

# DISSENT

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## Wal-Mart's Honest Graft

By [Peter Dreier and Donald Cohen](#) - June 21, 2012



Last month Wal-Mart became the latest company to drop its membership in the American Legislative Exchange Council in response to public outrage over ALEC's aggressive support for "Stand Your Ground" laws (which are implicated in the death of Trayvon Martin, among others). Wal-Mart won some kudos for leaving ALEC, but its shrewd move was nothing more than an attempt to divert attention from the retail giant's current troubles and its multimillion dollar effort to burnish its image, protect its influence, and increase its market share.

The uproar over the Wal-Mart bribery scandal in Mexico uncovered last month evokes the famous distinction between "dishonest graft" and "honest graft" made by George Washington Plunkitt, a Tammany Hall politician in the early 1900s. Dishonest graft, Plunkitt explained, involves bribes and blackmail. Honest graft, in contrast, involves using one's political and business connections, and inside knowledge, to make a fortune. Plunkitt described the principle behind "honest graft" in his motto: "I seen my opportunities and I took 'em."

In Mexico Wal-Mart was awash in “dishonest graft”—bribes given to local officials to grease the process for opening new stores. According to [a recent front-page \*New York Times\* story](#), the company’s own internal investigation, conducted in 2005, uncovered more than \$24 million in payments to planning officials, local politicians, and others that could help, or hinder, Wal-Mart’s expansion plans.

The influence-peddling paid off. Wal-Mart is now Mexico’s largest private employer, with 209,000 employees in more than 1,000 stores. Perhaps that’s why top officials at Wal-Mart’s Arkansas headquarters, when informed of the widespread bribes, shut down the investigation rather than address the problem. Moreover, the company promoted Eduardo Castro-Wright, the head of Wal-Mart’s Mexico operation, to executive vice-president three years after Bentonville found out about the pattern of bribes.

Wal-Mart has come under intense criticism since the *Times* exposé. The company’s stock price fell sharply soon after the story appeared, and at its annual shareholder meeting on June 1, several of the nation’s largest public pension funds, including California’s and New York City’s, challenged the re-election of the current board members, including CEO Lee Scott and Chairman Robson Walton, a member of Wal-Mart’s founding family. Two influential proxy advisers—Institutional Shareholder Services Inc. and Glass, Lewis & Co.—encouraged institutional investor clients to do the same. Because Walton family members own over half of the Wal-Mart stock, these pension fund revolts didn’t force the removal of any company executives, but they added momentum to the growing political and public opinion backlash against the giant corporation.

Wal-Mart’s single-minded goal in the United States is the same as it is in Mexico: open more stores and generate more revenue—especially in urban areas, the company’s next frontier. But it hasn’t been easy. Even before the Mexican bribery scandal, Wal-Mart was taking heat for a variety of corporate practices.

Wal-Mart’s recent record on labor practices has been abysmal. Recently, for example, the U.S. Department of Labor ordered Wal-Mart to pay \$4.8 million in back pay and fines to thousands of employees who were illegally denied overtime. Just a few years earlier, Wal-Mart was ordered to pay nearly \$34 million in back pay to 87,000 employees. Clergy and community groups have complained that Wal-Mart pays many of its employees poverty-level wages, insists that many employees work part time, and provides few employees with affordable health insurance. The company’s low-paid employees are forced to apply, with direct assistance from Wal-Mart, for publicly funded benefits like food stamps and Medicaid. A report released last month by the National Employment Law Project uncovered widespread abuse of low-paid temporary laborers who work in warehouses and transport goods to Wal-Mart’s stores. And human rights groups criticize Wal-Mart for its use of sweatshop labor, in China and elsewhere, to manufacture the clothing and toys it sells.

The problems don't stop there. Last year Wal-Mart beat a class action suit by thousands of its female employees on a technicality, but the documents revealed that the company routinely discriminates against women when it comes to pay and promotion. In 2005 the company was not so lucky, paying an \$11 million fine for mistreating immigrant employees. More recently, many communities have challenged Wal-Mart's attempts to open new stores, worrying that smaller businesses will be forced out, as has frequently happened when the giant retailer moves nearby. These challenges, along with an upsurge of anti-Wal-Mart books and Robert Greenwald's 2005 documentary, *The High Cost of Low Price*, have damaged the company's reputation and, its executives fear, undermined its political clout.

TO OVERCOME these obstacles and get its way in the United States, Wal-Mart has resorted to "honest graft." Its strategy includes giving campaign contributions to politicians, hiring well-connected lobbyists to do its bidding, mounting expensive and ballot campaigns to win public support, and buying the support (or at least neutrality) of nonprofit organizations through philanthropy. Why this form of influence-peddling, unlike Wal-Mart's bribery in Mexico, isn't a scandal is worth pondering.

In the past decade, Wal-Mart, the largest corporation in the world in terms of sales (\$447 billion), and the Walton family (heirs to company founder Sam Walton, worth a combined \$100 billion) have contributed more than \$11 million to candidates for president and Congress, political action committees (PACs), and political parties, according to data compiled by the Center for Responsive Politics. They spent \$2.3 million in the 2010 election cycle alone. Three members of the Walton family have together given over \$550,000 to Super PACs—\$400,000 to the pro-Romney group Restore our Future and \$150,000 to Jon Huntsman's Super-PAC, Our Destiny.

