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How Wal-Mart Can Raise Wages and Maintain Healthy Profits

Study disproves claims of positive economic impact

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Better wages or lower prices? Wal-Mart can have both and still earn a healthy profit, according to a new report issued today by the Economic Policy Institute. Economists Jared Bernstein and L. Josh Bivens assess the competing claims about Wal-Mart's impact on prices and wages in *The Wal-Mart Debate: A False Choice Between Prices and Wages*. Their paper disproves a widely cited study that claims U.S. consumers have saved $263 billion because of Wal-Mart's expansion. Furthermore, the study finds that Wal-Mart could raise wages and benefits for its non-supervisory staff by 13 percent and still maintain a profit margin almost 50 percent greater than Costco, a key competitor.

The most important revelation in this report is the inaccuracy of the claim that Wal-Mart's expansion saved consumers $263 billion. Wal-Mart commissioned a study by the consulting firm Global Insight (GI), which found that Wal-Mart had whopping positive impacts on the economy. *The Wal-Mart Debate* reviews research that reveals the two top-line findings of the GI report are incorrect and the GI research methodology throughout is fraught with problems.

GI based its findings on the Consumer Price Index (CPI) – which measures the costs of a basket of goods and services on which families typically spend their money. But 60 percent of the items in the CPI basket are services like health care, housing, and transportation, which can't be purchased at Wal-Mart. Moreover, future benefits from Wal-Mart's prices will shrink because health care, energy, and other services constitute an ever-growing share of household expenditures.

"Working families need higher wages to keep up with the rising prices of gas and housing," said co-author Josh Bivens. "Rent or mortgage, utilities, medical services and transportation – these are what take up the largest portion of a family's income – not goods bought at Wal-Mart."

Not only do the authors discredit research commissioned by Wal-Mart that shows improbably large economic benefits from the company's expansion, they also show how Wal-Mart's labor policies hurt low-income families. As Wal-Mart expands, its low wages supplant competing jobs that pay 18 percent more in urban counties. This leads to substantial downward pressure on wages, with Wal-Mart store openings leading to a 0.5 - 0.8 percent reduction in average earnings per worker in the general merchandising sector, and pay lowered by 0.8 - 0.9 percent for grocery workers.

The authors' analysis also shows that Wal-Mart could provide workers sizable increases in wages and compensation without affecting prices if the store accepted the same profit margins as some of its competitors, or, even accepted the same profit margins that characterized its own operations in the recent past. For instance, Costco, a competitor in the large-market food business, had a net profit margin of 2 percent in 2005, and Wal-

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Mart's net profit margin grew from 2.9 percent in 1997 to 3.6 percent in 2005. Returning to its 1997 net profit margins would allow Wal-Mart to give its non-supervisory workers 13 percent pay increases without raising prices, while still maintaining higher profit margins than a main competitor.

The authors conclude with an analysis of whether the Wal-Mart model is one that can deliver broadly-shared growth. Essentially, many defenders of Wal-Mart have argued that its workers and the larger community should acquiesce to the low wages the company pays, and that Congress should be relied upon to make up the difference between these salaries and a decent standard of living. The authors argue that this is too narrow and unreliable a strategy.

A technical paper written by the authors along with Arindrajit Dube of the University of California-Berkeley Labor Center, *Wrestling with Wal-Mart: Tradeoffs between profits, prices, and wages*, is referenced throughout this study. It is also available on the EPI web site here: http://www.epi.org/content.cfm/wp276

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