Wal-Mart and Job Quality – What Do We Know, and Should We Care?

Arindrajit Dube, PhD *
Steve Wertheim **

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* Arindrajit Dube is a research economist at UC Berkeley Institute of Industrial Relation, and an affiliated fellow at the UC Berkeley Center for Labor Research and Education
** Steve Wertheim is a research associate at UC Berkeley Center for Labor Research and Education

I. Introduction

Since opening its first store in 1962 in Rogers, Arkansas, Wal-Mart has grown to be the world's largest company. It reported a net income of $10 billion on net worldwide sales of over $285 billion for the fiscal year ending January 31, 2005 (Wal-Mart Stores 2005a). In 2002, Wal-Mart sales accounted for an astonishing 2.3 percent of U.S. GNP (Sperling 2003). It is also the world's largest private employer, with over 1.3 million employees in the United States. Wal-Mart has a dominating presence the U.S. retail sector: in 2002; fully 82 percent of U.S. households made at least one purchase at Wal-Mart (Bianco and Zellner 2003). It is already the largest food retailer in the nation, as well as the third largest pharmacy (Dube and Jacobs 2004), and continues to expand at a rapid rate (Upbin 2004), with plans for an additional 200-250 new stores in the 2006 fiscal year.

Wal-Mart has achieved this commanding position thanks in part to its pioneering low price/high volume business model (Ghemawat, Mark and Bradley 2004). Wal-Mart's strategy for achieving low prices includes aggressively implementing supply chain efficiencies (Gill and Abend 1997, Johnson 2002), and seeking lower prices from its suppliers (Useem, Schlosser and Kim 2003).

However, there is a growing concern that part of Wal-Mart's success is underpinned by a compensation practice that keeps wages low. Anticipated or actual economic pressure from Wal-Mart has been used as a rationale by competing retailers to seek wage and benefit cuts, as evidenced by the 2003 contract negotiations between Southern California grocery chains and their unions (Goldman and Cleeland 2003; Pearlstein 2003).

In light of these and other concerns, it is useful to take stock of what we know about Wal-Mart's wage policies and how they affect workers. As we see it, there are four key questions:

1) Does Wal-Mart really differ from other players in the industry in terms of its compensation standard?
2) Does Wal-Mart put pressure on wages and benefits of other players in the industry, and what happens to compensation when Wal-Mart enters a market?
3) Are there economic rationales for trying to change Wal-Mart's practices?
4) Would the price reductions brought by Wal-Mart be in jeopardy if Wal-Mart were to raise labor standards?

In this paper, we address each of these four questions. We conclude that the weight of evidence suggests that Wal-Mart has lower wages than other retailers, and that average earnings fall when Wal-Mart enters a market. Wal-Mart entry does not lead to net new jobs, and overall it reduces total take-home pay for retail workers. Wal-Mart's health benefits are somewhat worse than those of other large retailers, but no worse (and perhaps better) than those offered by small retailers. All in all, we find that Wal-Mart reduces overall compensation for retail workers, which partially explains their ability to provide reduced prices. As a practical matter, if Wal-Mart's price advantages are

anywhere near as large as had been argued, it should be possible for the retailer to improve working conditions by a reasonable amount without jeopardizing much of the gain enjoyed by consumers due to the Wal-Mart's presence. To push labor standards beyond what is provided currently by most large retailers, policies should apply to not just Wal-Mart but the industry segment as a whole.

II. What are Wal-Mart's wages and benefits like, and how do they compare with other employers?

Wal-Mart's Wages and Health Coverage

The lack of public data on wages at the corporate level makes it difficult to compare Wal-Mart's wages to those of their competition. Several previous studies have tried to estimate this pay gap. Dube and Jacobs (2004) used March Current Population Survey and Wal-Mart's payroll data released by sex discrimination litigation ("Drogin data") and found that compared to large retailers, Wal-Mart paid around 26% lower in wages in 2001. However, this study was limited to California. More recently, Bernhardt et al (2005) used Wal-Mart annual earnings from the Drogin data, and national level earnings data from Bureau of Labor Statistics (variety of sources). They found a 25% earnings gap with retailers overall, and 28% with large retailers, while Wal-Mart earnings were virtually identical to earnings of discount stores and department stores. However, this analysis did not account for Wal-Mart's uneven geographical distribution. It might be the case, for instance, that Wal-Mart is located in generally lower-wage areas. Finally, the Wal-Mart-funded Global Insight (2005) study concluded that, within the Metropolitan Statistical Areas where Wal-Mart operates, Wal-Mart's average wages compare favorably. However, this analysis compares wages across occupation, and not by industry. Thus, the Global Insight study may be comparing a "cashier" at Wal-Mart with a "cashier" at McDonald's, which is not a meaningful comparison.

