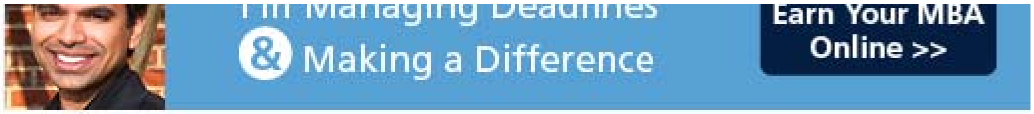

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Give Sam Walton the Nobel Prize

Why Walmart may have done more for the poor than any business in American history

BY CHARLES KENNY | MAY/JUNE 2013

There is much to dislike about Walmart: the union-busting employee rules, putting mom-and-pop grocery stores out of business, all that plastic garbage it sells us, the shady business scandals. It's the mortal enemy of locavores, the big bad box store that environmentalists and community organizers demonize. But for all its manifold offenses, Walmart may have done more for poor consumers in the United States, and around the world, than any other business in American history.

The world's largest retailer, Walmart shrugs off the controversy for a simple reason: The stuff it sells is cheap. Beyond its immense buying power (which sucks profit margins from suppliers), its incredibly efficient logistics systems and sourcing from low-wage foreign labor allow Walmart to drive down the cost of making and shipping many of its products. And Walmart is only the most visible example of a far bigger phenomenon: Globally, even in places thousands of miles from the nearest blue-shirted greeter, more efficient production and transportation are reducing the prices of many of the basic goods purchased by the world's poorest people. If that's rapacious, Walmart-style capitalism, let's have more!

More than 1 billion people still live in the borderlands of absolute deprivation, scraping by on less than $1.25 a day. Nevertheless, many have more access to goods and services than they did only a few years ago (even if they're not yet buying their cassava at the Ouagadougou Walmart). That's in part because companies around the world have figured out how to make and ship the stuff that poor people want at lower cost, which makes lives better. Call it the global Walmart effect.

There are two ways to help poor people buy more of what they need. One is to help them make more money. The other is to make the money they have go further. And Walmart has proved incredibly adept at that second approach. Take food, for instance. Walmart is the world's biggest food retailer, and it offers foods at prices considerably lower than those at traditional supermarkets -- as much as **25 percent lower**, according to economists Jerry Hausman and Ephraim Leibtag. Factor in all the other stuff it sells, and Walmart's overall impact on its shoppers' spending power is even greater.

Walmart's low prices come in part from relying on efficient production in developing countries. Of course it isn't just Walmart's procurement agents who are buying cheap stuff from Asia; pretty much the whole world is, including retailers from Bangalore to Bangui. That's because manufacturers in China, India, and elsewhere have become particularly adept at producing low-cost versions of goods demanded by "bottom of the pyramid" consumers -- otherwise known as the world's poorest people.

Think of the mobile phone. There are about 6 billion subscribers worldwide -- 86 out of every 100 people on the planet. And many of them are texting and calling on Chinese-made devices. China produced **more than 1 billion** mobile phones in 2012 alone. But it's not just telephones. China manufactures as many as four out of five of the world's bicycles, and it's the leading maker of penicillin, producing more than 50 percent of the global supply. A whole range of goods purchased by some of the planet's poorest people are now made at low cost in the Middle Kingdom.

What about India? A **study found** that generic companies based in India supplied 53 percent of the antiretroviral drugs to treat HIV in sub-Saharan Africa from 2004 to 2006. In fact, one-third of Indian drug exports went to sub-Saharan Africa between 1999 and 2006. That really matters when World Health Organization estimates suggest public expenditure on drugs in that region averages **below $10** per person each year. It also has a knock-on effect: **Recent analysis** by researchers Tamara Hafner and David Popp argues that African imports of antibiotics and other drugs from India and China reduce the price of identical drugs imported from high-income countries, suggesting fiercer competition is reducing costs.

The generics effect is widespread: Basically, the things poor people want appear to be dropping in price faster than the stuff rich people want. It may even be that the bottom of the pyramid is benefiting from lower prices more than the luxury-buying elite. (That's not well reflected in global income statistics because the standard price indices used to construct these metrics are weighted toward luxury goods -- fancy cars and granite countertops, not bicycles and plastic sheeting.) In effect, the world's poor people are still very poor, but they aren't *quite* as poor as the stats would indicate.

That helps explain why many of the world's most destitute people own more stuff than they used to. Take Madagascar, a very poor country that has technically been getting poorer over time. Between 1992 and 2009, the country's real GDP per person fell from $843 to $753. But the percentage of households with a phone **climbed** from less than 1 percent to 28 percent, the proportion with a motorbike climbed from 4 percent to 22 percent, and the percentage with a television increased from 7 percent to 18 percent. People in Madagascar, as well as in much of the rest of the developing world, are living better and longer with more possessions to their name. That's true even if, officially, they are as poor as they've ever been. And Madagascar doesn't even have a Walmart -- yet.

Still, for all the "everyday low prices," whenever a new Walmart opens, local competitors really are often forced to shutter their doors. Imagine that happening on a global scale. Harvard University economist Dani Rodrik, for one, **worries** that Africa and Latin America are seeing their manufacturing sectors shrink, perhaps in part because East Asia has taken most of the global low-end manufacturing opportunities. And that may leave the rest of the developing world looking in vain for that first step up on the ladder to industrialization.

That's a problem, to be sure, but one that should, in theory, solve itself. As China gets richer, labor will inevitably get more expensive and factories will migrate. Some already have -- to places like Vietnam and Indonesia. And if retailers like Walmart continue to seek the cheapest, most efficient suppliers and manufacturers, those Asian production centers will eventually shift to Africa in search of cheap labor. That may take decades. But in the meantime, China's efficiency means that poor people's scarce resources can go a little bit further -- which is enough to put a grin on even the most dejected **round, yellow smiley face**.

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