Wal-Mart has also pumped millions of dollars into influential conservative think tanks and lobbying organizations such as the Cato Institute, the Heritage Foundation, and the American Legislative Exchange Council. Wal-Mart may have left ALEC out of the "Stand Your Ground" controversy, but company executive Janet Scott was the co-chair of an ALEC committee that encouraged state legislators to enact the very same controversial pro-gun laws. This shouldn't be surprising. Wal-Mart is the country's biggest seller of shotguns and ammunition.

With support from Wal-Mart funds, the U.S. Chamber of Commerce is currently leading a campaign to weaken the Foreign Corrupt Practices Act, which outlaws American companies bribing foreign officials. Congress members Henry Waxman and Elijah Cummings have called for an investigation into Wal-Mart's involvement with the Chamber's lobbying campaign, and the U.S. Department of Justice and the U.S. Securities and Exchange Commission have opened investigations into Wal-Mart's potential violations of that act. Not surprisingly, the Cato Institute recently published an article critical of the anti-bribery law.

Last year Wal-Mart invested \$7.6 million in lobbying federal officials, utilizing its own in-house lobbyists and paying influential Beltway lobbying firms such as Patton Boggs and the Podesta Group. But it is at the state and local levels—where govern-

officials can most directly expedite Wal-Mart's expansion plans—that the company has devoted the most influence-peddling resources. Since 2003 Wal-Mart and the Waltons have spent more than \$15 million at the state level on candidates, PACs, and ballot initiatives, according to the National Institute on Money in State Politics.

Nobody knows how much the Arkansas behemoth and its founding family have given to local politicians, but it is obviously another Wal-Mart standard practice. In one of the more blatant examples, Wal-Mart—eager to open a new store in one of Chicago's African-American neighborhoods—lavished campaign contributions on Alderwoman Emma Mitts and feted her at the gala held during its annual stockholders meeting. Mitts has become a prominent spokesperson for the company, flackin' for Wal-Mart [in a \*Washington Post\* op-ed](#) and even referring to the company as “we” on a local Chicago television show.

Nowhere has the battle over Wal-Mart been as intense as in the Los Angeles area. Eager to gain a foothold in the area a decade ago, Wal-Mart proposed building a mega-store in Inglewood, a mostly African-American and Hispanic working-class suburb. In 2004 the company spent about \$1 million to mount a ballot initiative that would change the city's zoning laws to allow Wal-Mart to build its supercenter. Despite being outspent ten-to-one, a local community coalition defeated the ballot measure by a two-to-one margin. That same year, the Los Angeles City Council enacted a big-box law making it difficult for Wal-Mart to open new stores.

Wal-Mart retreated, but in the past year it has returned to Los Angeles with a vengeance, attempting to open a store in the city's Chinatown neighborhood. It has hired three powerful lobbying firms—Ek & Ek; Manatt, Phelps & Phillips; and Mercury Public Affairs (where former California Assembly Speaker Fabian Núñez is a partner)—to help the company get the approvals it needed.

To gain the support (or silence) of community groups, Wal-Mart dramatically increased its charitable philanthropy, as it has done elsewhere. Its total giving in the United States rose from \$270 million in 2007 to \$873 million last year. In Los Angeles the company hired the politically connected Javier Angulo—former employee at the Mexican American Legal Defense and Educational Fund and the National Association of Latino Elected and Appointed Officials—to coordinate its local philanthropic program. Wal-Mart recently donated several million dollars to dozens of local nonprofits, including the NAAEP, the Urban League, Homeboy Industries, California Charter Schools Association, Los Angeles Parents Union, Goodwill, Catholic Charities, Salvation Army, Union Rescue Mission, Meals on Wheels, Chrysalis, Children's Hospital, and the Mexican American Opportunity Foundation, as well as several Asian American organizations, including Little Tokyo Service Center, Korean American Coalition, the Center for Asian Americans United for Self-Empowerment, and Chinatown Service Center. Angulo makes sure that whenever Wal-Mart hands over a check to one of these groups, elected officials are there for the photo-op.

Earlier this month, the day before the City Council was to vote on an ordinance that would have put the construction on hold, Mayor Antonio Villaraigosa's office pushed through permits to allow Wal-Mart to move forward on its Chinatown store. Hoping to stop the project, community and labor groups are fighting back. They've produced a "[No Wal-Mart in Chinatown](#)" video, lobbied council members to override the mayor's efforts, and [scheduled a large protest march](#) for June 30 at a state park near Chinatown.

IN THE wake of the Supreme Court's *Citizen's United* ruling removing corporate political spending limits, there's more money from big businesses flowing into American politics than ever before. Americans increasingly feel that government decisions are made in the interest of the wealthy and powerful. [According to a Pew Research Center national survey](#) released in mid-December, most Americans (77 percent)—including a majority (53 percent) of Republicans—agree that “there is too much power in the hands of a few rich people and corporations.”

You can't blame them. Although U.S. companies have been known to hand under-the-table cash to American politicians, the vast majority of corporate America's influence-peddling is perfectly legal. As the case of Wal-Mart shows, that's the real scandal.

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Photo by Clean Wal-Mart, 2007, via Flickr creative commons