In this section we attempt to fill in some these gaps in the existing set of comparisons by: (1) developing a national-level estimate; (2) comparing Wal-Mart workers to workers within the retail industry; and (3) accounting for possible locational differences between Wal-Mart and other retailers.

In this paper, we compare Wal-Mart's wages against a number of industry subsectors: retail overall, discount and department stores (general merchandising), and supermarkets. Furthermore, trying to account for Wal-Mart's size, we also consider "large" retailers in each of these categories for added comparisons (where a "large" company is one employing 1,000 or more workers.) We focus on hourly workers (not salaried workers), who represent the vast majority of workers in these industries, and we have available data on Wal-Mart workers.

Wal-Mart reports its average wage for hourly workers as $9.68 per hour (Wal-Mart 2005b). For determining the wages at various retail subsectors, we utilize wage data from the 2005 March Current Population Survey, which provides a representative

sampling of workers nationwide.[1] However, Wal-Mart's stores are not distributed nationwide in the same manner as the general population. To account for this factor, we adjust the CPS data to account for the actual distribution of Wal-Mart employees nationwide.[2] Adjusting for Wal-Mart's distribution reduces the average wages in the retail sector by 2.6%, reflecting Wal-Mart's concentration in lower-paying states.

Using wages adjusted for Wal-Mart's location, we compare its wages to other large retailers, as well as other industry segments. The results are shown in Table 1. This table shows a sizeable wage gap between Wal-Mart and retailers overall (12.4%) and large retailers in particular (14.5%). The gap is smaller when compared to all grocery 7.5%) but larger when compared to large grocers (17.5%). As Wal-Mart supercenters are competing with supermarkets, the latter comparison is quite relevant for understanding how the labor market might react to Wal-Mart entry. The gap between Wal-Mart and general merchandise as a whole is smaller. However, with 1.3 million workers, Wal-Mart constitutes 55% of all general merchandise workers ,and 71% of large general merchandise workers. After removing Wal-Mart's influence from this category, we find that the gap for general merchandise (17.4%) and large general merchandise (25.6%) are substantial.

Table 1 – Comparison of Average Hourly Wages

	Adjusted Average Wage	***Wal-Mart Wage***	***Difference***	***% Difference***
Large Retail	$11.08	$9.68	$1.40	14.5%
All Retail	$10.88	$9.68	$1.20	12.4%
Large Grocery	$11.37	$9.68	$1.69	17.5%
All Grocery	$10.41	$9.68	$0.73	7.5%
Large General Merchandise	$10.41	$9.68	0.73	7.5%
All General Merchandise	$10.44	$9.68	0.76	7.9%
Large General Merchandise*	$12.16	$9.68	$2.48	25.6%
All General Merchandise*	$11.36	$9.68	$1.68	17.4%

* Not including Wal-Mart employees

Source: 2005 March Current Population Survey (hourly workers); *www.walmartfacts.org*

Another basis of comparison is health care coverage. Like the analysis of wages discussed above, several studies have concluded that Wal-Mart provides less health

[1] The 2005 March CPS contains annual income data from March 2004 to March 2005. To get the average hourly wage, we divide the annual "wage and salary income" for hourly retail workers by the product of "usual hours worked per week" and "number of weeks worked over past year."

