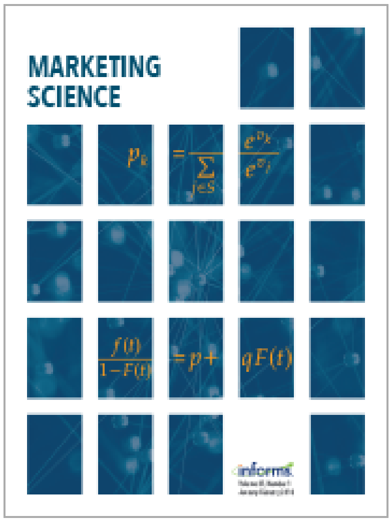

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Editorial

Does Good Marketing Cause Bad Unemployment?

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Questionable methods for increasing nominal wages reduce real wages (i.e., buying power) by creating inflation, shortages, lower quality, and long-term unemployment. To increase real wages (i.e., the ability to buy more), economic principles prescribe increasing productivity (i.e., greater output from less input). In contrast, marketing principles prescribes increasing the value of output (i.e., greater customer benefits) through innovation. Beyond increasing real wages, innovation spawns new occupations better matching individuals with skills and providing greater nonmonetary benefits (i.e., job satisfaction). Unfortunately, threatened entrenched incumbents often solicit protectionist legislation claiming negative externalities (e.g., short-term unemployment, lower wages, and burdens on society). Innovation does require labor to move from inferior to superior organizations (i.e., unemployment). However, protectionism only delays and dramatically aggravates the inevitable trauma associated with progress, as worker skills, firm practices, and buyer welfare fall further behind. Recent attacks demonizing Wal-Mart (e.g., the dubious Vlasic pickle claim) epitomize this situation—they are archaic vanilla protectionism, menacing both imperiled consumers and every consumer-driven business.

Key words: Wal-Mart; low-prices; unemployment; wages; benefits; customer-driven orientation; market-based economy; consumer-driven organizations; trade unions; marketing principles; marketing theory; low prices; unemployment; wages; inflation

The Foundation of Marketing Theory

The mission of marketing is an extremely noble one. The marketing function represents consumers (Neal 2002, Shugan 2006) within customer-driven organizations. Marketing theory champions consumer welfare, draws greater attention to consumer wants, and advocates consumerism (i.e., consumer-driven markets) where competitive markets help protect consumers from many powerful organizations (e.g., incumbent business, organized labor, the governing state, and international bodies). Customers should have free choice, and those choices should drive all organizations (e.g., see Levitt 1975, Kohli and Jaworski 1990, Narver and Slater 1990).

Based on a foundation of consumerism, the last several decades have brought remarkable advances in marketing theory. We now better understand competitive response (e.g., Ailawadi et al. 2005, Steenkamp et al. 2005), branding (e.g., Keller and Lehmann 2006), innovation (e.g., Hauser et al. 2006), customer relationships (e.g., Rust and Chung 2006), structural models (e.g., Fornell and Larcker 1981, Chintagunta et al. 2006), product positioning (e.g., Hauser et al. 2006), advance selling (Shugan and Xie 2005), category management (e.g., Borle et al. 2005), and more. However, consumerism is still the foundation of marketing theory.

Marketing scholars assiduously and arduously teach prospective students of business and not-for-profit organizations to earn their revenue by helping their customer—the buyer (e.g., see Drucker 1954, Keith 1960, Levitt 1975). We teach that the buyer (often, the consumer) should be the focus of every organization. We strongly advocate long-term customer relationships and building brand equity (e.g., Rust and Chung 2006) over short-term quick-profit strategies involving misrepresentation, collusion, and unethical behavior. Marketing principles advocate laborious strategies for earning profits by providing the buyer with greater value (e.g., Cressman 1999) made possible by, for example, creating incentives for innovation (Toubia 2006), exploiting advances in technology (Shugan 2004, Narasimhan et al. 2006, Friedman 2006), understanding how brand reputation fosters quality innovations (Mitra and Golder 2006),

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using social relationship marketing programs (Palmatier et al. 2006), getting better returns from advertising (Sriram et al. 2006), and employing rebates (Bruce et al. 2006). Fundamental to these principles is free consumer choice—the right to choose freely the provider that best meets consumer needs, using the power of competitive markets.

Successfully advocating and implementing (e.g., see Griffin and R. Hauser 1993) a customer-driven orientation is a difficult task (Jaworski and Kohli 1993). Many organizations seek advantage over competitors through obstructive regulation (e.g., see Tybout 2000), coercion (e.g., see Phillips 2002), and force (e.g., see Drew 1996). Many large corporations want returns for their investments and research expenses, regardless of the costs to consumers. Many small businesses want rewards for their risky endeavors and their personal investments (e.g., time, money, commitment, reputation), regardless of the costs for consumers. Many trade unions want union dues, monopoly power over their trade, and control over who will get jobs, regardless of the cost to consumers. The governing state often wants more taxes for providing federal, state, and local expansion, regardless of the costs to consumers. These organizations can organize, collude, and exert relentless political or coercive force in their own best interests. Although these organizations should have free speech, consumer markets should dictate who survives and prospers.

Consumers, regrettably, seldom have the time, energy, or resources of these powerful organizations. Without competitive markets and customer-driven organizations, standards of living would dramatically decline. Competition forces all organizations to concede to consumer demands. Competition rewards or punishes all organizations according to the value consumers place on their output. Competition among providers ensures consumer satisfaction (e.g., see Mittal et al. 2005). The marketing function facilitates competition by encouraging organizations to focus on consumers and continuously adapt to changing market conditions (Slater and Narver 1995). Otherwise, we get waste, inefficiency, and poverty, and consumers suffer.

If people were extremely smart, perfectly informed, and superb information processors, competitive markets would be unnecessary. When people are constrained on these dimensions, competitive markets allow the complex assimilation of the knowledge and expertise of many individuals with their own private knowledge who are willing to bet their own assets on their opinions (Shugan 2006). For example, when selling a house, neither the buyer nor seller knows the market price of the house. The joint knowledge of each reveals a possible market price superior to the knowledge of either. Markets reflect the knowledge of myriad buyers and sellers.

Parenthetically, there are also substantial undesirable social consequences from stripping consumers of decision-making authority. Rewarding inefficient organizations that produce unwanted output or fail to adapt to changing markets not only punishes efficient adapting organizations but also eventually produces more catastrophic outcomes for the employees of inefficient organizations. For example, consider the point when centrally planned socialist economies (and other nonmarket-based systems) ultimately collapsed under the weight of shortages, government inefficiency, and lower standards of living, if not starvation (Sen 1981). Unrealistic promises and years of subsidized inefficiencies inevitably produced an abhorrent transition period involving unacceptable suffering, violence, and poverty. Despite the ultimate potential of prosperity, the transition requires brutal sacrifices (Kornai 2000) as organizations acquire needed expertise, start innovating, and become efficient. Disastrous massive unemployment is one likely consequence. Forcing above-market wages has caused massive unemployment and maintained great depressions at many times in several countries (Temin 1990).

The next section warns that some recent vicious attacks against Wal-Mart are archaic vanilla protectionism, menacing every customer-driven business. These attacks ignore the laws of supply and demand. They threaten competition, private property, consumerism, and other absolute requisites of a customer-driven market-based economy, if not freedom itself. As such, these attacks threaten the consumer and warrant a vigorous defense by marketing scholars who can clearly articulate the need to protect consumers by allowing, if not encouraging, competition.

