

The Department of Economics welcomes students, faculty, and staff to:

Current Issues in Economics: WalMart

Tuesday, Feb. 5th

4:30- 6:00

Farrell Room, St. Edmund's Hall

WalMart's business practices have been at the center of controversy for years. Some claim that, as the nation's largest private employer, WalMart underpays its workers and shifts the burden of providing benefits to the government. Others argue that WalMart's competitive practices destroy locally-based stores while encouraging outsourcing. Defenders claim that Walmart serves unmet needs by providing affordable goods and entry-level jobs.

Local scholar Doug Hoffer and Business Department Professor Robert Letovsky will discuss differing views on WalMart and take questions from students, faculty, and staff.

Some WalMart Facts & Stats:

Number of WalMart employees: **1,900,000** in 2007
 Number of WalMart stores: **3,414** WalMart, **586** Sam's Club in 2007
 WalMart's annual sales: **\$348,650,000,000** (\$348 billion) in 2007
 WalMart's annual profits: **\$11,300,000,000** (\$11 billion) in 2007

Source: Dunn & Bradstreet database

Average hourly wage of all WalMart workers: **\$9.68** in 2004
 Average hourly wage in "general merchandise": **\$10.29** in 2004
 Average hourly wage in all retail: **\$12.58** in 2004

Percentage of WalMart employees *eligible* for health-care insurance: **81%**
 Percentage of all retail employees *eligible* for health-care insurance: **61%**

Percentage of WalMart employees *covered* by health-care insurance: **48%**
 Percentage of all retail employees *covered* by health-care insurance: **46%**

Walmart's reduction in prices for food alone is equivalent to a **6.5% raise** for the poorest 20% of families.

Source: Furman, 2005

Results of some studies on WalMart's impact on local economies:

	Effect on number of local jobs	Effect on local wages
<i>Basker</i>	net gain of ~50 jobs per store	
<i>Neumark, Zhang, Ciccarella</i>	retail jobs down, total jobs up	down 3.5%
<i>Dube, Eidlin, Lester</i>		urban: down 1%; rural: up 1%

Source: Furman, 2005

Editorial by The St. Petersburg Times

March 27, 2005

Attention Wal-Mart shoppers: The retail giant that supplies you with everything from orange juice to camping gear is using your tax money to underwrite its bottom line. Wal-Mart has more workers enrolled in the state Medicaid program - a medical insurance program for people living in and near poverty - than any employer in Florida. That's in addition to the millions of dollars in financial incentives Wal-Mart receives from state and local governments for creating jobs in the state.

Florida taxpayers are subsidizing the largest employer in the country, with the effect of holding down the state's wages and adding to the strain on state social services. Wal-Mart employs 91,000 workers in Florida and, according to a company spokesperson, its hourly workforce earns an average per-hour wage of \$9.36. In 2003, Florida's median wage was \$12.52 per hour. Moreover, 12,300 of Wal-Mart's workers are eligible for Medicaid, and another 1,375 are enrolled in state programs that provide health coverage for the children of low-income families.

Even setting aside the threshold question of whether the state should be financially rewarding businesses at all, why is Florida handing out millions of dollars in incentives to favor one retail company over another? It might make some sense to try to entice manufacturing or research companies to locate in Florida or expand their operations here, since they would be bringing along new industry and better-paying jobs. But Wal-Mart was coming to Florida and its 17-million potential customers regardless of any enticements. Despite that, as reported by St. Petersburg Times staff writers Sydney Freedberg and Connie Humburg, somehow Wal-Mart qualified for nearly \$7-million in breaks from a variety of programs, from tax reductions for situating in "enterprise zones" to state tax refunds offered to employers who create "high wage jobs." Florida has always been a cheap-labor state, but the name Wal-Mart and "high wage jobs" are rarely found in the same sentence.