[2] This process entailed deriving a Wal-Mart adjustment factor that would account for the uneven distribution of Wal-Mart workers across states. The first step is to ascertain Wal-Mart's employee distribution, which is the number of Wal-Mart workers in a state divided by the total number of Wal-Mart workers nationwide. Wal-Mart employees by state were determined through use of 2005 data on the location of all Wal-Mart stores except Sam's Clubs by querying the online Wal-Mart store locator, and multiplying the number of stores by the typical number of employees at each store, estimated at 350 for supercenters, 200 for discount stores, and 100 for neighborhood markets. The second step is to ascertain the national distribution of retail workers, which is the number of retail workers in a state divided by the total number of retail workers nationwide. We used the 2005 March CPS to generate these figures. For each state we then divided the Wal-Mart ratio by the retail ratio, creating an adjustment factor that reflects Wal-Mart's employee distribution. Finally, we multiplied this adjustment factor against the CPS's sampling weight for individuals ("marsupwt") to create a new "retail weight".

coverage than its competition. For example, a Mercer study (cited in Wysocki and Zimmerman, 2003) showed that Wal-Mart spent 38% less on health care per enrolled worker than wholesale/retail stores, while Dube and Jacobs (2004a) showed that Wal-Mart's health plans covered a lower percentage of their workers (48% to 61%) than other large retailers in California for 2001.

According to the recent publication of Wal-Mart data on health benefits ("Chambers Memo" from 2005) 48% of Wal-Mart's employees receive job-based health coverage. To compare this with other retail workers, we utilize data available from the 2005 March Current Population Survey. To compensate for possible differences based on where Wal-Mart is located, we use the same adjustment method discussed above.

Table 2 gives a mixed verdict. On the one hand, Wal-Mart's job-based coverage rate is higher compared to retailers in general, as well as groceries and general merchandising. However, compared to large retail and its subsets, Wal-Mart insures a smaller fraction of its workforce.

Table 2 – Comparison of Employer-Sponsored Health Insurance

	Adjusted % Enrollment	***% Wal-Mart***	***Difference***
Large Retail	53.0%	48%	-5.0%
All Retail	45.2%	48%	2.8%
Large Grocery	53.0%	48%	-5.0%
All Grocery	41.6%	48%	6.4%
Large General Merchandise	49.5%	48%	-1.5%
All General Merchandise	46.5%	48%	1.5%
Large General Merchandise*	53.1%	48%	-5.3%
All General Merchandise*	44.7%	48%	3.3%

** Not including Wal-Mart employees*
Source: 2005 March Current Population Survey (hourly workers); www.walmartfacts.com

What is the consequence of Wal-Mart's providing worse health benefits as compared to other large retailers? Based on Wal-Mart's own employee survey whose results were discussed in its 2005 memo, 24% of its workforce, and 46% of dependent children are either uninsured or enrolled in a public health program (Chambers Memo, 2005). We compared these figure with other large retailers using March 2005 Current Population Survey. In terms of the workforce, we found the rate of uninsurance and public coverage to be slightly higher among Wal-Mart workers than workers employed by large retailers as a whole (Table 3). However, when looking at children who are dependents of these workers, the rate of uninsurance and public coverage substantially exceeded the norm for large retail workers. Whereas 46% of children of Wal-Mart workers were either uninsured or on public programs, the figure fell to 29% when we considered children of all employees working for large retailers. The evidence points to substantially lower incidence of family health coverage at Wal-Mart. Unfortunately, Wal-Mart's survey results did not include adult dependents of workers, where the gap is also likely to be substantial given the relatively high price of family coverage at Wal-Mart.

Table 3 – Uninsurance and Public Health Coverage

	Uninsured	*Medicaid*	*Unisnured & Medicaid*
Child Dependents			
Wal-Mart	27%	19%	46%
Large Retail	21.7%	7.4%	29.1%
Workers			
Wal-Mart	5%	19%	24%
Large Retail	4.9%	17.6%	22.5%

Wal-Mart's Overall Wage and Health Benefit Cost

The Chambers memo has also made it possible to undertake a more robust comparison of hourly compensation, in terms of both wages and health care. In this section, we compare Wal-Mart against its primary competition: large retailers. To complete this comparison, we need to have figures for hourly wages and health care compensation for both Wal-Mart and employees of large retailers.

