The So-called "Consumers' Interest"*

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In the wake of the take-over of Flipkart by Walmart, one is once again hearing an argument which one has often come across before, namely that having a large multinational in this sphere, which can do global sourcing for its products, will make goods cheaper for buyers and therefore be in the "consumers' interests". This argument is so old that it even goes back to the colonial times, when it was argued by many that imports from Britain, which had caused domestic deindustrialization by outcompeting the local craftsmen, had cheapened goods for the consumers and were therefore in the "consumers' interests", indeed in the peasants' interests since they constituted numerically the bulk of the consumers for the imported products. The claim that Walmart's importing goods from all across the world to sell cheaply in the Indian market serves the "consumers' interests", is a mere repetition of this old argument.

There are two things wrong with this argument. The first is that, even assuming it is valid, it amounts to giving priority to consumers' interest over that of the local producers; indeed it amounts to giving a certificate of ethical legitimacy to the very idea of a "consumers' interest" that is wholly unconcerned with the plight of local producers. This latter point was made by Gandhi long ago when he had written: "It is sinful to buy American wheat and let my neighbor the grain-dealer starve for want of custom. Similarly it is sinful for me to wear the latest finery of Regent Street, when I know that if I had but worn the things woven by the neighbouring spinners and weavers, that would have clothed me and fed and clothed them". "Sinful" in Gandhi's language is what we would call ethically unacceptable; his objection, on ethical grounds, is to the acceptance of a concept of "consumers' interest" without any concern for the plight of the local producers.

The second problem with this "consumers' interest" argument is analytical as distinct from ethical. It assumes, totally erroneously, that "consumers" are a distinct entity from the local producers who are displaced by cheaper imports. Those who are displaced are also consumers. And even if we assume that there are some consumers who are not immediately affected by the displacement of local producers, i.e. who are actually better off immediately because of cheaper imports of the goods they consume, they may nonetheless get affected adversely over a period of time by the displacement of local producers.

The example of colonial deindustrialization again will make the point clear. When handloom weavers were displaced by the import of cheap cotton cloth from Britain, it would have appeared immediately that the peasants had become better off: they after all were not being displaced, while on the other hand the goods they were consuming had become cheaper. But the displacement of the handloom weavers (and other craftsmen), led, not immediately but over time, to an increase in the pressure of population on land. In the course of the nineteenth century, there was an increase in the magnitude of rent and a decline in the magnitude of real wages in India, which actually worsened the plight of the peasants and agricultural labourers. Hence the appearance of an improvement in their condition because of cheaper imports, while no doubt quite valid immediately, was an illusion if we took a longer period of time.

The only class in British India which benefited quite unambiguously from the fact of deindustrialization was the class of landlords who benefited both from the higher rents and from the cheaper imports.

In short, those who appear to benefit as consumers from the cheaper imports brought in by multinationals because of the immediate price effect, are also likely to lose out,, if not immediately then at least over a period of time, from the adverse income effect of such cheap imports. The complexity of this picture, where there are no pure "consumers" completely distinct from the displaced producers, and unaffected by the plight of the latter, is missed by all those who look only at the price effect without looking at the income effect. And those who have been arguing in favour of the encroachment of the Indian market by multinational retailers belong to this category.

There are thus two separate arguments against the takeover of the Indian retail market by entities like Walmart. One which has been widely discussed is that it displaces vast numbers of petty traders. This is the exact counterpart of, and analogous to, the deindustrialization witnessed in the colonial period, except that we are talking here not of the industrial sector but of a service sector, i.e. retail trade. The second argument is that while the petty traders bought their goods from local producers, the multinationals would buy theirs from all across the globe, from the cheapest producers, which means that local producers (and not just local traders) would get displaced. We have in short two distinct processes of deindustrialization arising from the encroachment of the Indian market by multinational retail giants. Both would produce unemployment and reduce the level of domestic activity. And one particular argument which one comes across against this assertion, namely that domestic producers will then be forced to cut costs and become more "efficient", is an absurdity, since cutting costs in their situation would simply mean cutting into their subsistence, which is but another name for what we have called "displacement".

There is however a second argument that is advanced against the view that the entry of retail giants will increase unemployment. This states that while unemployment would increase in those sectors where imports would be cheaper than what local producers charge, there would correspondingly be an increase in employment in those sectors where local producers charge less than elsewhere, for then the retail giants would buy locally here to sell in other countries. Isn't this after all what David Ricardo's famous "comparative advantage" was supposed to mean? The multinational retail giants are simply realizing "comparative advantage" through their global sourcing of goods for sale. If a particular country can produce a good more cheaply than others then that country will specialize in the production of that good while some other countries will produce the other goods which this country was producing earlier.

This argument again is completely fallacious as was Ricardo's original argument which was based on the infamous Say's Law that a capitalist economy never experiences a deficiency of aggregate demand. To say that different countries specialize in the production of different goods and there is no question of any country losing out on employment because of such global sourcing, presupposes Say's Law at the very least. Once we abandon the absurd assumption of Say's Law, it becomes clear that total world employment will fall as a consequence of global sourcing.

The whole point of global sourcing is that each commodity is bought from producers which charge the least for it. This cheapening of goods at the global level, since it must also raise, to some extent at least, profit-margins compared to the pre-global-sourcing situation, is logically exactly analogous to a global wage cut, i.e. a shift of income distribution from producers everywhere to the retail giants. This shift is in addition to the shift of income distribution from the petty traders who get displaced to the retail giants. Both these shifts entail, other things remaining the same, a reduction in global demand, and hence in global output and employment.

Putting the matter differently, for any given level of global investment in real terms (which does not change in the short-run), since global savings must equal global investment, and since the savings ratio out of profits is larger than out of wages, an increase in the share of profit per unit of output, must lead to a reduction in global consumption and output. And the whole point of retail giants like Walmart straddling the globe is to raise the amount of profit per unit of output, both through the displacement of petty traders and through global sourcing of products to the cheapest producers. (The displacement of petty traders has an additional demand-depressing effect since the savings ratio out of profits is larger for larger profit-blocks than for smaller ones).

In such a situation, while it is conceivable that a particular country may not witness a fall in employment, that only implies that some other country has witnessed an even larger fall in employment. In a situation where overall global employment shrinks because of the depredations of such retail giants, one country can escape a decline in employment only if the burden is passed on with even greater ferocity to some other country.

Hence, if perchance the entry of Walmart happens to increase employment in India, then there is nothing to cheer about it; it only means that some other hapless country has witnessed an even greater decrease in employment. And to invoke “consumers’ interest” in this scenario to defend the depredations of such retail giants is simpliste in the extreme.

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