

How Large Retailers Can Be Neighborly

Chicago Tribune

Tuesday, July 25, 2006

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Pay a Living Wage and Health Benefits

By Annette Bernhardt and Nik Theodore

Across the country, communities are exploring ways to bring dignity and economic security to low-wage workers and their families. Chicago is right in the mix, considering a law that would require large retailers to pay their employees a living wage and health benefits.

But sadly, Wal-Mart has chosen to resort to scare tactics, threatening that it and other retailers would pull the plug on future expansion in the city if the law passes. That's both disingenuous and disrespectful of the city and its residents.

The truth is that Wal-Mart and other large retailers absolutely need Chicago. Having built up in rural areas and suburbs to the point of overcapacity and stagnant sales, retailers are now hungrily eyeing cities. Finding new, untapped markets is the lifeblood of survival in the industry, and so it's no surprise that business analysts are seeing a rush to open urban stores, what they're calling the "final frontier of American retailing." Space and labor costs may be higher in cities, but the experience of forerunners like Walgreens shows that urban stores often end up being even more profitable than suburban ones, because of high sales volume and concentrated buying power.

Chicago is the poster child for this expansion opportunity. Initiative for a Competitive Inner City, a leading think tank on local economic development, has studied Chicago and identified retail as one of four core industries for revitalizing the local economy and boosting employment and personal income. It estimated that inner-city Chicago represents more than \$5 billion in annual buying power, a significant chunk of which is currently undertapped by retailers. On the South and West Sides, unmet consumer demand for retail is as high as 45 and even 60 percent. Those are the kinds of numbers that get retailers drooling.

Make no mistake, Wal-Mart will open its stores in Chicago no matter what--and apparently as cheaply as possible. That's where the disrespect comes in. In April, Lee Scott, Wal-Mart's chief executive officer, announced that the company would build 50 new stores in inner-city neighborhoods across the country, using the language of "economic opportunity" and "engaging the community." But what kind of opportunity is Wal-Mart creating when its starting wage is at about \$7.25 an hour (as the company admitted this month) and when more than half its workers don't get health insurance? In Chicago, a single mom with one child needs to earn \$34,351 just to meet her family's most basic needs. Even working full-time, an entry-level job at Wal-Mart would bring in approximately \$15,000.

The great disappointment is that Wal-Mart, with \$11 billion in profits last year,²⁰ can afford to do better. In a report just released, the Economic Policy Institute estimates that the company could raise wages and benefits for its front-line workers by more than \$2,000 a year without raising prices a penny--and still have a profit margin higher than key competitors. In fact, Wal-Mart only needs to look to one of its main competitors, Costco, for inspiration. Costco pays about \$10 an hour to start and an estimated 87 percent of its workers receive health insurance (including part-time employees).

The proposed "big box" law is well designed, focusing on a growing, robust industry that is a good source of jobs for workers without college degrees. It is thoughtful in targeting large retailers who can clearly afford to pay decent wages and provide benefits. And it is economically sound. During the past decade in this country, the minimum wage has been increased two times at the federal level, 62 times by 17 states, and seven times by three cities--and all have lived to tell the tale.

This is not outlandish policy, it is a coherent response to the fact that almost a third of Chicago's workforce is employed in low-wage industries and that every day, people who work full-time show up in the city's soup kitchens. In daring to ask retailers for more than bad jobs, Chicago joins communities across the country--as in San Francisco, where Home Depot recently agreed to adopt a starting wage of \$10.75 an hour and hire local residents for 150 new jobs, in return for opening its first store in the city.

So enough with the disingenuous scare tactics and the bullying about lost jobs. Wal-Mart needs Chicago. And it can afford to pay a living wage.

ABOUT THE AUTHORS

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