mart a 28-hour work week is considered "full time" employment. This gives the managers great flexibility, enabling them to parcel out the extra hours to fill in the schedule, or to reward favored employees.

GM and Wal-Mart also generated extraordinarily divergent pay hierarchies. Factory supervisors at GM—hard driving men in charge of between 2,000 and 3,000 workers—took home about five times as much as an ordinary production employee. At Wal-Mart, district store managers—in charge of about the same number of workers—earn more than ten times that of the average full-time hourly employee. And when one calculates the ratio of CEO compensation to that of the sales floor employees, the disparity in pay becomes even greater at these two template corporations. Charles E. Wilson, who was one of the most well-paid executives of his era, earned about 135 times more than an assembly line worker in 1950; while H. Lee Scott, the Wal-Mart CEO in 2003, took home at least 1,500 times that of one of his full-time hourly employees.

And finally there is politics. The roar that greeted President Wilson's claim that what was good for GM was good for the nation generated a set of real constraints upon America's most profitable and efficient auto corporation. GM could have put Chrysler into bankruptcy and pushed Ford to the wall had it chosen to expand its market share beyond the 45 percent it enjoyed during the years after World War II. But it correctly feared federal anti-trust action had it chosen to pursue such an overtly aggressive pricing strategy. Instead, GM maintained a price umbrella under which smaller competitors might shelter, and autoworkers win higher take home pay.

Wal-Mart's competitive strategy has been just the opposite, which not unexpectedly, has generated a howl of outrage from unions, small business, and those communities that see the company's "everyday low prices" as a threat to main street vibrancy. The recent "site-fights" in California and Chicago may well signal the start of an era in which Wal-Mart's corporation's template is subject to much greater political challenge and constraint. As the *Wall Street Journal* recently reported, Wal-Mart's major competitive problems now arise on Capital Hill as well as from the capital cities of so many American states. Our challenge is to channel this wave of politicized hostility into a union-led coalition that can begin to transform the nature of work at Wal-Mart. If a coalition of planners, community groups, unions, even small business, throw a large enough monkey wrench into the corporation's expansion plans, the Wal-Mart management will begin to realize that a higher wage, higher benefit employment model may well be only way that they can escape from these populist constrains. And when workers at Wal-Mart see that they may have a lifetime career at the company, then they will be much more likely to look to the trade union idea to give to their work life the democratic dignity it deserves.

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