



Wall Street vs. Main Street: What are the Benefits and Costs of Wal-Mart to Local Communities?

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“In business, there is big and there is Wal-Mart.”
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So begins a recent report about the wide-ranging influence of Wal-Mart. To get a sense of just how big Wal-Mart is, consider the following:

- Wal-Mart Stores, Inc. is the world's largest retailer, with \$285.2 billion in sales in the fiscal year ending Jan. 31, 2005 (Wal-Mart, 2006).
- The company employs 1.2 million employees in the United States and 1.6 million worldwide. Wal-Mart is the largest private employer in the United States (Wal-Mart, 2006).
- Wal-Mart's estimated \$18 billion purchases from China in 2004 represent 10% of all U.S. imports from China (Lahart, 2005).
- Wal-Mart controls a large share of retail business done by almost every major U.S. consumer-products company; it accounts for 28% of Dial total sales, 24% of Del Monte Foods, 23% of Clorox, and 23% of Revlon (Bianco & Zellner, 2003).
- Wal-Mart began selling food in 1988 and in 2002 became the largest grocery chain in the United States. In 2004, U.S. grocery sales from Wal-Mart Supercenters and neighborhood markets totaled \$80 billion (Agnese, 2005).

Despite these successes or perhaps because of them, America has a love-hate relationship with Wal-Mart. The company is revered on Wall Street for its growth and business success, but often reviled on Main Street for driving out mom and pop retailers. Just what are the local benefits and costs of a Wal-Mart store opening up in a community?

A review of the recent academic research that addresses the question of the local impacts of Wal-Mart and other supercenters shows that there are clear benefits and costs associated with supercenter retail stores, and that they are unevenly distributed across employees, shoppers, other businesses and local communities. Here, we provide a summary of these recent research findings and suggest some local strategies for managing large retail development.

Local and regional shoppers. Consumers enjoy tremendous benefits from the lower prices offered by Wal-Mart and other large discount retailers. For example, prices for various food items in Wal-Mart and other “nontraditional” large discount food retailers are typically 5-48% less than prices for the same product in conventional supermarkets (Hausman & Leibtag, 2006). This generates tremendous savings to consumers in the form of both a *direct* effect from having lower priced goods available in the community, as well as an *indirect* effect generated through competition with other retailers. While only those who shop at the large discount retailers benefit directly from lower prices, all shoppers benefit from the competition effect. Basker (2005a) estimates price declines of 7-13% in the long run as the result of a Wal-Mart store opening, with the largest price declines occurring with drugstore items such as toothpaste and shampoo.

Hausman and Leibtag (2006) estimate the savings in food expenditures resulting from entry and expansion of Wal-Mart and other large discount retailers in a community. They find that the direct effect of having access to lower priced goods generates a savings of 20.2% in food

expenditures for the average household. The competition effect generates additional savings of 4.8%. Thus, the total consumer savings from these combined effects for a household with average income and food expenditures is equal to 25% of the household's total food expenditures. Not surprisingly, lower income households benefit even more from lower food prices; the estimated savings in expenditures is close to 30% for households with an annual income below \$10,000.

Shoppers face potential costs associated with supercenters as well. Service clerks are often less knowledgeable and product variety is more limited in comparison to retail specialty stores. On net, however, the substantial gains to consumers from lower prices are widespread and more than offset these costs.

Local retail workers. While it is certainly true that Wal-Mart provides individuals with employment opportunities, there is some evidence that points to the negative impact that Wal-Mart has on local labor markets. According to Wal-Mart, the average full-time employee (which includes all levels of employees) makes an hourly wage of \$10.11—an average annual salary that is roughly equal to the federal poverty line for a family of four.