For this analysis, we utilize average wage figures derived above. As for health care, according to Wal-Mart, they spend $1.5 billion annually on health benefits for their associates (Chambers Memo 2005). Wal-Mart employed approximately 1.3 million workers in the US in the fiscal year ending in January 2005 (Wal-Mart 2005a). This yields a health benefit expenditure of $1,153.85 per employee. Dividing this by the estimated 1,586 hours worked annually at each Wal-Mart job[3] yields an average of $0.73 per hour in health care benefits.[4]

For large retail employers, we use hourly compensation data from BLS "Employer Cost of Employee Compensation." In the second quarter of 2005, according to this source, retail employers overall paid $0.91 per hour in insurance costs, including health care and life insurance.[5] Additionally, this source reports that health care represents 93.5% of these costs for employers overall, such that health care benefits for retail average $.85 per hour.[6] However, since health coverage is lower at smaller retail establishments, this

[3] Because annual turnover at Wal-Mart approaches 500,000 workers a year (Greenhouse, 2005), it is more accurate to say that this is the average per job than per worker.

[4] Wal-Mart does not provide data on average hours worked by their employees. However, the Chambers memo does state that full-time workers average 35 hours per week. Additionally, the Wall Street Journal recently reported that 75% of Wal-Mart workers are full-time (Hudson 2005). We do not have any data on the average number of hours logged by Wal-Mart's part-time workers, so we estimate that they averaged 20 hours per week (this is conservative in that it will increase Wal-Mart's spending per hour on benefits than if we had assumed an average of 25 or 30 hours per week). Based on this estimate, we calculate that the average Wal-Mart worker works 30.5 hours a week [(34 hour*75%) + (20 hours*25%)]. Multiplying this by 52 weeks for each Wal-Mart job yields 1,586 hours per year.

[5] Available at http://www.bls.gov/ncs/ect/home.htm.

[6] Available at http://www.bls.gov/news.release/ecec.toc.htm. According to the BLS, the average amount of insurance benefits in "Trade, Transportation, and Utilities" industries is $1.55, of which $1.45 is health

underestimates the hourly health cost for larger retailers. From the data in Table 2, we see that large retail employees are 18% more likely to receive health benefits than retail employees in general. Assuming that large retail pays the same benefit per covered employee as all retail, having 18% more beneficiaries increases average health care benefits per large retail employee from $0.85 per hour to $1.00 per hour.[7]

Summing the wage and health care totals for Wal-Mart and large retail reveals a substantial compensation gap between Wal-Mart and large retailers. This is shown in Table 4. Compared to Wal-Mart, retailers with 1,000 or more workers paid 16% more in wage and health benefits per hour in 2005.

Table 4 – Comparison of Wage and Health Costs – Wal-Mart versus Large Retailers

	Large Retail	Wal-Mart	Difference	% Difference
Wage (per hour)	$11.08	$9.68		
Health Benefits (per hour)	$1.00	$0.73		
Total	$12.08	$10.41	$1.67	16.0%

Source: 2005 Employer Cost of Employee Compensation; March 2005 Current Population Survey; www.walmartfacts.com

III. What happens to retail workers' wages when Wal-Mart enters a market?

In the previous section, we compared Wal-Mart's wages and health care benefits to those of other retailers, with a focus on larger retail companies. However, such a static comparison of Wal-Mart's compensation to other large retailers does not provide a complete analysis of Wal-Mart's potential impact. For example, if Wal-Mart displaces higher-paying retail jobs then there will be an additional economic loss to workers. Additionally, Wal-Mart's presence may lead other retailers to change their own wage practices. Both these concerns suggest that we need to measure Wal-Mart's dynamic impact of entry into the labor market.

To date, there have been few studies documenting what actually happens to compensation from Wal-Mart's entry into a new labor market. The few studies that do attempt to empirically estimate the impact of Wal-Mart entry on county or regional level wage rates focus on a small set of counties in primarily rural states (Ketchum and Hughes 1997; Hicks and Willburn 2001). For example, Hicks and Willburn (2001) found a positive wage impact on a set of counties in West Virginia. However, their methodology

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care. While this is the smallest unit of disaggregation provided by the BLS for this analysis, we have no reason to believe that retail would have a significantly different insurance pattern than the other industries in this sector.