Attacks on the Consumer

Many past exemplars of a customer-driven orientation have vanished when myopic new management sometimes discounts the future by burning the brand name or failing to adapt to changing markets. At least until 2007, Wal-Mart was an exemplar of a customer-driven organization embracing basic marketing principles. As evidence, observe that given a choice, many consumers choose Wal-Mart. For example, Singh et al. (2006) show that Wal-Mart, after entering a new market, captured 17% of the sales of one previously popular incumbent supermarket. However, at least one of generic attack against Wal-Mart threatens to undermine basic marketing principles. Wal-Mart critics argue that Wal-Mart should ignore the interests of consumers by subsidizing supply chain inefficiency and mitigating competition with less efficient retailers. For example, in July 2000, Germany's Cartel Office ordered Wal-Mart to raise her prices or face stiff fines (Andrews 2000). To be fair, the Cartel Office also ordered competitors Aldi and Lidl food chains to raise prices. These competitors had matched or undercut Wal-Mart prices to thwart Wal-Mart's entry into the German market. Hence, with only a 10.9% market share of the German market (Beck 2000) in a highly competitive market with other very large retailers, the German state ordered Wal-Mart to raise her prices. Although the German state could tell a predatory or limit pricing story, there was no argument that either Wal-Mart ever attempted predatory pricing or that predatory pricing is a viable rational strategy. For more, see McGee (1958) for the classic argument for the futility of predatory pricing; see Lott (1999) for a recent refutation of predatory pricing; see Hawker (1995) for how courts ultimately rejected predatory accusations against Wal-Mart in U.S. courts. In fact, the mere threat of entry can be sufficient to compel near competitive pricing (i.e., contestable market theory).

To make matters worse, the German state mandated limited shopping hours (Heller 2004) and supported trade union obstruction (Clardy 1998). In early 2006, Wal-Mart withdrew from the hostile German market, probably catalyzed by incredulity and apparently blatant mismanagement of that hostility (Linebaugh 2006).

Parenthetically, it is interesting to note that the primary advantage (at least in productivity) that the booming 2006 U.S. economy enjoyed over the respective more stagnant German economy, with Germany's much higher levels of unemployment and slower growth in gross national product, lies almost exclusively in the retail and wholesale subsectors (Blanchard 2004). Moreover, the trend in Germany now favors giving German organizations more flexibility in compensation and employment practices (Blanchard 2004), allowing them to mimic Wal-Mart's more efficient workforce management strategy (e.g., cross-training). Perhaps, Wal-Mart's unpropitious failure in Germany may ironically help the United States maintain a superior competitive position and standard of living over Europe, at least, with respect to Germany. Here, Wal-Mart may be the United State's primary competitive advantage.

The next section identifies the culprits behind the direct attacks on Wal-Mart and the indirect attacks on consumers.

Direct Attacks on Wal-Mart, Indirect Attacks on Consumers

Although Wal-Mart has won most of her battles in the competitive market by offering buyers better value, Wal-Mart faces increasing political opposition from powerful entrenched interests. For example, some urban areas in the United States resisted new Wal-Mart stores and Wal-Mart has abandoned two major international markets, Germany and Korea (Bodamer 2006). Opposition has come from large trade unions seeking to unionize Wal-Mart employees (e.g., Kinzer 2004), local governments seeking protection for extant business (Parsons 2006), interventionists (perhaps, anti-business) groups demonizing Wal-Mart to attack free markets (Bishop 2006) and higher-income consumers who shop elsewhere. Unfortunately, political and hostile attacks from these special interest groups have extracted their toll. According to Merrill Lynch, Wal-Mart's productivity in 2006 fell to 70.5% down from a high of 95.6% in 2001 (Bodamer 2006).

Trade unions are responsible for the most vehement attacks on Wal-Mart and claim that Wal-Mart should provide their employees with more compensation. Unionization of Wal-Mart is critical to union survival given historic declines in unionized industries (e.g., steel, automobiles, airlines, textiles, trucking, mining), probably aggravated by high labor costs. The 2005 president of the AFL-CIO, John J. Sweeney states: "We're confident that we are going to be able to organize Wal-Mart (Irwin 2005, p. 1)." After Wal-Mart employees repeatedly rejected unionization (Lee 1994, Gaynor 2005), trade unions changed their tactics.

To coerce Wal-Mart, trade unions are attempting to increase her cost of business by increasing the minimum wage, increasing mandatory overtime pay, mandating health care benefits and supporting ambiguous rules that would force retailers to defend their compensation plans in court (Rankin 2005, Reda 2006).

The issue is highly political. Pollster John Zogby found that 76% of people shopping weekly at Wal-Mart voted for George Bush, while former presidential candidate John Kerry won 80% of those not shopping at Wal-Mart (Jenkins 2006). Ms. Hillary R. Clinton (once a Wal-Mart board member) and other members of the Democratic Party are taking anti-Wal-Mart positions (Jenkins 2006). Democratic senator Barack Obama of Illinois and former Democratic vice-presidential candidate John Edwards are publicly involved in protests against Wal-Mart (Birchall 2006a).

Sadly, politics are certainly interfering with (and might prevent) scientific inquiry into the facts and the legitimacy of various arguments against Wal-Mart. Most political arguments are shallow and merely advocate transferring wealth from relatively low-income consumers, shopping at Wal-Mart, to trade unions via higher consumer prices. Given that Wal-Mart probably sets consumer prices at near optimum levels, higher labor costs would certainly require consumer price increases, a loss of profit, and a dramatic loss in market share, as Wal-Mart would need to close marginal stores, or at least, to limit expansion.

Table 1 Profits per Dollar Sale for the Largest 10 Firms

Rank	Company	Revenue ($)	Profit ($)	Profit/revenue (%)
1	Exxon Mobil	339,938.00	36,130.00	10.6
2	Wal-Mart Stores	315,654.00	11,231.00	3.6
3	General Motors	192,604.00	−10,600.00	−5.5
4	Chevron	189,481.00	14,099.00	7.4
5	Ford Motor	177,210.00	2,024.00	1.1
6	ConocoPhillips	166,683.00	13,529.00	8.1
7	General Electric	157,153.00	16,353.00	0.4
8	Citigroup	131,045.00	24,589.00	8.8
9	American Intl. Group	108,905.00	10,477.00	9.6
10	Intl. Business Machines	91,134.00	7,934.00	−8.7

Source. Fortune 500 magazine list of largest corporations.

Wal-Mart profits are insufficient to subsidize higher wages. Table 1, for example, compares Wal-Mart profits with the ten largest U.S. corporations. We see Wal-Mart profits, as a percentage of sales, are very close to the average.

Table 2 provides a similar conclusion when comparing Wal-Mart profits per sales dollar to other large retailers. Again, Wal-Mart profits are very close to the average. Moreover, Wal-Mart profits, as a percentage of sales, have hardly changed since the 1995 Fortune ranking when Wal-Mart profits were $\$83{,}412.40/\$2{,}681.00 = 3.2\%$ rather than today's 3.6% of sales. Parenthetically, in 2006, Wal-Mart was the largest private employer with 1.2 million full- and part-time U.S. employees, that number is only half of the 2.4 million employees that Light (2006) estimates that the U.S. government hired (directly and through contracting) in only the four years prior to 2006.

As noted, Wal-Mart's optimal response to higher labor costs would be to raise retail prices (with likely corresponding competitive price increases), lose market share, and suffer lower profits. Beyond hurting consumers, Wal-Mart employees would be hurt as well. Before exploring that implication, the next section considers another claim made against Wal-Mart—unemployment.

Table 2 Profits per Dollar Sale for the Largest 13 Retailers

Fortune 500 rank	Company	Revenue ($)	Profit ($)	Profit/revenue (%)
2	Wal-Mart Stores	315,654.00	11,231.00	3.6
14	Home Depot	81,511.00	5,838.00	7.2
21	Kroger	60,552.90	958.00	1.6
28	Costco Wholesale	52,935.20	1,063.10	2.0
29	Target	52,620.00	2,408.00	4.6
33	Sears Holdings	49,124.00	858.00	1.7
42	Lowe's	43,243.00	2,771.00	6.4
45	Walgreen	42,201.60	1,559.50	3.7
47	Albertson's	40,397.00	446.00	1.1
50	Safeway	38,416.00	561.10	1.5
53	CVS	37,006.20	1,224.70	3.3
76	Best Buy	27,433.00	984.00	3.6
87	Federated Dept. Stores	23,347.00	1,406.00	6.0

Source. Fortune 500 magazine list of largest corporations.