The impact of lower paying Wal-Mart jobs on local retail employment depends on whether and where workers would be employed in the absence of a Wal-Mart. It is possible that Wal-Mart workers have been displaced from formerly better paying retail jobs, but also possible that they were unemployed or underemployed previously. Two recent national studies examine the effect of a Wal-Mart store entry on total retail employment at a county level. Basker

(2005b) finds that the immediate effect of Wal-Mart's entry is an increase of 100 retail jobs; after 5 years, this number is reduced to an average of 50 jobs. On the other hand, Neumark, Zhang, and Ciccarella (2006) find that Wal-Mart entry reduces retail employment at the county level by about 180 workers, which translates into each Wal-Mart worker displacing 1.5 other retail workers. The discrepancy between these results is due to different methods used to identify the causal relationship between Wal-Mart entry and county employment. Neumark, Zhang, and Ciccarella (2006) also investigate the influence of a Wal-Mart store opening on retail earnings at a county level. The results indicate that a Wal-Mart store opening leads to a decline in county-level retail earnings of about 2.8%, driven largely by the reduction in retail employment.

Increasing concern has mounted over whether Wal-Mart workers with limited benefits disproportionately rely on public assistance programs (including subsidized healthcare, housing, and food stamps). Goetz and Swaminathan (2006) consider the relationship between Wal-Mart and county poverty rates. Controlling for other factors that may influence poverty rates and for the possibility that poverty rates may influence the location of a new Wal-Mart store, they find that counties with more Wal-Mart stores in 1987 had higher rates of poverty in 1999 than counties with fewer or no Wal-Mart stores. They also find that counties in which new Wal-Mart stores were built between 1987 and 1998 experienced higher poverty rates in 1999. Specifically, the opening of a new Wal-Mart store is found to increase the average poverty rate in a county by 0.2%. In aggregate, the

authors estimate that an additional 20,000 families are in poverty as a result of Wal-Mart's presence in local communities.

Other businesses. Many objections to a new Wal-Mart store have to do with the anticipated negative effects of Wal-Mart on existing retailers. While there is some disagreement over how total retail employment in a county is affected, the impact on small retailers (with fewer than 20 employees) is clear. Basker (2005b) considers small retailers specifically and finds that five years after Wal-Mart's entry, an average of four small retailers are displaced. In contrast, the number of medium-sized retailers (with 20-99 employees) is estimated to decline only by 0.7 retailers five years afterwards. Jia (2005) estimates a statistical model of large and small retail firms' entry and exit decisions also using a national sample of U.S. counties. Wal-Mart's expansion from the late 1980s to late 1990s is found to account for 50-70% of the decline in small retailers.

Because large retailers require relatively large parcels of land, they tend to locate at the edges of a town. This can have clear negative effects on the traditional Main Street shopping district, while bringing potential benefits to complementary stores located on the fringes. However, perhaps because of their "one-stop shopping" appeal, Wal-Mart stores do not appear to have strong attraction effects. Basker (2005b) investigates the influence of a Wal-Mart store on the number of restaurant and automobile dealership jobs within a county, but finds no causal relationship.

Local jurisdiction. The opening of a Wal-Mart store can be a mixed blessing for a town. A new Wal-Mart can

stimulate total retail sales within a community by attracting customers from further away, and thus the local jurisdiction benefits through higher sales tax revenues. However, this depends on the regional distribution of Wal-Mart and other large retail stores and how much of an increase in the local market area a new Wal-Mart store is able to achieve. If large discount retailers are already present, then the local market area may not expand substantially and overall retail sales may not increase.

A study of Iowa rural towns by Stone (1997) found that total sales for the towns in which a Wal-Mart opened increased by six percent two years after the Wal-Mart opened, but after ten years, sales were four percent below the pre-Wal-Mart level. Stone concludes that this downturn probably reflects the opening of several large retail stores in proximate urban areas that, in turn, recaptured trade from the Wal-Mart towns. This dynamic reflects a broader trend of rapid growth in the number of retailers in recent years across the United States; for example, the number of general merchandise retail establishments in the United States increased by 4,000 between 1997 and 2002. Stone, Artz, and Myles (2002) conclude that in many rural areas, a "zero-sum game" frequently prevails: a new entrant (such as a new Wal-Mart store) captures its sales from existing businesses rather than from a growing market and thus there are often no net gains in sales revenues.

