

Consumers Reward Best Values; Wal-Mart Wins

Shunning competition and opposing capitalism has driven us to the bottom; maybe it's time to reverse course.

Story By Matt Ryan

There has been a lot of debate among economists recently over whether we're in a recession, a dispute largely based in the definition of "recession" and in the interpretation of certain economic indicators.

To the ordinary citizen, however, the argument seems a bit trite -- whether we're officially in a recession or not matters little toward making gas or food cheaper or making employment any more secure.

To companies, "recession" generally means consumers are buying fewer goods and, given that the goal of a company is to generate sales, it is not welcome. To over-generalize a very complicated process, publicly held companies that do not generate sales will see their stock prices go down. Over-generalizing again, stock price movement usually is a decent indicator of the health of a company.

That said, many companies' stock prices will take a hit in slower economic times. This isn't shocking news; any glance at a newspaper's business section during the past year has highlighted the sluggishness of the market and of the companies that comprise their indices. But not every company has had a rough go of it; in fact, one very well-known company has experienced a steady rise in sales, as well as its stock price, during the past eight months.

Before revealing the company, it's important to realize exactly what this implies. Firms generate income by providing for customers what they want at a price they are willing to pay for it. Those firms that best provide valuable goods make the most money. This simple fact does not disappear during slower economic periods; if anything, consumers choose to spend their money more carefully, rewarding only those firms that provide goods and services with the best value to their customers.

The proof is in the (stock) price. Which firm has excelled in the face of an economic slowdown? Wal-Mart.

Many Wal-Mart opponents will add its recent success to their laundry list of reasons to take issue with the retail giant, and disliking a company that better serves the American public in harder economic times is as arbitrary as any of the other reasons. But how can so much bad purportedly come from a company that so many people value?

Often cited as Wal-Mart's greatest evil is that they drive mom-and-pop stores out of business. Presumably, this implies that Wal-Mart is bad for small businesses. However, Russell Sobel, professor of economics at West Virginia University, and Andrea Dean, a graduate student at West Virginia University, undertook an analysis to investigate that exact possibility: Does Wal-Mart hurt small businesses?

They find no evidence to support the claim that the small business sector in the United States has diminished because of Wal-Mart. Instead, Wal-Mart enhances the vitality of the small-business sector. By providing goods in a more efficient manner, the resources once devoted to providing similar goods in a more costly manner -- the land, labor and capital -- can instead be redirected toward providing other businesses of value. Whereas before consumers had either a general store or a local cafe, consumers now have the goods provided by a general store and a local cafe.

Efficiently providing goods and services allows for a richer tapestry of choices from the private sector--and an effective increase in disposable income to support it.

To be certain, Wal-Mart's success comes in doing business and offering goods and services more efficiently than its competitors. Suggesting that not one business has ceased operations due to Wal-Mart's presence would be foolish; in fact, the process of resource reallocation described above is known as creative destruction.

But competition throughout an economy is a good thing, not a bad one. (West Virginia is a good example of what low levels of competition do to an economy in the long run.) Just as Wal-Mart is today's popular corporation on which to shovel the ills of society, so too did Montgomery Ward and Sears play the same role during the past century. In fact, as these two large corporations fell, at least in part, due to Wal-Mart's operations, so too will Wal-Mart succumb in the

future to a better, more valuable provider of goods and services. So while the companies may change, one thing stays the same: Our rising standard of living.

West Virginia has had an unwillingness to embrace Wal-Mart, capitalism and the corresponding increase in well-being for its citizens. Perhaps the state's legislators could try a different tack for the next 70 years. Shunning competition and opposing capitalism has driven us to the bottom; maybe it's time to reverse course.

Matt E. Ryan is the Charles G. Koch Doctoral Fellow at West Virginia University and an associate fellow for the Public Policy Foundation of West Virginia. He is an editor of "Unleashing Capitalism: Why Prosperity Stops at the West Virginia Border and How to Fix It."