Causes of Unemployment

Another claim is that new Wal-Mart stores produce net unemployment or, at least, fail to produce new jobs after accounting for jobs lost from incumbents. Of course, a customer-driven orientation that involves innovation, efficiency, and change does produce higher rates of unemployment (at least, short-run unemployment). Any change requiring employees to change jobs can increase the number of people in transition between jobs and, hence, cause unemployment. However, Wal-Mart's lower turnover rate might also mitigate the number of individuals between jobs.

Unfortunately, consumer-driven economies do tend to have higher unemployment. Kornai (2000), for example, compares the economies of different countries with market-based economies, where buyers are the primary decision makers, with state-driven economies, where the governing state is the primary decision maker. Consumer-driven economies produce greater consumer welfare made possible by greater productivity, more innovation, and fewer shortages. Vladimir Ilyich Ulyanov (i.e., Lenin) proclaimed, that the economic system with higher productivity should prevail. Ironically, the unquestionable winner of Lenin's challenge was the competitive market-based system, rather than his beloved socialist, state-run system (Kornai 2000). Sadly, despite their advantages, market-based systems often produce more unemployment as labor moves from less efficient to more efficient organizations.

However, it is somewhat unfair to criticize the unemployment created by consumer-driven market-based systems. Although socialist economies produce 100% employment by employing everyone, employment has a different meaning. Wages are irrelevant when shortages make goods and services unavailable. Moreover, socialist economies offer far fewer employment choices. Guaranteed socialist employment is certainly not slavery, but it has some characteristics of slavery.

Beyond these observations about unemployment, empirical studies of market-based economies reveal critical links between levels of unemployment, inflation, quality and real (i.e., inflation-adjusted) wages. Basic economic principles suggest that wages almost clear labor markets (i.e., eliminate unemployment). Employers hire and increase output when revenue from hiring exceeds market wages. Individuals seeking employment accept the most desirable employment. Hence, stable equilibrium wages result. If unemployment rises, wages decline until everyone who wants employment has employment. If the supply of jobs increases, wages increase until employers find that hiring additional labor is no longer desirable.

Hence, the primary determinate of unemployment is the ability of wages to adjust to the demand and supply for labor. An inability to adjust causes unemployment. Attempts to coerce above-market wages have produced massive unemployment and maintained great depressions (Temin 1990).

Another basic economic lesson is that all institutions (e.g., small businesses, large businesses, trade unions, government, etc.) are subject to market forces, and no institution can simply manipulate one economic variable without affecting other economic variables. For example, if we force hourly wages above market levels, employers would find labor hours more expensive and, eventually, buy fewer hours as operations change to substitute away from labor. For example, self-service or automated systems might gradually replace employees. Higher wages obtained from coercion are an illusion, because observed wages fail to include wages lost from working fewer hours, loss of buying power from higher prices, and now unavailable output (e.g., longer queues).

Hence, no single employer can freely set wage levels short of incarcerating workers (e.g., slavery). As anyone buying a house knows, buyers can offer any price, but the transaction price depends on seller sentiment as well. Similarly, employers hiring workers in a competitive market can only offer wages for different jobs, but actual wages will depend on whether employees are willing to sell their services for those wages. Obviously, employees with highly demanded talents command extraordinarily high wages (e.g., celebrities, trial lawyers, anesthesiologists, surgeons, dentists, etc.).

Although wage inflexibility is the primary determinate of unemployment, the cause of inflexibility remains arguable. For example, organizations might pay above market wages to encourage greater employee output because shirking employees would face a greater penalty from job loss (Shapiro and Stiglitz 1984). Organizations might also pay above-market wages to minimize the training and recruitment costs of turnover (Salop 1979). Transaction costs, including higher unemployment insurance systems and increasing the costs associated with firing workers, might increase unemployment (e.g., see Burgess and Low 1998, Anderson and Meyer 2000). Collective bargaining might also result in above-market wages. Requiring employers to grant tenure (i.e., job security) will increase the risk of hiring and increase unemployment by encouraging employers not to hire. Parenthetically, despite perceptions to the contrary, most Japanese employers now recognize the need for flexibility and labor mobility (Weathers 1999).

In each case, above-market wages create unemployment by reducing labor demand below market-clearing levels. If Wal-Mart is creating unemployment, Wal-Mart must be paying above-average compensation. The next section considers other perverse methods intended to force higher wages without corresponding gains in productivity or innovation.

Links Between Inflation, Quality, Unemployment, and Wages

Alban William Phillips and Irving Fisher found an inverse empirical relationship between the rate of unemployment and inflation that seemed to suggest that a government could reduce unemployment by increasing the money supply. Subsequently, many economists, including James Tobin, advocated increasing inflation to reduce unemployment (e.g., Tobin 1972). One of the most influential economists of all time, the late Milton Friedman, won the 1976 Nobel Prize for his path-breaking research on consumption analysis (e.g., see Malley and Molana 2006) and his revolutionary empirical analysis demonstrating that monetary policy alone is incapable of reducing long-term unemployment.

Milton Friedman and Edmund Strother Phelps independently introduced the concept of the natural rate of unemployment—a term Friedman later regretted because he felt that all unemployment was bad. This concept very closely resembles the later concept of nonaccelerating inflation rate of unemployment (NAIRU). One difference involves involuntary unemployment.

Every economy faces unemployment as some individuals quit or lose their jobs. These individuals search for employment at acceptable wages. A relatively smaller number of individuals want employment at prevailing wages, but institutional constraints prevent it. For example, these individuals may lack required union membership or licenses. These individuals may be unwilling to relocate. Prevailing wages may be below legal minimum wages. Many other factors influence the natural rate of unemployment, including opportunity costs. Blanchard and Katz (1997) review these factors.

Inflation perversely mitigates these factors. For example, suppose the Federal Reserve attempts to decrease natural unemployment by increasing the money supply. Friedman argued that the temporary consequence would be inflation. Inflation would raise nominal wages, which fools many jobseekers, unaware of the increased money supply, into mistakenly accepting employment at ostensibly high nominal wages. Unemployment would decrease. The effect, however, is temporary because, despite higher nominal wages, price inflation decreases real wages (i.e., purchasing power and product availability). Friedman also argued that businesses, more aware of money supply changes than jobseekers, would quickly raise prices. Hall (2003) summarizes generally consistent empirical evidence for this argument.

Inflation temporarily reduces other impediments to involuntary unemployment. For example, inflation would reduce the impact of minimum wage laws because inflation raises nominal wages above the minimum, allowing employment contracts to occur that would have been otherwise illegal. Inflation temporarily reduces the impact of negotiated union wages on unemployment because, again, inflation decreases real wages, making labor cheaper (at previously negotiated rates) and, again, decreasing unemployment, provided that minimum wages remain unchanged.

Eventually, employees, trade unions and jobseekers learn that higher nominal wages are an illusion because higher prices have reduced real wages. The government raises minimum wages, and unions renegotiate contracts. The economy returns to the natural rate of unemployment—perhaps, with a wiser workforce, not as easily fooled.

There is no free lunch. Increasing nominal wages by increasing prices merely causes inflation, and wage earners (on average) simply enjoy illusory increases in nominal wages without their real wages or standard of living. Moreover, trying to restrain price increases, without increasing the supply of goods, merely creates shortages (i.e., infinite prices for some thwarted buyers). Artificially providing health insurance (i.e., all health-related expenses) at prices below market levels, for example, without dramatically increasing the supply of health care services (i.e., vastly increasing the number and output of physicians, nurses, and other health care workers) would merely create shortages. With shortages, thwarted buyers face infinite prices, so average prices increase despite the illusion of lower observed transaction prices. Hence, unemployment, wages, shortages, and money supply are all interrelated.

