

Think Wal-Mart sinks small businesses? Think again

By Raymond Keating

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Like millions of other Americans, I stopped in at Wal-Mart one recent Saturday morning.

The shopping list included flashlights for camping, batteries, golf gloves, light bulbs, swimming shoes and a shirt. In the end, the family budget got a boost from Wal-Mart's lower prices compared to other retailers.

It's always good news when bargains are discovered, especially given the nation's current economic doldrums. Right?

Well, everyone does not agree. Some people would argue that I did a disservice to local small businesses by purchasing goods at a big discount retailer like Wal-Mart.

In fact, proposals for new Wal-Mart stores often are met with opposition. Protestors usually claim that large discounters necessarily spell doom for local small businesses. This kind of resistance to Wal-Mart can be found across the country, including recent cases in Vermont, New York, Pennsylvania, Utah and California, to name just a few.

Naturally, it's easy to find politicians along the way willing to engage in some populist grandstanding by staking out ground against a big, presumably bad company in name of the little guy.

But does it make any economic sense to oppose large discount retail stores like Wal-Mart? Are small businesses really worse off? Or, is the war on Wal-Mart just another case of economic ignorance combined with a reactionary resistance to change?

It's important to understand why Wal-Mart is the world's largest retailer. Quite simply, it offers goods that consumers want at lower prices. That's particularly good news for families on tight budgets. So, while a proposed Wal-Mart might attract a small number of vocal opponents in a community, when the store finally opens, the silent majority, if you will, makes its approval overwhelmingly clear by flocking there to spend and save.

A legitimate economic point is made in Wal-Mart's stated mission of "saving people money so they can live better."

The savings achieved by shopping at discount retailers like Wal-Mart mean consumers have more dollars to spend elsewhere. That, in turn, is good news for entrepreneurs and small businesses.

No doubt, when a large retailer enters a market, some stores will be unable to compete on price. If they do not adapt and innovate, they will have to close up shop. This is nothing new. It is an ongoing process in a market economy. Invention, innovation and efficiencies generate new and improved goods and services, benefit consumers, create new businesses and destroy firms that cannot compete. Economist Joseph Schumpeter called the process "creative destruction," and it drives economic growth forward.

But does Wal-Mart's creative destruction mean that local small business is destroyed? Quite the contrary.

In the spring issue of Regulation magazine, two West Virginia University professors, Andrea Dean and Russell Sobel, harnessed econometric analysis to assess the impact of new Wal-Mart stores on rates of self-employment and the number of small business establishments. The findings might surprise some, but certainly align with a sound understanding of how the economy works.

For example, over time nationally, as the number of Wal-Mart stores increased dramatically, so did self-employment levels. The authors also compared the top five and bottom five states in terms of the number of Wal-Mart stores per 100,000 population. While the difference between the number of Wal-Mart stores was dramatic, the authors reported that “although the states with a larger number of Wal-Mart stores do have somewhat lower rates of self-employment, they actually have more small business establishments per capita.” Across the continental 48 states, the number of Wal-Mart stores has no impact on self-employment rates and the number of small businesses.

Some additional findings? Dean and Sobel discovered that small business bankruptcy rates “are actually lower in states with more Wal-Marts.”

In addition, the number of Wal-Mart stores does not mean that highly profitable firms are put out of business, only to be replaced by marginal enterprises. Rather than dragging down small business revenue and income, there is a positive relationship between the number of Wal-Marts and, for example, real revenue and net income for sole proprietors.

Dean and Sobel concluded: “We find that Wal-Mart has no statistically significant impact on the overall size of the small business sector in the United States. When all is said and done, there are just as many small businesses that are just as profitable despite the presence of Wal-Mart.”

But given the savings generated for consumers at Wal-Mart, along with the fact that Wal-Mart is the nation's largest private-sector employer, a case can easily be made that the growth of Wal-Mart – at one time a small business itself – actually has helped boost small business growth. After all, the consumer savings and employee earnings attributable to Wal-Mart should mean greater economic opportunity for entrepreneurs.

One might say, then, that the anti-Wal-Mart crowd actually is anti-small business.

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