Taxpayers are getting a bad deal, but no one seems concerned. Thanks to a lack of interest by the governor and state leaders, not enough scrutiny is given to what Florida actually reaps from companies that take our corporate welfare. Why should any employer qualify for job-creation incentives when thousands of its employees have to rely on the state to pay for their medical care? Florida should follow the lead of states that require companies, before qualifying for incentives, to provide health benefits for their employees and pay a fair share of the cost. (Wal-Mart offers health coverage but many employees can't afford it.)

Wal-Mart is not the only state welfare queen. It just happens to be the largest. But this kind of double-dipping should raise enough red flags to get the attention of the governor and Legislature. But don't count on it. Remember, this is Florida where, as Charlie Reed once said, we're cheap and proud of it.

Wal-Mart as a Political Diversion

By [Robert Samuelson](#)

Washington Post, August 30, 2006

WASHINGTON -- It's not surprising that, as *The New York Times* reports, leading Democratic politicians have latched onto bashing Wal-Mart as a "new rallying cry" that "could prove powerful in the midterm elections and in 2008." America's political culture routinely demands at least one hideous corporate villain. In recent decades that role has fallen to General Motors, IBM, Exxon Mobil and Microsoft; now Wal-Mart has assumed the mantle. But these wishy-washy politicians have missed the obvious solution to the Wal-Mart problem: nationalization.

Congress should just buy the company and then legislate good behavior. Wal-Mart executives "talk about paying them (workers) \$10 an hour," Sen. Joseph Biden told a rally in Iowa, according to the *Times*. "How can you live a middle-class life on that?"

Well, if \$10 is too little, the government could order the Department of Wal-Mart to pay more. How about \$15 or \$20? Similarly, if Wal-Mart's health insurance is inadequate, Congress could command more coverage. (I asked Wal-Mart for coverage figures, which it declined to provide. All a spokesperson said is that more than half its 1.3 million U.S. employees are full time, enjoying higher coverage rates, and that 75 percent of all workers have some coverage through the company, the government or spouses' plans.)

OK, I jest. Congress isn't going to buy Wal-Mart -- which would cost roughly \$183 billion at its current stock price of about \$44 a share -- and I don't think it should. Still, pretending to nationalize Wal-Mart is a useful thought exercise. It shows why Wal-Mart as a government agency would actually provide fewer public benefits than as a grubby, profit-seeking colossus. The company's incentives would shift. Instead of trying to lower costs, improve efficiency and raise profits, it would focus on pleasing its political patrons and complying with their demands.

These would doubtlessly burgeon beyond wages and benefits. Politicians would find unending opportunities for grandstanding and meddling. Does Wal-Mart import too much from China? Order it to cut back. Does it treat suppliers brutally? Require it to be nicer. Are its stores ugly? Appoint architectural advisers.

Wal-Mart would deliver more political benefits to favored constituencies -- workers, suppliers, competitors -- and fewer to the public. Retail prices would be the biggest casualty. Scholarly studies show Wal-Mart's price reductions to be sizable. Economist Emek Basker of the University of Missouri found long-term reductions of 7 percent to 13 percent on items such as toothpaste, shampoo and detergent. Other companies are forced to reduce their prices. On food, Wal-Mart produces consumer savings that average 20 percent, estimate Jerry Hausman of the Massachusetts Institute of Technology and Ephraim Leibtag of the Department of Agriculture.

All told, these cuts have significantly raised living standards. How much is unclear. A study by the economic-consulting firm Global Insight found that from 1985 to 2004, Wal-Mart's expansion lowered the consumer price index by a cumulative 3.1 percent from what it would

have been. That produced savings of \$263 billion in 2004, equal to \$2,329 for each U.S. household. Because Wal-Mart financed this study, its results have been criticized as too high. But even if price savings are only half as much (\$132 billion and \$1,165 per household), they'd dwarf the benefits of all but the biggest government programs.

A collateral benefit is less understood. By restraining inflation, intense competition of the sort that Wal-Mart provides eases pressure on the Federal Reserve to do the job with higher interest rates. Note the paradox: at one level, intense competition destroys jobs, as some companies can't compete, but the larger effect is to increase total job creation by fostering favorable economic conditions.