[7] An alternative approach is to use the 2002 Mercer report referenced above. According to this report, Wal-Mart workers received $3,500 a year in benefits while wholesale and retail workers in general received an average of $4,834. We use this estimate of wholesale and retail workers as a proxy for large retail. Additionally, according to Mercer, both Wal-Mart and the industry as a whole paid approximately two-thirds of this total (the employee paying the remaining third). Comparing the two yields a ratio of $1.38 spent by large retailers per $1 spent by Wal-Mart. Assuming this ratio has stayed the same since 2002, multiplying Wal-Mart's hourly expenditure of $0.73 by 1.38 yields an estimate of $1.00 per hour spent by large retail – the exact same figure as derived using the BLS data.

was unable to attribute this wage growth uniquely to Wal-Mart's entry, as it was not able to control for realistic endogeneity problems. Moreover, it is unclear whether the wage impact of Wal-Mart entry in these rural counties can help us predict impact in more urban areas where most of Wal-Mart's current growth is occurring. Hicks (2005) looks at only eight counties in a single state (Pennsylvania) over 4 years, and also does not devise a method to control for possible endogeneity of store openings. He finds a positive wage impact on retail.

Because of the methodological shortcomings of previous studies, it remains to be seen whether there is a general "Wal-Mart effect" on retail sector wage levels as a whole, based on nationwide data.

Using a new research design, Dube addressed this question in a recent paper entitled "Impact of Wal-Mart on Earnings throughout the Retail Sector," which was coauthored with Barry Eidlin and Bill Lester (2005). Our study covers the period of 1990's economic expansion. Our two sources of data include a database of Wal-Mart store openings over this period, and the county-level Quarterly Census of Employment and Wages (QCEW). The QCEW is produced by the Census Bureau and is based on the earnings of all workers covered by the Unemployment Insurance program—the vast majority of the national workforce.

A potential problem with studying store openings to estimate the impact on wages is that Wal-Mart does not choose randomly where to expand. If Wal-Mart's expansion into local markets were random throughout the United States across the ten-year period of study, then we could simply look at what happened to wages in counties after Wal-Mart entry as compared to before. But Wal-Mart may have taken into account several factors for expanding into certain markets and not others, including the cost of labor in those areas at that time. Economists call this problem "selection bias." In other words, Wal-Mart's own criteria for expansion into certain markets may interfere with our ability to test for a causal relationship between Wal-Mart entry and a change in local wages.

In our paper, we devised a novel way to resolve this problem. We started with the fact that Wal-Mart store openings spread out over time starting from Arkansas and moved outward to the coasts, much like a ripple from a drop of water. In other words, the farther a county was from Arkansas—ground zero for Wal-Mart—the later it experienced the Wal-Mart growth spurt. This was an actual pattern of expansion, one that made sense for the company as it focused on utilizing its distribution networks most effectively and lowering overall costs of expansion (Graff 1998, Holmes 2005). By following this ripple of store openings across the country and over time, we were able to test whether retail wages are reduced in its wake. Looking at store openings based on both how far the county is from Wal-Mart's "ground zero" and the year in question, our estimates are not subject to the selection bias that is often a problem for similar studies.

In addition to tracking the interaction of place and time of Wal-Mart entry as it relates to changes in local wage patterns, we have controlled for a variety of other potentially confounding factors. We have also tested our estimates against other research methodologies and have seen that our findings hold up. Here we only report the key

findings. For more details on the methodology and results see Dube, Eidlin and Lester (2005).

Our analysis found that there was strong evidence that in urban and suburban counties (counties that are part of a Metropolitan Statistical Area), a Wal-Mart store opening led to a 0.5% to 0.8% reduction in average earnings per workers in the general merchandising sector. This finding suggests that in urban counties, Wal-Mart displaces general merchandising jobs that pay around 18% more.[8] As we saw in Table 1, the average general merchandising wages are about 17% more than Wal-Mart. A Wal-Mart store also reduced average earnings per grocery worker in that county by 0.8% to 0.9%. Taking both wage and possible employment effects into account, we found that a single Wal-Mart store reduced the total earnings of general merchandise and grocery workers in that county by about 1.3%. The last piece of evidence goes against the notion that Wal-Mart causes an increase in the number of jobs in a county. If that were the case, the total wage bill would decline less than the average earnings, and there would be a jobs/earnings tradeoff.

In rural counties, the pattern was different. A Wal-Mart store opening there was associated with an increase in the average earnings per general merchandise worker and a decrease in the average earnings per grocery worker. However, combining wage and employment effects, there was no significant impact on the total take-home pay of the affected retail workforce.