In addition to impacts on local tax revenues, large retail development may generate greater fiscal costs to a community than it generates in revenue, thereby being a drain on fiscal resources. For instance, in a 2002 study of the Town of Barnstable, Massachusetts, it was found that after taking into account new revenues,

the net cost to the community of a new large discount retailer was \$468/10,000 square feet (Tischler & Associates, Inc., 2002). Vehicle trip generation drives much of these costs. Depending on location and demographics, supercenters in regional shopping centers can generate up to 20,000 average daily car trips (Boarnet & Crane, 1999). Because supercenters typically locate in outer suburban and exurban areas, this can exacerbate the fiscal costs associated with traffic congestion and infrastructure strain.

Macro-level effects. Many claims have been made about Wal-Mart's positive and negative impacts on the national and even global economy. While a thorough review of research on this topic is beyond the scope of this paper, we mention two potential impacts because of their relevance to local communities. First, many have asserted that Wal-Mart's adherence to low prices and their strong bargaining position with suppliers has helped to keep down consumer price inflation. In a study of the national economy, the consulting firm Global Insight Inc. (2005) estimates that the expansion of Wal-Mart from 1985 to 2004 is associated with a 3.1% decline in overall consumer prices as measured by the Consumer Price Index.

Second, many have claimed that Wal-Mart has hastened the flight of U.S. manufacturing jobs overseas through aggressive global sourcing of inputs. Basker and Van (2005) provide evidence that the import share of apparel sales at Wal-Mart stores is substantially higher than the average apparel retailer. However, while such practices may *accelerate* manufacturing job loss at the national level, the loss of manufacturing jobs from the U.S. is a long term trend that is the

result of many global economic and political forces. Global sourcing of manufacturing began in the early 1980s and has happened irrespective of Wal-Mart's existence and growth.

Net impacts. In summary, consumers have benefited from Wal-Mart's tremendous cost efficiencies in the form of greatly reduced retail prices, which generate substantial savings to U.S. consumers annually. However, evidence also shows that Wal-Mart does not bear the full economic and social costs of its business practices. As a result, the benefits and costs are unevenly distributed across individuals. Those who are employed in non-retail sectors of the economy reap substantial benefits from lower prices and absorb some of the potential costs if tax revenues are needed to cover increased social costs. Those employed in the retail sector absorb the additional cost of lower wages, fewer benefits and a potentially shrinking employment base.

Strategies for Local Communities

Communities can attempt to fight the opening of a new Wal-Mart store, but few have been successful in keeping Wal-Mart out permanently. In cases in which a new Wal-Mart store was defeated initially, Wal-Mart has often been successful on the second try. Alternatively, they have simply chosen to locate their store in a neighboring community, a move that may have more adverse impacts on the community that fought the Wal-Mart store.

In communities without large retailers, the opportunity costs of keeping out Wal-Mart or other large discount retailers is high. Without the option of lower priced goods and the competitive pressure that these stores bring, consumers are forced to pay higher prices. On the other hand,

communities that already have several large discount retailers are unlikely to experience further reductions in consumer prices with the addition of another large discount store, but will still experience increasing infrastructure costs and may absorb additional social costs as well. In these cases, the community risks an oversupply of large retailers, which can lead to vacancies in older strip and large retail developments as newer retail outlets out-compete older ones. Thus, the net benefits of additional large discount retailers to a community that already has easy access to such stores are far less and in these cases, the costs of an additional store may easily outweigh the benefits. In light of these considerations, what can a community do? Below we discuss several local options that can improve the net benefits associated with large retail development.