An Example of Unemployment: The Great Depression

The almost-definitive analyses relating unemployment, wages, and money supply can be seen in Friedman and Schwartz (1963) monumental and pathbreaking analysis of the U.S. Great Depression when unemployment rates reached 24.9% in 1933. Friedman and Schwartz's analysis demonstrated that the primary cause of the Depression was inept monetary policy rather than the "Black Tuesday" stock market crash on October 29, 1929. In fact, after bottoming on November 13th, the market recovered 40% of the loss (72 of 186 points) until December 9th (Hughes 1930). Insufficient liquidity then caused another precipitous decline (for more, see Fisher 1930, Sirkin 1975, White 1990, De Long and Shleifer 1991, Cecchetti and Karras 1994, McGrattan and Prescott 2003).

Friedman and Schwartz (1963) documented the liquidity crises created by the reckless and inept actions of the U.S. Federal Reserve Board that permitted two-fifths of the U.S. banks to fail leaving depositors destitute. With deposits being uninsured, those bank failures destroyed savings and dramatically decreased the money supply. Subsequent analysis and simulations showed that adding liquidity to the banking system via increases in the money supply would have avoided the great depression (Cooper and Corbae 2002, Christiano et al. 2003).

Beyond initiating the great U.S. depression, a lack of liquidity helped provoke protectionist U.S. legislation (e.g., the Smoot-Hawley Tariff) and other Federal protectionist interventions (i.e., Agricultural Marketing Act, Glass-Steagall Act) that greatly aggravated the situation by raising many consumer prices and deepening liquidity problems (Benston 1997). Aggregating matters further were futile attempts to balance the Federal budget with enormous tax increases in 1932 (Bartley 2001). Friedman later documented other historical examples of inept monetary policy causing stock market crashes in Japan and subsequent crashes in the United States (Friedman 2006). Moreover, research now reveals that New Deal spending did greatly ease the burden of improvised Americans, but monetary expansion (rather than fiscal policy) caused the recovery prior to 1942 (Romer 1992). The New Deal also spawned the Agriculture Adjustment Act (AAA) that tried to eliminate agricultural surpluses by destroying crops and discouraging production. The dubious theory was that the way to get more production was to have less production (Kindleberger 1973). Some of these supposedly temporary measures persist today.

Although the Great Depression in Germany in the 1930s was partially caused by forcing wages above market levels (Temin 1990), which caused massive unemployment, a lack of U.S. liquidity and the closing of U.S. markets were a "very significant factor in starting the recession in Germany and turning it into a major depression (Sommariva and Tullio 1989, p. 535)." That depression helped fueled the Nazi (National Socialist) party's meteoric rise to power. Hence, inept U.S. monetary policy might have contributed to other world events.

Fortunately, Friedman and Schwartz's research helped avoid subsequent depressions, particularly in 1987 (White 1990). For example, Bernanke (2000, p. 49) finds that "Central bankers got it right in the United States in 1987.... In the days immediately following the October 19th crash, Federal Reserve Chairman Alan Greenspan—in office a mere two months—...persuaded banks to extend credit to struggling brokerage houses.... Subsequently, the [Fed cut]...interest rates to offset any deflationary effects of declining stock prices...economic growth resumed with barely a blip."

Subsequent research further explored the impact of monetary and fiscal policy on economic activity. Both free-market economists and Keynesians now agree that lower prices, consumer price flexibility, and wage flexibility all encourage real-wage increases without increasing unemployment. The next section provides other dubious methods for increasing wages.

Wage Increases That Hurt Wage Earners

The last section reveals that increasing nominal wages is easy. For example, increasing the money supply or forcing higher wages through coercion both increase nominal wages. Industry-wide trade unions can often force nominal wage increases. Minimum wage laws or mandatory benefits can increase nominal wages. However, although these methods can increase nominal wages, without gains in efficiency, productivity or innovation, consumer prices and unemployment increase as well. Inhibiting price increases creates shortages. Considering that wages buy less because of shortages or higher prices, and that the unemployed earn zero wages, wage earners (on average) simply enjoy the illusion of higher wages. Moreover, decreased efficiency causes real wages (on average) to decline more than the increase in nominal wages.

For example, consider Wal-Mart. Higher labor costs would cause closure of marginal stores, shorter operating hours at some stores, longer average waits at checkout, and so on. Of course, consumers with less flexible hours, limited transportation options, smaller shopping budgets, and less ability to purchase large quantities during periodic competitive promotions (e.g., less money, fewer transportation options) would suffer a larger percentage loss in real income. Consumer price increases also hurt suppliers and their employees, given the resulting loss in sales volume.

If labor costs increase across all competitors, the result would be price inflation, a decrease in quality, or both. Prices would rise faster than labor costs because surviving firms would need to absorb the costs of inflation. These costs include future price uncertainty (as everyone adjusts to inflation), menu costs (i.e., changing prices), increased search costs, uncertainty, the cost of holding funds, inventory holding costs, greater costs of making investment decisions, distortions in taxation, and so on. Inflated prices and lower quality erase all of the advantages of higher nominal wages except, perhaps, the illusion of having a larger paycheck. Inflation can dramatically increase wages while inflating the price of a hamburger to $100.

Beyond forcing higher nominal wages through coercion, decreasing the size of the workforce can also increase nominal wages. For example, we could legally restrict employment only to individuals with union membership, several years of work experience, scarce state granted licenses, seniority, or incumbency. Limiting the supply of labor will raise wages for the employed and reduce wages to zero for the newly unemployed. Average nominal wages (across the employed and unemployed) decreases because wages exceed market levels.

Finally, the government could employ individuals at wages above those justified by the value of their output. Of course, that strategy requires subsidies. Moreover, incentive-incapability within government enterprises historically caused inefficiency and a lack of innovation. These disadvantages necessitate additional subsidies. Subsidies come from taxing the now-weakened private sector, which raises costs and increases the prices of surviving private organizations. Again, higher consumer prices result or, with price controls, infinite prices for unavailable output.

The only way to get more output is to produce more valued output or higher-quality output, as judged by the consumer. Increasing nominal wages is very easy, but increasing real wages (i.e., purchasing power and availability) is far more difficult. Real wages only increase when wages buy more, i.e., output is readily available at the same or lower prices. The next section discusses effective methods for increasing real wages.

Classic Determinants of Higher Wages

Fortunately, both the economic and marketing literature suggest ways of increasing wages without increasing long-term unemployment, increasing inflation, decreasing quality, creating shortages, or destroying entrepreneurship. Economics focuses on productivity—producing more output with no more input. Marketing focuses on producing more valued output.

Considering productivity, for example, a McKinsey company study found that Wal-Mart accounted for 13% of the entire nation's productivity gains in the second half of the 1990s (Will 2006). Moreover, Will (2006, p. 21) reports that Wal-Mart's lower prices save shoppers more than 200 billion a year, dwarfing such government programs as food stamps (28.6 billion) and the earned-income tax credit (34.6 billion). Because the median annual household income of Wal-Mart shoppers is under $40,000, Wal-Mart precisely helps lower income shoppers.

Wal-Mart makes more efficient use of floor space, labor, cash flow (Carbone 1994), information technology (Holstein 2006), and inventory (Birchall 2006b). Wal-Mart uses software to manage labor shifts (Covert 2006), employs larger volume distribution (Hickey 2002), and even improves shipment-unloading procedures (Bearth 2004). Wal-Mart provides suppliers with better incentives, extends operating hours, stocks during operating hours, is more customer centric (Glass 1987), achieves higher employee productivity standards (Glass 1987, Postrel 2002), and continuously seeks to improve efficiency with new programs, including remodeling (Troy 2006). Although there are claims that Wal-Mart obtains efficiencies by bullying suppliers, suppliers seem eager to sell to Wal-Mart. Dukes et al. (2006) provide theoretical arguments as to why suppliers gain from retail efficiencies. Bloom and Perry (2001) find empirical evidence that Wal-Mart helps the performance of large-share suppliers. Randall et al. (2006) provide empirical evidence that randomly selected Wal-Mart suppliers outperform matched firms not supplying Wal-Mart.