We interpret the evidence as suggesting that Wal-Mart displaced better-paying general merchandising jobs in urban/suburban areas, where wage standards are higher, but not in rural areas where there were fewer high-wage firms to displace. However, Wal-Mart's presence put pressure on competitors (especially in the grocery sector) to reduce wages in both rural and urban areas. And given the fact that 85% of retail workers and a majority of Wal-Mart stores are in metropolitan counties, the overall earnings effect of Wal-Mart was strongly negative, both in terms of average earnings per worker and total take-home pay of the workforce. As a result, we estimate that in 2000, total earnings of retail workers nationwide were reduced by $4.7 billion due to Wal-Mart's presence.

Since writing the paper, we became aware of a similar effort by David Neumark (with coauthors Zhang and Ciccarella) that was also made public in October 2005. Their work uses a similar strategy to estimate the effect of Wal-Mart on labor market outcomes using the time and distance interaction, and the work was done concurrently to our own (between 2004 and 2005). There are some differences in methods, data and time period

[8] In 2000, the mean general merchandising employment in a MSA county was 4,100, while the mean earnings was $15,700. We estimate that a typical Wal-Mart store had around 285 workers (350 for a Supercenter, 200 for a discount store, and 100 for a neighborhood market). If we assume that in the general merchandise sector, all the reduction in average earnings occurred through a composition effect (Wal-Mart displacing better paying jobs), we can calculate the implied earnings gap between workers at Wal-Mart versus other general merchandisers shedding employment due to Wal-Mart entry. 285 Wal-Mart workers constitute roughly 7.0% of a county's general merchandise workforce. So if earnings of the other 93.0% stayed same, but overall earnings declined by 0.8%, this implies that those losing jobs at other general merchandise retailers were making around 17.8% more than Wal-Mart workers. Of course, this is only an approximation; to the extent Wal-Mart also reduced wages of competitors, the implied gap would be smaller.

between the two studies. However, a common finding in both studies is that Wal-Mart reduces overall earnings in the retail sector, although their estimates of earnings losses are somewhat greater in magnitude.

Moreover, Neumark *et al.* directly measures the impact of Wal-Mart entry on employment. Consistent with our findings, their results show that overall retail employment actually falls from a Wal-Mart store opening. This stands in contrast with Basker (2005b), who finds a small net employment gain from Wal-Mart entry. However, unlike our work or Neumark's, Basker's approach is less equipped to account for the possibility that Wal-Mart is entering counties which would have experienced higher employment growth in absence of a Wal-Mart store opening.

IV. Interpreting Wal-Mart's Effect on Job Quality

The weight of the evidence is that Wal-Mart reduces earnings for retail workers—through substituting better-paying jobs with lower-paying ones, and through putting pressure on other retailers (supermarkets in particular) to reduce wages. Although we cannot assess the impact on overall health coverage, the cross-sectional comparisons suggest that Wal-Mart also reduces job-based health insurance for large retailers, but not for small retailers. (See also Hicks (2005), which finds Wal-Mart entry increases Medicaid enrollment in a state.)

If one takes the perspective that the labor market functions like the competitive neo-classical model, then it follows that when an individual company reduces wages, it is hiring different types of workers. Without any wage-setting power, Wal-Mart could not simply pay similar workers differently than other retailers. From this perspective, if Wal-Mart entry lowers average earnings, they (1) must have a different production technology than other retailers, and (2) they are likely reducing market level demand for somewhat better-skilled workers, and increasing demand for somewhat lower-skilled ones. If this technology allows Wal-Mart to lower prices and woo consumers, by definition, the total gains to consumers (plus increased demand for lower-skilled workers that may raise their market wage) must exceed any wage costs to somewhat higher-skilled workers. The logic of competitive markets dictates that any effort to raise wages "artificially" for retail workers would not lead to overall gains for society (though some people may benefit).