Expand control over retail development. Comprehensive plans should explicitly address large retail development by identifying locations that maximize existing infrastructure and potential attraction effects and that minimize land impacts and traffic congestion. For example, the City of Hailey, Idaho's 2000 comprehensive plan clearly specifies community goals and implementation procedures that anticipate new retail development. These goals promote the health of the existing downtown (a defined, walk-able business core) and fiscally responsible use of existing infrastructure (City of Hailey, Idaho, 2000). St. Petersburg, Florida dictates concurrencies for public services (St. Petersburg, Florida, 2005), where concurrency is defined as having the "necessary public facilities and services to maintain the adopted level of service standards that are available

when the impacts of development occur (page GID-20)."

Plans, and the tools used to implement plans such as zoning and site design, can dictate the placement of public services (water, sewer, roads) and standards can be instituted that achieve local goals for aesthetics and other development priorities. The zoning ordinance can require adherence to the comprehensive plan, cap the size of retail structures (Easton, Maryland, 2006) or require that any new development over a certain size meet minimum standards as to not adversely impact the community (Greenfield, Massachusetts, 2006). Design and site standards can be enforced that address specifics in regards to the site itself and the form of development (San Jose, California, 2006).

Educate existing retailers. Existing retailers can adopt strategies to co-exist with a large discount retail store such as Wal-Mart (Center for Applied Economic Research, Montana State University, 2002). Smaller retailers should develop strategies for staying competitive with big box competition. Pricing should be at least within 10 to 15% of larger retail stores and the emphasis should be on diversity in merchandise. Small retailers can focus on filling the "voids" in products or services that do not exist in large retail stores and provide high levels of customer service. Promotional campaigns and adequate signage could attract regional Wal-Mart customers into the other retail centers of the community.

Promote long-term local economic development strategies. In the long run, local communities are best served by using their scarce resources to promote long-term economic develop-

ment rather than to keep out large retail development. This implies understanding global economic forces and identifying strategies that take advantage of these forces to foster economic growth and the creation of higher wage jobs. A good example is Aurora, Nebraska (Federal Reserve Bank of Kansas, 2001). Community leaders in Aurora, a town of just over 4,000 people, decided to leverage their assets—local proactive leadership, dedicated community volunteers and an existing high-tech telecommunications company — to create their competitive advantage. In addition, they anticipated the potential labor needs and prior to recruitment instituted a training program for residents to work in this industry. Capitalizing on their technological infrastructure, available labor force and quality of life, Aurora officials were able to woo a couple of high-tech communications firms.

State policy options. There is a clear role for states to play in supporting local planning. The state can provide minimum, sound planning, zoning and design standards dealing with large retail developments that not only provide a good base, but also strengthen local priorities. State laws can support communities by designating large developments as conditional uses and requiring a comprehensive economic and community impact review of any new retail construction that is over a certain footprint.

In recent months some states have passed legislation that mandates a minimum level of benefits provided by large employers such as Wal-Mart.¹ The rationale for such regulation is both philosophical—that firms should pay employees a "living wage"—and practical, since employees with limited benefits may

place greater demands on states' public health care and other assistance programs. However, this conclusion depends critically on whether large retailers such as Wal-Mart are imposing an additional social burden by displacing retail jobs with better benefits vs. lessening the social burden by providing health care benefits to otherwise unemployed workers. In addition, because such legislation would increase the operating costs of large employers, it could lead to a reduction in the number of employees or an increase in consumer prices. In considering such legislation, the benefits of increased healthcare benefits to workers should be weighed against these potential costs.

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1. *The first state to legislate this is Maryland, which passed a bill in January 2006 that requires private companies with more than 10,000 employees in Maryland to spend at least 8% of their payroll on employee health benefits or make a contribution to the state's insurance program for the poor. Wal-Mart, which employs about 17,000 Maryland residents, is the only known company of such size that does not meet that spending requirement (Wagner, 2006).*

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