Finally, Bradford C. Johnson, a Silicon Valley-based consultant with McKinsey & Co., finds that "Wal-Mart's productivity stems [in part] from . . . the advantage of managing a workplace without union work rules. Employees who have been cross-trained, for instance, can function effectively in more than one department at a time . . . . Better training of cashiers and monitoring of utilization can increase productivity rates at checkout counters by 10% to 20%" (Johnson 2002, p. 40). It is no wonder that Wal-Mart is justifiably adamant about surrendering managerial prerogatives to trade unions.

The next section explains how implementing basic marketing principles causes higher real wages.

Why Good Marketing Increases Average Real Wages

The economics literature emphasizes supply side factors. The marketing literature emphasizes demand side factors. While productivity increases revenue and real wages by creating more output, marketing principles focus on creating output of greater value. For example, market research attempts to match new technologies with unmet consumer wants. Marketing research attempts to guide research and development efforts toward more-valued products and services. The marketing function also attempts to foster innovation, properly align incentives to create a customer-driven organization, and represent the customer within every organization. Marketing strategy attempts to add value by targeting specific market segments with specific offerings (e.g., see Iyer 2005), positioning away from competition in a multidimensional space (e.g., see Hauser and Shugan 1983), establishing reputations (e.g., see Mitra and Golder 2006), developing differentiating attributes (e.g., see Sinha et al. 2005), developing predictive customer metrics (e.g., see Morgan and Rego 2006), and so on. Although economics begot marketing, the marketing literature often focuses on customers rather than on production processes.

For example, economics has attributed the decline and fall of centralized socialist economies over market-based economies primarily (but not exclusively) to lost productivity because of central planners' inability to access, assimilate, process, and exploit information as fast and efficiently as decentralized competitive markets do. In contrast, marketing principles highlight (if not reveal) other factors. For example, central planners are often preoccupied with optimization, allocating available resources and choosing among available alternatives. In contrast, millions of individuals and organizations, who make decentralized decisions for themselves, tend to explore previously unknown options, engage in active experimentation, and adapt more readily to changing conditions. The major thrust of marketing principles (e.g., new product development, market segmentation, market research, differentiation, targeting) is entrepreneurial in spirit, matching new technology with previously unmet buyer wants, monitoring changes in market conditions, creating intrinsic rewards for problem solving and, most importantly, embracing change. Innovation is prevalent in market-based economies and virtually absent from centralized command-based economies. Marketing principles allow organizations to adapt to changing market conditions.

Nearly all efforts at innovation will fail. Experiments rarely refute conventional wisdom. However, as knowledge increases and technology advances, previously infeasible (and possible unimaginable) options suddenly become both feasible and economical. When millions of individuals and organizations each experiment with innovation, then a 1% success rate continuously produces tens of thousands of small and large innovations.

Innovation, in turn, spawns greater divisions of labor, specialization and, consequently, growth in the net number of occupations. As knowledge increases, so does specialization. Specialization brings more opportunities to develop unique skills that produce more valued output with the same input. There are more opportunities to develop differentiated human capital with new, scarce (at least, at first), and valued skills. The consequence is growth in the net number of occupations and higher average real wages. Of course, the primary danger that potentially undermines this progress is the political and other coercive actions of entrenched incumbents.

We now have new occupations in Internet services, financial services, wireless telephone services, gaming services, and so on. Innovation and knowledge growth leads to specialization (Shugan 1994). Developing economies grow from individuals performing a few general tasks (e.g., hunting, growing crops) to performing many highly specialized tasks (e.g., network system analysis, home health care, forensic analysis, and desktop publishing). Similarly, the number of new research areas grows faster than the number of displaced areas. Occupations repeatedly subdivide spawning still more occupations. For example, at one time, most physicians were in general practice. According to the American Medical Association (AMA), in 2003, only 12.8% of physicians were in general practice. Of course, boards that certify incumbent medical specialists might resist the entry of new specialties. That resistance hurts consumers and the advancement of the economy. The primary source of higher valued output and growth in real wages is continuous innovation and specialization.

Parenthetically, according to the U.S. 2001 Division of Occupational Employment Statistics survey, no single industry dominated the creation and growth of new and emerging occupations. Hence, a growing economy, which promotes efficiency in some industries, will produce many new occupations in many different (if not completely new) industries that might be very distant from the original industry. For example, increased efficiency at Wal-Mart, or any other organization, could create occupations in diverse, and possibly previously nonexistent industries, involving automated price checking, inventory tracking, transportation, expanding shelf life, international coordination, and so on.

There is another reason innovation increases real wages. A net increase in the number of new occupations allows individuals to discover inherent abilities. Many individuals have multiple, if not infinite, abilities. An individual with the proper training and motivation might have the ability to wash cars, sing, revolutionize theoretical physics, play chess professionally, or pioneer great advances in nanotechnology. However, this individual might lack other abilities required for other occupations. People are different. People have different skills and abilities. The key to higher wages is matching the individuals' abilities to their occupations. Both the likelihood of the occupations existing, as well as the individual finding employment in the appropriate occupation, depend strongly on have a greater number of potential occupations.

A third reason innovation increases real wages is the nonmonetary benefits of new occupations. Individuals preferring occupations with more or less physical exertion, risk, or stress will be able to find a better match. More diversity in occupations allows a better matching of individuals with preferred occupations. Consequently, beyond increasing purchasing power and availability, individuals receive higher real wages in the form of nonmonetary benefits.

As the marketing function discovers new unmet buyer wants, as the marketing function matches emerging technology with unmet buyer wants, and as the marketing function facilitates the growth of new business, the marketing function facilitates the matching of jobs with people. The better matches produce more valued output, higher real wages, and greater job satisfaction.

Finally, allowing adaptation, innovation, and change can provide greater benefits to international trade. The reason is that each nation has the opportunity to develop in different directions, creating different goods and services. Trade enhances the welfare of all nations—except in the case of closely substitutable services where one nation must ultimately yield to the more efficient nation.

The next section argues for the acceptance of change to foster higher real wages.

Embracing Market Innovation, Creativity, and Worker Productivity

Suppose science miraculously discovered a new technology allowing unlimited free food. Few people (except, perhaps, farmers and food markets) would regret this discovery. Suppose science miraculously discovered a new technology producing free clothing. Few people (except, perhaps, clothing manufacturers) would experience regret. These events would increase the welfare of society but would also cause immediate job loss in some segments of the economy, as well as some unlucky geographic regions. However, these events would not necessarily cause long-term unemployment. The growing economy would produce a huge number of new jobs and increase real wages. Over time, wage earners would migrate to the new jobs. In the meantime, there would be natural unemployment and regrettable transition costs for temporarily unemployed individuals.

Inhibiting competition between people, organizations, or countries will usually help incumbents retain their wealth and power while hurting or eliminating newcomers. More insidiously, inhibiting competition will diminish potential overall wealth. To improve overall wealth, organizations must focus on increasing productivity, advancing technology, aligning incentives, fostering innovation, and using markets to impart information.

Advances in technology, for example, have dramatically lowered the prices of virtually all consumer electronics and boosted the real income (i.e., the purchasing power of nominal wages) of virtually every consumer. Moreover, advances in technology have created both electronic luxuries and lifesaving medical equipment. While it is easy to see the progeny of competition, it is virtually impossible to see the lifesaving technologies and consumer welfare lost because of misguided protection of incumbents from new entrants.