As we see it, however, there is an empirical problem with this argument. The evidence presented above shows that not only do wages fall in general merchandising (which includes Wal-Mart), but also for grocery. It is difficult to rationalize why grocers would start hiring lower-skilled workers just because Wal-Mart enters a market; after all, if it is more profitable to use lower-skilled workers, then logically these employers should have done so before the entry of Wal-Mart. This suggests that at least some of the wage loss is not simply reflecting a switch in the skill level of the workforce, but a loss of labor market "rents"—the gap between what a worker gets paid at her job and the best outside wage she can command in the market.

Another concern is that any discussion of labor market rents suggests a movement away from the frictionless neo-classical model to a world where wages for similar workers are influenced by institutional factors and business strategies of employers. There is a large literature in economics on this topic (for some notable examples, see Krueger and Summers 1997, Acemoglu 2001, Manning 2003). The common thread in this literature is that employers do have some wage-setting power, and this means that there are "good jobs" and "bad jobs" in the economy. Furthermore, good jobs may not only pay better, but may also be complementary with greater training and learning, and higher lifetime productivity (and hence lifetime earnings) of workers (Acemoglu and Pischke 1999). In such an environment, policies that require Wal-Mart to increase compensation need not simply reduce overall welfare, but may indeed improve it. At the minimum, by giving employers an incentive to create more "good jobs," the costs of a wage mandate (i.e., increased prices) would be mitigated. Of course, whether this is the case in reality is an empirical matter; however, the point is simply that existing models in mainstream economics do not all suggest that there are only negative effects of any such mandate.

Finally, whether or not the labor market is a competitive one where everyone earns his or her marginal product, or one where people with similar skills may either have a good or bad job, there is a distributional issue at stake. A price reduction is enjoyed widely throughout the market, including rich, middle class and working class families. In contrast, the wage loss in retail is borne primarily by working class individuals. If we care about not only the size of the pie but also how the pie is sliced, the relevant question becomes: how much of a price increase would the economy need to bear in order to attain a reasonable improvement in the working standards of Wal-Mart workers? How much would Wal-Mart need to raise its prices to meet a certain labor standard, and how does such a price increase compare to the overall price advantage that Wal-Mart is providing consumers today?

For illustration, we will consider two simple standards. The first would bring Wal-Mart's compensation to that of other large retailers. As we saw in an earlier section, this entails a 16.0% increase in wage and benefits cost for hourly workers. Currently, Wal-Mart's annual wage and benefit costs are estimated as $21.46 billion ($10.41 in hourly compensation for 1.3 million hourly workers working an average of 30.5 hours a week for 52 weeks a year). A 16.0% increase in wage and benefits cost (along with a 7.65% increase in payroll taxes) amounts to $3.66 billion.[9] Wal-Mart's annual sales in US for the fiscal year ending in January 2005 were $228.95 billion (Wal-Mart 2005c). Thus, the added labor costs would amount to 1.6% of its sales, which could be recuperated by charging two pennies more for an item that today costs a dollar. This is small compared to most estimates of how much price savings Wal-Mart offers consumers (more on this later). Moreover, part of the cost increase could be absorbed through a reduced profit margin, which today stands at 3.5% of sales.

However, large retailers' compensation does not make for a particularly high standard. This is especially true for health benefits, where the average hourly cost of health

[9] All employers are required to pay a 7.65% Federal Insurance Contributions Act (FICA) payroll tax to cover Social Security and Medicare. Health benefits are not taxed.

insurance paid by large retailers was estimated at $1.00/hour. In comparison, Suffolk County in Long Island, New York recently mandated that big box retailers pay $3.00/hour health benefits to their employees. Similarly, a measure was recently passed New York City would require large employers selling grocery (supermarkets and supercenters) to provide between $2.50 and $3.00 an hour in health benefits cost, which is the unionized grocery average in New York City (Brennan Center 2005). Finally, hourly cost for health benefits for unionized employers in the service sector nationally is $3.14/hour.[10] (Unfortunately, the BLS data does not provide a figure for unionized retail *per se*.)

Therefore, as an alternative standard to average large retail compensation, we consider a $1.40/hour wage increase as before, but coupled with a $3.00/hour health benefit (an increase of $2.27/hour). This $14.08/hour compensation is 35.3% higher than Wal-Mart's hourly compensation cost. To match this standard, Wal-Mart's wage and benefit costs would have to rise by a total of $7.79 billion dollars using the same formula as above, or 3.4% of total sales.

