

Kirklin Follow-up to Wal-Mart Piece

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Recently, in the post “Smarter Wal-Mart Defenders, Please,” I linked to an article by Paul Kirklin at Mises.Org (along with the associated Mises Blog post). Kirklin responded briefly in the comment thread. In that thread, I referred him to my first “Vulgar Libertarianism Watch” piece on the “best available alternative” defense of sweatshops, and to a study of Wal-Mart subsidies (which I had found courtesy of Nick Manley): “Shopping for Subsidies: How Wal-Mart Uses Taxpayer Money to Finance Its Never-Ending Growth.” He promised to follow up the debate with more comments when he had time. Kirklin has, as promised, followed up with a more extensive critique of my arguments. I reproduce it in full, along with my comments. (Kirklin has been quite civil, by the way, considering the inflammatory title of my original post).

Wal-Mart Subsidies

You say: “It’s hard for me to see how a corporation whose business model depends on mass distribution through a centralized system of transportation infrastructure, and pressuring local governments for special goodies, could “do best” having to actually pay for what it uses.” Actually I said it would do best under economic freedom, which means it would lose subsidies, but it would also gain from no longer being penalized by the government. The gains would far outweigh the losses. I’ll explain it to you.

You cite “Shopping for Subsidies: How Wal-Mart Uses Taxpayer Money to Finance Its Never-Ending Growth” as evidence of what Wal-Mart receives in subsidies. First of all, what it calls “subsidies” are not all subsidies. In its list of “subsidies” it includes “tax increment financing,” “property tax breaks,” “state corporate income tax credits,” “sales tax rebates,” “enterprise zone (and other zone) status,” and “tax-exempt bond financing.” For the most part, these are examples of reductions in taxes, not subsidies. There is a very big difference. If the government plans to tax you \$1 million, and then decides to tax you \$500,000 instead, this doesn’t mean it gave you a subsidy of \$500,000. This means it decided to take less from you than it had originally planned. This is a step towards economic freedom, and it is disingenuous to equate this with a subsidy, which is an actual government handout, not a reduction in taxes.

I agree that the study is technically wrong in referring to such tax exemptions as subsidies. But they nevertheless confer a competitive advantage on their recipients. Wal-Mart is better

off receiving a special exemption from a tax that others still have to pay, than if the tax were eliminated across the board. The practical effect is the same as if the local government started out with a tax rate of zero, and then imposed a punitive tax on businesses for not being Wal-Mart, or not being big box retailers.

These supposed “subsidies” make up a large part of the total “subsidies” that were identified by this study, probably the large majority. It is clear therefore that the study’s numbers are grossly exaggerated, but I’ll ignore that.

It identified 160 Wal-Mart locations that had received subsidies, and estimated that the total that had received subsidies was probably 1,000+ of the 3,000+ US Wal-Mart stores. The study came up with this number because someone at Wal-Mart said that it seeks (not obtains) subsidies in one third of the stores it builds. In my opinion, this is a wild, excessive speculation. But even if we assume that this speculation is correct, and even if we accept its incorrect definition of subsidies, the total still does not compare to how much Wal-Mart has been penalized by the government over the same period of time.

The total subsidy at those 160 locations was \$1 billion. \$1 billion divided by 160 stores is \$6,250,000 subsidy per store. Multiply this by 1,000 locations, and we get approximately \$6 billion worth of subsidies. This is the study’s estimate of the total amount of subsidies that Wal-Mart has received over many years going at least as far back as the early 1980’s and up to 2004.

The amount that Wal-Mart has been penalized by the government is difficult to calculate, but it is clearly much larger than \$6 billion. How can you add up all the cost savings from not having to obtain permits, negotiate with local governments, obtain inspections, meet environmental regulations, and so forth? This amount would no doubt be a very large number, but let’s just do it the easy way. How much was Wal-Mart penalized by direct taxation alone? In 2004 it paid approximately \$4 billion. In 2003 it paid approximately \$3.6 billion. That exceeds \$6 billion right there just in those two years. I’m not going to, but if you add up all Wal-Mart’s taxes for all the 1980’s and 1990’s it is certainly well in excess of \$20 billion.

Even with the most exaggerated estimates of total subsidies, and with the most conservative estimates of what Wal-Mart has been penalized by the government, it is clear that the government has taken away much more than it has given to Wal-Mart over the years. In a free-market Wal-Mart would do much better.

The subsidies in the study included only direct subsidies from the government or tax exemptions from the same source. Services that disproportionately benefit Wal-Mart, like subsidized long-distance transportation, or subsidized extension of utilities, were not included.

And benefits like transportation subsidies have the main effect of promoting certain business models over others. Wal-Mart, admittedly, is only the best at exploiting an ecological niche created by the state, in this regard, so cannot be charged with benefiting at the expense of its big box competitors. Still, subsidies to long-distance transportation collectively benefit national retail chains at the expense of small local retailers. Without such subsidies, Wal-Mart’s business model would have been far less competitive in a decentralized economy centered on local markets.