Market-based mechanisms protect the consumer when decision makers have imperfect information and less than optimal decision-making skills. For example, U.S. Federal law lessened the ability of markets to impart information by mandating removal of bankruptcies from credit reports after 10 years. The consequence was excessive credit and higher default rates (Musto 2004). Eventually, credit-worthy consumers paid the cost of the additional defaults and found it more difficult to obtain deserved loans.

Many well-known early economists underestimated the ability of technology to advance, the ability of people to innovate, the power of innovation, the remarkable magic of incentives and, most importantly, the power of markets to amplify, assimilate, and aggregate individual knowledge into a collective wisdom well beyond the sum of its parts. This omission has lead to many of the dreadfully poor predictions of the theories advocated by great economists, including Mills, Marx, Malthus and Ricardo, and the tragic consequences of following some of their prescriptions. For example, long ago, noted economist Thomas Robert Malthus and other anticlassical economists predicted that mass starvation would inflict the entire world's population long ago. Of course, Malthus failed to consider advancing agricultural technology that has produced abundant food supplies. Had we resisted innovation and productivity in the agricultural sector by subsidizing small farms, we might have suffered Malthus's dismal prediction. At one time, it took 90% of us to produce our food; it now takes only 2%. Although we have largely lost the romantic, charming, and nostalgic small farm, we have produced many new occupations and more efficiently used limited land resources and, most importantly, we feed the hungry! Today, it is readily apparent that competitive markets have produced more than sufficient food, shelter, and other basic needs. Regrettably, the world still faces grave problems and precarious threats, particularly with dysfunctional distribution and government-induced famine (Sen 1981). These threats are a direct consequence of the absence of both competitive markets and personal freedom.

The next section warns that, despite the impact on unemployment, the supposedly easy methods of increasing wages will produce tragic consequences. It is misguided and cruel to deceive workers into thinking that simple government-imposed legislation can undo the laws of markets. If legislation could perform such omnipotent feats, we should certainly outlaw aging and disease—of course, those laws might decrease the wages of research scientists.

Deceiving Workers and Other Cruel Strategies for Coping with Change

Societies that fail to adapt and innovate face a catastrophic and sad future as worker skills grow increasingly obsolete and outdated industries require exponentially expanding subsidies to survive. For example, Bird et al. (1994) found that former East Germany's struggling transition from a command-and-control economy to a market-based economy was especially traumatic for older workers because their work experience had no significant returns [i.e., learned processes were essentially obsolete]. Consequently, delaying the ultimately beneficial transition to a consumer-driven economy created severe social tensions between young workers entering the workforce with often-superior education and older workers with almost worthless work experience.

Hence, although it appears compassionate to subsidize declining subsectors of the economy, subsidizing ultimately doomed endeavors is cruel. It makes the inevitable transition far more traumatic, as worker skills fall farther behind. Moreover, attempting to avoid some layoffs might needlessly jeopardize the survival of efficient operations and, possibly, entire organizations. Protecting inefficient incumbent retailers from Wal-Mart, for example, not only hurts consumers but also makes the inevitable transition to a new economy far more abrupt, painful, and catastrophic for the employees of the incumbent retailers.

It is far better for workers, consumers, and society (which must provide a social safety net) to expeditiously abandon archaic processes, to close antiquated facilities, and to assuage the transition to more productive processes and more efficient facilities. Otherwise, we inflict far greater future transition costs (perhaps, including violence) on the imperiled worker, the vulnerable consumer, the newly unemployed, and an overwhelmed society. Wal-Mart will become still more efficient, competitors will displace Wal-Mart's, or real wages will fail to increase.

The next section argues that although implementing appropriate marketing principles causes unemployment, ultimately, change is inevitable.

Why Good Marketing Causes Unemployment

As noted earlier, socialist centrally controlled economies can produce the appearance of 100% employment while market-based economies suffer from apparently higher unemployment levels. One reason is that innovation often accelerates change, and change often causes individuals to change jobs, if not occupations.

Change often involves exciting and painful transitions. Transitions are as inevitable as birth and death. New individuals seek employment and replace some older workers. Individuals learn, innovate, make serendipitous discoveries, solve old problems and encounter new problems. Eventually, individuals everywhere must adapt as their environment changes. Change pursues and finds even the most ardent isolationist. Resisting gradual change only produces a traumatic future change.

Change is sometimes painful when change displaces the employed. The plow replaced the hoe. Photographic paper and film replaced the metal and glass plates. Digital cameras replaced traditional cameras employing photographic film. The automobile replaced the horse and carriage. The Ford's assembly line replaced many guild-style artisans. Electricity replaced kerosene lamps and steam power. Airplanes replaced many railroads, steam-powered passenger ocean liners, and tethered gas balloon aircraft. The telephone displaced the telegraph and messengers. Global positioning systems are replacing maps and navigators. The Internet is displacing traditional postal services, news services, and encyclopedias. Personal computers displaced mainframe computers, dummy terminals, office typewriters, carbon paper, linotypes, dedicated word processors, time-sharing services, pinball machines, and hundreds of occupations from traditional animators to cartographic draughtsman. Technology also threatens at least some displacement in many other occupations, including bank tellers, translators, telephone operators, teachers, travel agents, and occupations involving difficult but routinized tasks.

In these examples, innovation nearly always produced better jobs (i.e., higher average real wages), but innovation also caused displacement. A cure for cancer will cause short-term unemployment among cancer workers and cancer researchers until these workers make transitions to related employment. Past economic progress eliminated, or greatly reduced, employment in many areas, including stagecoach drivers, blacksmiths, coopers, masons, millwrights, artisans, journeymen, coopers, ironmongers, tinkers, fletchers, papermakers, salters, lanternmakers, farriers, ostlers, gildersmiths, and bowyers. In contrast, economic progress has created actuaries, accountants, aerobics instructors, agents for artists, assessors, appraisers, athletic trainers, audiologists, auditors, account collectors, analysts (e.g., budget, credit, data, financial, management, jobs, systems), auditing clerks, aides (e.g., home health, personal, home), administrators (e.g., database, network, systems), authorizers (e.g., credit), agents (e.g., revenue, purchasing, securities, sales, tax)—just to mention some of the newer occupations starting at the beginning of the alphabet. Beyond these occupations, innovation will create many currently nonexistent occupations.

Hence, marketing strategies featuring innovation, adaptation, serving customers better, relentlessly improving quality, and exploiting new technologies do increase short-term unemployment. The evolutionary process that destroys old occupations while creating new occupations characterizes Joseph Schumpeter's creative destruction (Schumpeter 1950, Chapter 7). There are many controversial issues related to creative destruction, including the resulting obsolescence of products and services. For example, Aghion and Howitt (1992) argue that creative destruction might produce lower rates of optimal growth because organizations anticipate that innovative research produces products with shorter lives. Caballero and Hammour (1996) argue that factors such as incomplete contracting between labor and capital can disrupt natural creative destruction. However, these are usually second-order effects, and most research accepts the idea that strong economic growth usually requires displacement of some occupations or subsectors of the old economy, including many small businesses and small farms still trapped in the old economy.

If both above-market wages and innovation produce unemployment, we might wonder how they differ. The next section provides an answer.

Different Types of Unemployment

Although above-market wages and innovation both create short-term unemployment, their impact is different. Coercive wage increases tend to create a permanent group of unemployed because incumbents tend to prevent the unemployed from working. Coercive wage increases will decrease average real wages after considering the zero wages of the unemployed. Coercive wage increases also hurt consumers by raising consumer prices, lowering quality, or both. Finally, coercive wage increases destroy wealth because they produce no more or better output while raising consumer prices.

In contrast, innovation randomly displaces some of the employed and does nothing to inhibit the displaced from finding employment elsewhere. Innovation increases average real wages. Innovation also helps consumers obtain more output, more preferred output, or both for less. Consequently, innovation increases the wealth of society while coercive wage increases do the opposite.