No company should be above public scrutiny. But much of the political criticism of Wal-Mart is shallow and, if followed, undesirable. Wal-Mart doesn't pay high wages and benefits mainly because it's in an industry (retailing) where those are rare. In 2005, average hourly wages were \$10.85 for food stores, \$10.63 for clothing stores and \$10.84 for department stores. As General Motors and Ford are now discovering, companies that pay above-market labor costs ultimately shrink and destroy jobs. The efforts of some local governments -- notably the Maryland Legislature and Chicago City Council -- to mandate higher labor costs on Wal-Mart are shortsighted.

There may even be political pitfalls to this crusade. By Wal-Mart's estimate, 85 percent of Americans shop during the year at the chain; in opinion polls it generally receives high ratings. People are voting with their pocketbooks. On any list of major national concerns, the "Wal-Mart problem" would not rank in the first 50. Why, then, are some leading Democratic politicians spending so much time talking about it? People who ask that question may conclude that Wal-Mart, though a tempting target as a symbol, is mostly a diversion from weightier issues where what politicians do really matters.

WalMart's Legal Troubles:

- Wal-Mart's 2006 Annual Report reported that the company faced 57 wage and hour lawsuits. Major lawsuits have either been won or are working their way through the legal process in states such as CA, IN, MN, OR, PA, and WA. [Wal-Mart Annual Report 2006]
- In December 2005, a California court ordered Wal-Mart to pay \$172 million in damages for failing to provide meal breaks to nearly 116,000 hourly workers as required under state law. Wal-Mart appealed the case. [New York Times, December 23, 2005]
- In 2001, six women sued Wal-Mart in California claiming the company discriminated against women by systematically denying them promotions and paying them less than men. The lawsuit, *Dukes v. Wal-Mart*, has expanded to include more than 1.6 million current and former female employees, and was certified on June 21 2004 as the largest class action lawsuit ever. [Mondaq Business Briefing, 11/1/04]

Other Sources of info for WalMart:

Economic Policy Institute report on WalMart:

<http://www.epi.org/content.cfm/ib223>

Analysis by economist Jason Furman (John Kerry's economic advisor):

http://www.americanprogress.org/kf/walmart_progressive.pdf

Organizations critical of WalMart:

<http://www.wakeupwalmart.com/>, <http://walmartwatch.com/>

Online debate on WalMart between Jason Furman and Barbara Ehrenreich:

<http://www.slate.com/id/2144517/entry/2144521/>

Report on WalMart by UC Berkely Labor Center:

<http://laborcenter.berkeley.edu/retail/walmart.pdf>

Report on WalMart and government programs:

<http://www.goodjobsfirst.org/pdf/wmtstudy.pdf>

Case study of WalMart expansion:

<http://www.onlinecpi.org/article.php?list=type&type=75>

News articles about WalMart:

“Wal-Mart Chief Writes Off New York” *New York Times*, 3/28/07.

“Suits Say Wal-Mart Forces Workers to Toil Off the Clock” *New York Times*, 6/25/02

“Wal-Mart pays \$11m over illegal labor” *Wall Street Journal*, 11/5/05

“Wal-Mart vs. . the Workers: Labour Grievances Are Stacking Up Against the World's Biggest Company,” *Financial Times*, 11/20/03

Books on WalMart:

Charles Fishman. *The Wal-Mart Effect*. New York: Penguin Press, 2006.

Bill Quinn. *How Wal-Mart is Destroying America*. Berkeley: Ten Speed Press, 2000.

Richard Vedder and Wendell Cox. *The Wal-Mart Revolution: How Big Box Stores Benefit Consumers, Workers, and the Economy*. Washington, DC: American Enterprise Institute, 2006.

Anthony Bianco. *The Bully of Bentonville: How the High Cost of Wal-Mart's Everyday Low Prices is Hurting America*. New York: Currency Doubleday, 2006.

William H. Marquard. *Wal-Smart: What it Really Takes to Profit in a Wal-Mart World*. 2007.