At the same time, the tax burden on Wal-Mart is one it shares with its competitors, and is therefore is not a competitive issue between them. The special tax breaks to Wal-Mart, on the other hand, benefit specifically at the expense of its competitors.

So to a large extent, the comparison is of apples to oranges. The effect of eliminating all taxes, along with special treatment to Wal-Mart, would be to reduce Wal-Mart's overall tax burden; but it would also be to reduce the competitive advantages conferred on Wal-Mart by special treatment. The current losses are shared equally, but the gains are targeted specifically to Wal-Mart. And this leaves out the question of the added burden if the Interstate were financed entirely with weight-based taxes on trucks engaged in long-distance shipping.

Sweatshops

As for sweatshops, your argument as set forth in *Vulgar Libertarianism Part I* is dead wrong. You say sarcastically: "...laborers just happen to be stuck with this crappy set of options—the employing classes have absolutely nothing to do with it." Then you quote Lysander Spooner who says of freed slaves "...but to give them so much liberty as would throw upon themselves (the slaves) the responsibility of their own subsistence, and yet compel them to sell their labor to the land-holding class—their former owners—for just what the latter might choose to give them. [They] had no alternative—to save themselves from starvation—but to sell their labor to the land-holders, in exchange only for the coarsest necessities of life..." You think that I use clichés? This line of reasoning is one of the stalest and most utterly discredited doctrines in the history of economics. It is the Marxian Exploitation Theory. It is the belief that employers have arbitrary control over employees' wages and if left unchecked will drive wages down to bare subsistence. This is totally false. Employers do not have arbitrary control over the wages they pay their employees.

Kirklin is ignoring the central point of my "Vulgar Libertarianism" piece. In fact the paragraph above displays the very mode of argument I criticized: "*Vulgar libertarian apologists for capitalism use the term 'free market' in an equivocal sense: they seem to have trouble remembering, from one moment to the next, whether they're defending actually existing capitalism or free market principles.*"

The question is not whether employers *would* have arbitrary control over employees' wages *in a free market*. It is 1) whether the Third World countries in which Wal-Mart's sweatshop supplier are located *are* free markets; 2) whether Wal-Mart and its suppliers benefit from such non-free market labor conditions; 3) whether the suppliers are specifically drawn to authoritarian countries in which competing offers of employment are foreclosed; and 4) whether sweatshop employers ever act in collusion with authoritarian governments to limit competing alternatives. In short, it is whether sweatshop employers are merely distributing crutches, or are also breaking legs.

I describe how wage prices are set in the article:

"The economics of selling labor services can be accurately compared with the economics of selling a used car. When selling a used car, the relevant factors in determining market price are the supply of the type of car for sale, and the demand for that type of car. Individuals who are interested in selling their cars wish to receive

as much as possible, just as individuals selling their labor services wish to receive as much as possible. At any given point in time there is a certain number of used cars of any specific type available for sale. The supply of that type of car is a given, and the sellers desire to maximize their selling price is a given. So how is the market price determined? It is determined by the competition of buyers for that limited supply of cars. In some circumstances, that competition will be more intense, and in other circumstances it will be less intense. When a person sells his car, he gives it to the party that makes the highest offer, just as people do when selling their labor services. To successfully purchase a car, even though a buyer wants to pay as little as possible, he must bid higher than every other potential buyer of that car. It makes no difference how nice or mean a potential buyer is; his bid is what counts. He must be the highest bidder to acquire the car.”

“Every car buyer would love to drive the prices of cars down, but they can’t. If some buyer tried to be mean to sellers of cars by refusing to outbid other potential buyers of those cars, the sellers of those cars would cease selling them to that buyer. The same thing can be said about employers purchasing labor services. They don’t pay their employees a certain amount because they’re nice or mean. They pay their employees the least they can to outbid competing businesses.”

If wages could be arbitrarily chosen by employers, then why don’t the vast majority of wage earners in the United States earn minimum wage? It is because most wages are bid much higher than minimum wage. As businesses become more successful, the competition amongst them bids real wages higher and higher.

The reason a sweatshop is able to pay workers so little is because there is not enough competition from other employers to bid up the price of wages.

A sweatshop is an early business entrant into an impoverished place. The competition is almost non-existent because of years of devastation, in many cases caused by previous rejection of economic freedom. It is this lack of business competition (and thus the ability to pay lower wages) that attracts businesses to poor areas in the first place. As more businesses move in, they will have to compete with each other by improving working conditions and wages higher and higher for the limited supply of labor. This will be required if they are to be successful. When the sweatshop workers’ wages are bid up to a level comparable with the richer countries it will no longer be advantageous for businesses to travel far away to set up production facilities there. It is for this reason that we should not artificially impose higher wages on sweatshops, because then businesses would have no reason to go there at all. Poor areas cannot simply jump up to a wealthy condition instantaneously, they must get there incrementally. A sweatshop is a major step in the right direction. To outlaw sweatshops is to outlaw early entrants of wage bidders in a place that desperately needs as many wage bidders as possible. The more that come to town, the higher wages will rise.