As an example, the next section discusses the dubious argument that Wal-Mart created unemployment by contributing to the Vlasic Pickle bankruptcy.

Vlasic Pickle Nonsense

Many (if not all) political attacks on Wal-Mart seem to be driven by the usual economic self-interests (i.e., competitors defending their market shares, trade unions seeking new members and expanding dues, people pursuing a share of Wal-Mart profits). Of course, facts trump motives.

One argument against Wal-Mart is that Wal-Mart drives suppliers out of business. Most evidence is anecdotal, at best. Statistical data analysis of Wal-Mart suppliers fails to confirm these accusations (Randall et al. 2006). Moreover, the anecdotal evidence also seems dubious. Let us consider one so-called classic example—Vlasic Pickles.

An October 2006 Internet-Web search reveals many Wal-Mart hostile websites claim that Wal-Mart deserves responsibility for the bankruptcy of Vlasic Pickles. One 2005 magazine article (Badenhausen 2005, p. 182) states: "In a classic case Vlasic Foods International had a big piece of business with Wal-Mart. But in the late 1990s Wal-Mart started pricing a gallon of Vlasic pickles for under $3, less than what other stores charged for a quart. Result: People stopped shopping for pickles elsewhere. Vlasic's profit margins all but disappeared." A book called the Wal-Mart effect (Fishman 2006), devoting six pages to the gallon jar, argues the "under-3" price made no sense (Fishman 2006, p. 181) but never claims Wal-Mart was responsible for Vlasic's bankruptcy.

It seems implausible that Wal-Mart taking a small or no-profit margin on Vlasic pickles would hurt Vlasic. Indeed, the marketing literature focuses on how low-retail margins and high volume help manufacturers (e.g., Jeuland and Shugan 1983). The marketing literature also discusses the issues related to product line cannibalization in great depth (e.g., Chandy and Tellis 1998, Lehmann and Weinberg 2000, Besanko et al. 2005, Desai 2001). Introductory marketing textbooks cover this concept.

Moreover, the marketing literature predicts that selling more gallon containers would increase pickle consumption (Folkes et al. 1993, Wansink 1994, Wansink and Deshpande 1994, Wansink et al. 1998, Chandon and Wansink 2002) and that sales of gallon containers would diminish, if not devastate, lesser competing brands (Blattberg and Neslin 1989). The Vlasic example fails to pass the smell test. Traditional marketing theory should apply to both Wal-Mart and Vlasic. Lower retailer margins help manufacturer brands, except when retailers fail to provide service support for those brands. So, let us examine the facts.

Twenty years before the Wal-Mart controversy, in 1978, Campbell Soup Company owned Vlasic Foods and bought produce from farms in Putman County, Ohio. Baldemar Velasquez, president of the Farm Labor Organizing Committee (FLOC) trade union representing 2000 migrant workers, voted to strike Putman County farms for better wages. Predictably, consistent with economic theory, the farms refused to negotiate. Successful trade unions need employers who enjoy monopoly power, monopoly profits, and an ability to pass some costs to buyers (e.g., Sobotka 1953). The farms were in no such position.

Mr. Velasquez brilliantly went to a company with deeper pockets and some monopoly power—Campbell Soup. Mr. Velasquez asked Campbell to accept price increases from the growers. Campbell Soup said it was only a produce buyer, not an employer of farm workers, and should not be involved in wage negotiations. The FLOC disagreed, halted Campbell's tomato field operations in Ohio, and launched a national boycott. In 1983, FLOC organized a 550-mile march from Toledo to Campbell Soup's corporate headquarters in Camden, New Jersey (Burzio 2000).

After years of fierce (and sometimes violent) confrontation, on February 20, 1986, Campbell signed a three-year labor contract covering Vlasic Pickle growers in Michigan (Burzio 2000). This contract certainly increased Vlasic's costs and decreased its profitability. Perhaps this success with Campbell inspired the labor's current strategy against Wal-Mart.

In the early 1990s, traditional pickle market sales were flat. Vlasic's one bright spot was a new product—Vlasic Sandwich Stackers (Picker 1996). However, another division of Campbell, i.e., Swanson Foods, was also having grave problems. Sales of Swanson's segment of the frozen food market were declining. Consequently, in 1997, Campbell Soup Co. decided to sell or spin off its poorly performing business, including the Swanson frozen dinner and Vlasic Pickle brands, as one new company with combined sales of 1.4 billion (Collins 1997). With no willing corporate buyer, in March 1998 the new company, Vlasic Foods International, went public at $18 per share. Many of the Vlasic units were doing poorly, including Vlasic Pickles and Vlasic Sandwich Stackers (Thayer 1998). Moreover, Campbell allocated $600 million in debt to the new Vlasic Company (Lipin and Branch 2001). Meanwhile, Campbell began pushing for further growth through new distribution channels, such as drugstores and Wal-Mart (Lee 1998), apparently viewing Wal-Mart distribution as positive. Earnings for Vlasic continued to disappoint. Vlasic pickles sales declined 7% and Swanson by 6% (Thayer 1998).

In May 1998, Wal-Mart Stores' Sam's Club began distributing the infamous gallon Vlasic Pickle jar. Despite Wal-Mart's actions, in July 1998, according to Frozen Food Age (2002, p. 83): "Hints that all is not well at Vlasic are already emerging. The new company reports a 20% drop in frozen food sales for the third quarter. Vlasic blames former owner Campbell for causing the decline by cutting ad spending in half." In 1999, financial analysts said that Vlasic's "troubles won't be easy to solve. Vlasic Foods is locked in a tough struggle with larger, deep-pocketed competitors in the frozen-foods business (Fairclough 1999, p. B9)." There were yield problems at mushroom farms and Vlasic's Swift-Armour canned meat division in Argenina faced new harsh taxes. Kevin

Lowery, vice president for public affairs at Vlasic, said most of the problems were attributable to the company's nine U.S. mushroom farms and a tax hike of about 2.3 million per year levied against the company's Swift-Armour canned meat division in Argentina (Bowden 1999). Finally, Vlasic took a third-quarter charge of 140 million related to the sale of its Argentine beef operations to Swift Armour Holdings Company (Fairclough 1999).

In 2000, Vlasic Foods stock fell to $2.00 and Vlasic blamed oversupplies of chicken for depressed prices and reduced profits as well as years of neglect by Campbell (Wellman 2000).

On January 4, 2001, Vlasic stock dropped to $0.44 after default on loan payments (Moniz 2001). On January 29, 2001, Vlasic foods declared bankruptcy in Delaware, citing $458.3 million in assets and unsustainable debt of $650 million (Wellman 2001, Kangas and Gharib 2001). The stock exchange halted trading at $0.69 per share.

Vlasic complained that its pickle business suffered in 1999 because mounting debt left insufficient funds for advertising and new product development. Kevin Lowery, VP of public affairs at Vlasic Foods, also said, "Our [frozen] dinner business had been in significant decline for three years" (Harrison 2000, p. 16). Additionally, as Thompson (2001) notes, Lowery declared: "Our bankruptcy proceeding is a result of one number and that is 560 million: the amount of debt we were given when we were spun off. That debt meant that we were limited in the types of investment we were able to pour back into these brands that had already been suffering after years of neglect" (Thompson 2001, p. 10).

In a 2001 bankruptcy auction, Hicks, Muse, Tate & Furst purchased the North American assets of Vlasic Foods International to form a new company, Pinnacle Foods (MacFadyen 2003). Two years later, J. P. Morgan Partners acquired Pinnacle Foods Corp. from Hicks, Muse, Tate & Furst in a $485 million deal, a return of more than two times its invested equity (MacFadyen 2003).