Whether Wal-Mart could absorb a 3.4% increase in prices and continue to thrive depends largely upon their price advantage; if Wal-Mart's prices were substantially lower than their competitors, then they could afford to increase labor compensation and still continue to offer some of its price advantages to consumers. There is consensus that Wal-Mart has reduced consumer prices, but the magnitudes vary. Currie and Jain (2002) report the price advantage as 17%-39% based on grocery and non-grocery items. While this conclusion incorporates sales prices, it does not include sales volumes. Therefore, it may overestimate the price advantage, as consumers are likely to purchase greater amounts of non-perishable goods during sales (whereas Wal-Mart's prices are "everyday" prices). Basker (2005b) repeats Currie and Jain's analysis, using a subset of 24 drugstore items. While she finds a 23% price advantage, her analysis is subject to the same caveat as the Currie and Jain piece. Hausman (2005) reports that there is a 27% difference in groceries between supercenters and regular grocers. But he does not relate Wal-Mart to their closest competitors (i.e., other supercenters). The BLS presumes no initial price difference between Wal-Mart and its competitors after quality is adjusted for (as cited in Bernstein 2005), although Hausman & Leibtag (2004) are particularly critical of the BLS' methodology. Finally, the Strategic Resources Group (as cited in Green 2005) estimates that the advantage over other grocers is 1-7% when discounts and specials are accounted for.

The previous discussion indicates that there is a range of estimates of how much Wal-Mart saves consumers. If the true price gap is small, then even a modest increase in wages and benefits (to match other large retailers) may erase that gap, and make it difficult for Wal-Mart to compete. However, if this is the case, then it must also be true that just about all of Wal-Mart's price advantage comes from labor cost. The "savings" to consumers in such an environment is akin to robbing Peter to give to Paul, and it is unclear whether society would be worse off from reducing Wal-Mart's competitiveness. In contrast, if Wal-Mart's price advantage really is as large as claimed by Basker, Currie

[10] From Employer Costs of Employee Compensation (2005) – service sector unionized employers pay $3.46/hour for health insurance. http://www.bls.gov/news.release/ecec.toc.htm

and Jain, or Hausman, then absorbing a moderate increase in labor cost should not pose a threat to the retailer or consumers.

Wal-Mart's ability absorb a large increase in prices also hinges on whether that increase is unilateral or industry-wide. If somehow a policy, or a pressure campaign or unionization, made Wal-Mart increase its compensation by 35%, but left other retailers untouched, Wal-Mart's would have a difficult time expanding into new markets and perhaps even in holding on to its current markets. Of course, Wal-Mart is a dominating presence in the sector, allowing it to absorb a unilateral cost increase more effectively than its competitors. However, over time, if Wal-Mart were held to a standard substantially above its competitors, we would see growth among other low-wage retailers. In contrast, policies or unionization that set standards for all big box retailers can successfully raise the bar for the retail sector without making the cost prohibitive for an individual company. Examples of this include proposals in Chicago, New York City and the state of Maryland that would require big box retailers to provide a "living wage" or a minimum amount per hour for health benefits. The city of Los Angeles requires a community impact analysis as part of the permitting process for big box development. Boarnet and Crane (2005) similarly argue for expanded local review of big box developments and mitigation schemes tailored to local conditions.

Of course, by imposing a standard that has a real bite, we should expect to see some increases in retail prices. Or more accurately—given ongoing innovations and increasing international trade—we would see somewhat smaller price decreases That may be a price that individuals are willing to pay when they consider the problem from a "civic" perspective, as opposed to a purely "consumer" one. This dichotomy was articulated by Robert Reich recently in a *New York Times* column (Reich 2005). After all, we would almost certainly eat cheaper burgers if we did not raise the minimum wage. Yet, voters in numerous states and cities have chosen to increase the minimum wage even in the past year, as the federal minimum has stagnated. This does not mean that when shopping for a burger, that same voter will somehow forego a good bargain at a restaurant just because it pays low wages. In fact, virtually no one will inquire about the wages paid to cashiers before placing an order. As civic participants, we often make choices we would not as consumers. As communities across the country weigh the costs and benefits of imposing standards for retail development, the case for better labor standards at Wal-Mart can be understood in a similar fashion.

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