I have already pointed out the difference between a sweatshop and forced labor. One is forced, and the other is voluntary. It is a major error to equate the two. If a company is partnered with a corrupt government in violating a worker’s right to

quit or work somewhere else, or is engaged in physical violations such as torture, murder, and imprisonment, then it is in violation of the principles of capitalism and deserves to be criticized and forcibly stopped. If you can demonstrate that this is happening in the case of Wal-Mart with management's approval, then I would agree that it is corrupt. I have no doubt that this has been alleged, but since so many people have such a virulent hatred of Wal-Mart, such allegations are suspect. As I said before, companies build sweatshops in poor areas because voluntary labor is cheap, not because they have a perverse desire to use involuntary labor.

Then there is the issue of free sweatshops rubbing up against the terror of foreign governments simply by operating in their country. If the company has an active hand in terror, then they are definitely in the wrong. If the terror exists to support something they are doing, then it may be the case that the company has an ethical obligation to do something else.

The bidding for labor is rigged by the state. To the extent that the competing options for employment are limited by the state, and the number of workers competing for jobs is artificially inflated, labor is indirectly coerced by the nature of the environment in which it operates.

In the authoritarian regimes where sweatshop employers like to locate, one of the "competing businesses" that the employers don't have to outbid is self-employment on the peasants' own land. Historically, one of the main motives of propertied elites in dispossessing cultivators from the soil has been to reduce their economic independence and force them to accept wage labor on the employers' terms.

Wal-Mart locates in banana republics and authoritarian "workers' paradises" like China because labor is cheap, period, whether voluntary or not. And it's not by accident that the countries where labor is cheapest are the ones where the legal framework is exploitative to labor. In their shared interests in such exploitative constraints, the sweatshop employers and authoritarian regimes like China's resemble the neighboring farmers and pigs negotiating a trade deal in Orwell's *Animal Farm*.

But this is a difficult problem because in socialism virtually everyone who works is forced to. They don't have the freedom to choose their profession, or quit when they want, or negotiate wages or working conditions. People must do as the government says or they will be punished as criminals. The whole country is made up of forced labor. So, for example, should Wal-Mart be criticized if they get supplies from government factories using forced labor? I don't think so; I blame the government.

I'd take issue with Kirklin's use of "socialism," since I consider Josiah Warren and Benjamin Tucker to be socialists in the original sense of the term. But stipulating that "socialism" means "government ownership and/or control of the economy," I would point out that some governments are more "socialistic" than others. Wal-Mart's suppliers don't just *happen* to be in the most "socialistic" of such regimes, passively benefitting from authoritarianism. They *choose* between countries to locate in based precisely on the poverty and cheapness of the labor supply, which means that they locate *preferentially* in banana republics and death squad regimes like Central America and Indonesia, and state socialist hellholes like China. The process is that of a parasite seeking out a host organism.

To a significant extent, China has started to accept some economic freedom. Sweatshops are an example. Wal-Mart comes to town and can pay a wage without being interfered with by the government. People are free to quit, or work somewhere else, but they can work for the price that Wal-Mart offers if they wish. This is one example of economic freedom in the midst of continuing rejection of economic freedom in other areas. What China needs is more examples of economic freedom, not less. We shouldn't condemn examples of economic freedom because they must coexist and interact with those who still practice the old totalitarian ways of doing things that have permeated the entire country for many decades. The solution is for the Chinese government to allow more and more examples of such freedom until the country is completely free. Free wage rates and free foreign investment move the ball in that direction. As they become freer, their standards of living will radically rise, and government terror will cease to exist (since government terror is nothing but the violation of freedom, both personal and economic.)

This begs the question of whether Wal-Mart is simply free from government interference, or is an actual beneficiary, and whether it simply passively coexists with authoritarian regimes. Brad Spangler has used the example of a bagman and a gunman to illustrate the ties between the state apparatus narrowly defined, and its nominally "private" capitalist beneficiaries, within a ruling class.

...one robber (the literal apparatus of government) keeps you covered with a pistol while the second (representing State-allied corporations) just holds the bag that you have to drop your wristwatch, wallet and car keys in. To say that your interaction with the bagman was a "voluntary transaction" is an absurdity. Such nonsense should be condemned by all libertarians. Both gunman and bagman together are the true State.

Wal-Mart, as bagman, actively seeks out locations where holdups are in progress.

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