In 2002, creditors of Vlasic Foods International sued Campbell Soup Co., alleging that in 1998 Campbell manipulated the financial results and transferred excessive debt to Vlasic. The suit also alleged that each of Vlasic's businesses represented failed attempts by Campbell to achieve earnings growth (Shearer 2002). The diverse nature of the business made it difficult for Vlasic to survive. However, claiming fraudulent conveyance requires a very high burden of proof, including violation of fiduciary duties to shareholders (Shearer 2002).

Ultimately, Federal Judge Kent Jordan ruled in favor of Campbell. Nevertheless, nearly 4,900 pages of trial transcript and 5 days of expert witness testimony taken under oath became publicly available. In that testimony, the only fleeting references to the gallon jar at Wal-Mart revealed that the gallon jar was a Vlasic initiative taken because a competitor, Dean Foods, was selling a 1-gallon jar of pickles at Wal-Mart and "it was like flying off the shelves (p. 311, Official Court Transcript 02-137)."

Finally, as Boyd (1997) notes, government imposed price controls can prevent manufacturers from helping local retailers compete with Wal-Mart by offering higher service levels, which also illustrates the unintended consequences of price controls.

In sum, the one-gallon jar at Wal-Mart may have been one of Vlasic's few successes. The next two sections make important but noncentral points.

How Higher Wages Hurt Wal-Mart's Current Employees

Although the purpose of the preceding sections was the defense of marketing principles (specifically, a customer-driven orientation), remember that forcing Wal-Mart to increase compensation would also adversely affect many of Wal-Mart's current employees. Beyond the standard economic predictions that increasing labor-costs will lower the demand for labor hours, raising compensation would also certainly make Wal-Mart employment far more desirable. Rather than receiving, for example, 16 applications for each job (Flinn 2003), the Norwalk Wal-Mart might get thirty two applications. Now consider the person who successfully competed against the fifteen other applicants and secured employment. That person must now compete against thirty one other applications, which probably have greater levels of experience, skills, motivation (e.g., ability to work odd hours), and education than the original fifteen competitors did. Therefore, the original employee would probably not get the job.

Higher wages and better benefits will cause, gradually or quickly, replacement of many current employees. The union will get its dues. However, less skilled, less trained, and less experienced people lose needed employment opportunities. Perhaps, this reason partially explains why Wal-Mart employees consistently vote against unionization (e.g., Greenhouse 2005, Sarche 2005). Parenthetically, Chinese workers also lacked interest in unions. Nevertheless, confronted with a union controlled by the ruling Communist Party (Lague 2006, Goldman 2006, Fong and Zimmerman 2006), Wal-Mart unionized in China.

The Asia Effect

Most attacks on Wal-Mart are archaic vanilla protectionism, menacing both consumers and every consumer-driven business. However, some attacks on Wal-Mart concern Asian producers. Here, the puissant

Asian effect strictly dwarfs the Wal-Mart effect. As Asian economies become more market-based, the United States has lost its omnipotent economic position in the world. Asian influence will continue to grow with or without Wal-Mart. Asian producers now compete with the United States in nearly every country. The United States need not fear China exchanging tangible Chinese manufactured products for U.S. paper (i.e., U.S. currency). More troubling, however, is Asian competition with U.S. manufactured products in Europe, Australia, South American, and other world markets. Despite suspect Chinese statistics, the CIA estimates China's actual GDP at $7.3 trillion or about four-fifths the size of the U.S. economy (Fishman 2006, p. 10). Moreover, economic growth in Asia began well before Wal-Mart's growth and will continue long after. We should remember Fishman's (2006, p. 314) words concerning China that "the rest of the world will profit little by demonizing the Chinese, but might find powerful answers in studying and admiring, even grudgingly, the country's growing strengths." We gain little by demonizing the Wal-Mart of 2007, but instead should study and admire her. Fortunately for the United States, hitherto resilient to Asian competition, the U.S. service sector continues to produce the highest paying jobs (Shugan 1994).

Conclusion

Market competition helps protect imperiled consumers from exploitation from relatively powerful businesses, organized labor, the governing state, and other organizations with overwhelmingly resources (e.g., political, monetary, organizational, communicational, etc.). In competitive markets, marketing principles advocate and predict that surviving organizations must adapt, exploit new technologies, improve efficiency, innovate, be customer-driven, and embrace change.

Change is an inevitable integral part of marketing theory. Unfortunately, change in competitive markets aggravates short-term unemployment, as change often implies the decline, and possible death, of inefficient or merely unlucky organizations. Change will ultimately create many new jobs and raise real wages (i.e., purchasing power and availability), but short-term unemployment increases as more employees find themselves in transition between jobs. Hence, unfortunately, good marketing that facilitates adaptation does cause higher levels of short-term unemployment, possibly mitigated by lower turnover.

Applying this analysis to the retailing sector reveals that most attacks on Wal-Mart unabashedly conflict with a consumer-driven orientation and naively ignore the critical need to adapt. These vicious attacks are generic because they potentially menace any consumer-driven business. Hence, these misguided attacks threaten nearly all scholarly research that seeks to improve productivity, gain efficiency, enhance consumer welfare, and foster innovation.

No organization in a competitive labor market can pay below market wages and still attract employees. No organization, including Wal-Mart, can incessantly pay employees more than the value of their output without external subsidies. No organization in a competitive market can pay significantly above market wages without corresponding increases in productivity, efficiency, or innovation.

Of course, diminishing competition through implicit collusion (e.g., collective bargaining, government interventions, etc.), explicit collusion (e.g., price fixing), or questionable legislation (e.g., mandating benefits) does produce higher nominal wages. However, these dubious methods reduce real wages because they create inflation, shortages, unemployment, and lower quality. Higher nominal wages are irrelevant when inflation increases consumer prices or lowers quality so that those wages buy less. Higher nominal wages are irrelevant when shortages make goods and services unavailable for purchase. Higher nominal wages for the employed are irrelevant when they decrease the total hours worked or increase unemployment. In all of these cases, despite the illusion of higher nominal hourly wages for the employed, average real wages (including the zero wages of the unemployed) decrease. Moreover, coercive wage increases tend to create a permanent group of unemployed, as incumbents struggle to keep their jobs.

Wal-Mart's consumer prices, at least historically, were probably profit-maximizing. Moreover, Wal-Mart profits failed to reflect significant monopoly power. Hence, current profits alone are insufficient to absorb increased labor costs. Higher labor costs would result in higher consumer prices (with likely corresponding competitive price increases), much lower profits, loss of market share, and Wal-Mart hiring from a different pool of workers. All of these outcomes are undesirable for everyone, except perhaps, inefficient incumbents and trade unions who would both enjoy greater revenue. Moreover, subsidizing wage increases from profits usually damages an organization's ability to raise capital through borrowing or from equity markets.

The only proven solutions to creating real wage increases are increases in productivity, efficiency, and innovation. Wal-Mart, at least until 2007, has historically helped increase economic growth by improving productivity, enhancing efficiency, and decreasing consumer search costs. Wal-Mart has also increased real wages by increasing consumer buying power.

It is critical that scholars in marketing are aware of these attacks on consumerism and seriously research their legitimacy. For example, the dubious Vlasic Pickle story reflects one of many falsehoods about

Wal-Mart. There is currently no published evidence available that Wal-Mart caused the bankruptcy of Vlasic or any other supplier. In fact, Wal-Mart's distribution of Vlasic products was probably the most profitable part of Vlasic's business.

Finally, the Wal-Mart effect itself is absurdly exaggerated. Most of Wal-Mart's so-called impact is merely a reflection of the Asian effect. The Asian effect strictly dwarfs the Wal-Mart effect. As Asian economies become more market-based, the United States has lost its omnipotent economic position in the world. Asian influence will continue to grow with or without Wal-Mart. Asian products permeate myriad markets through diverse channels. Demonizing Asia or Wal-Mart merely distracts from the necessary task of increasing productivity and fostering innovation.

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