



## Wal-Mart and the Local Economy

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With total revenues in excess of \$250 billion per year and more than 1.3 million employees worldwide, Wal-Mart Stores, Inc. is the largest corporation in the world. Wal-Mart's staggering – and continuing – growth traces directly to its pioneering of an innovative business model that features sophisticated supply chain management and aggressive cost-cutting. That model, as revolutionary as was that of the Sears & Roebuck Co. in the late 1800s, has profoundly altered patterns of local retail and wholesale trade, as well as the logistics of the transportation and distribution of goods.

Wal-Marts sell a wide array of products at lower prices than competing retail outlets. It also hires large numbers of local workers, as well as generating substantial property tax and sales tax revenues for local communities. Nonetheless, Wal-Mart is a frequent target of hostile sentiment, and announcements of plans to build a new Wal-Mart in a given community are often met with considerable protest. Much of the antagonism toward Wal-Mart is rooted in the perceived dislocating effects that new Wal-Mart stores have on competing “mom-and-pop” retail stores. This issue of the *NC State Economist* discusses the effects of Wal-Mart on the local economy.

### Economic Impacts

#### *Effects on Consumers*

The efficiencies with which Wal-Mart connects producers of the goods it sells with its customers allow it to price many of those goods well below the prices that other, competing retailers can offer. In addition, and particularly in rural locations, Wal-Marts tend to offer a much wider variety of products for its customers to choose from. This is

particularly true of ‘Supercenters’ that sell products ranging from clothing to groceries to hardware to optical services.

Lower prices and greater availability of products in one location clearly provide direct economic benefits to local consumers. The size of those benefits will vary from location to location, depending on how much lower the prices are and how much farther consumers would have to travel to access that greater range of goods.

#### *Effects on Other Retail Establishments*

Wal-Mart's ability to sell goods more cheaply means that it represents a profound threat to the viability of other nearby retail establishments. There is no doubt that some of these newly out-competed establishments will be forced out of business when a new Wal-Mart opens its doors for business, and that others will be forced to downsize as their customer base declines. Particularly hard-hit competing businesses tend to be stores selling apparel, shoes, hardware, building supplies, paint and glass, groceries, fabric and jewelry. Additionally, establishments providing certain kinds of services – for example, optical services and car repairs – are also vulnerable.

On the other hand, certain types of businesses offering goods and services that Wal-Mart does not sell tend to be positively affected by proximity to Wal-Mart. This is mainly due to a greater incidence of walk-in (or drive-by) shoppers. Home furnishings stores and some eating establishments are examples of these kinds of business. However, despite these positives, there is no doubt that on the whole Wal-Mart has a depressing effect on the well-being of other local retail businesses.

### *Employment Effects*

The typical Wal-Mart store employs 150 to 350 people; Supercenters employ up to 500 workers. Many of these jobs are part-time. In assessing overall impacts of a Wal-Mart, these new jobs must be balanced against job losses at other, competing firms. In addition, given Wal-Mart's highly centralized supply-chain management, local wholesalers and distributors may well see a decline in demands for their services as well.

The best evidence on overall changes in local employment resulting from a new Wal-Mart is found in the work of University of Missouri economist Emek Basker. Basker studied county-level employment effects of Wal-Marts over the period 1977-1998. She found that for every 100 new jobs created by a new Wal-Mart, 50 retail jobs are lost at competing establishments over the next five years, and 20 wholesale jobs.

An additional point of interest here is that to the extent that local retail businesses are negatively affected by a new Wal-Mart, local suppliers of legal, accounting, insurance and other more "white collar" support services may also be negatively affected. The reason for this is that while a significant fraction of those kinds of services are procured locally by locally-based retail firms, Wal-Mart keeps these types of services in-house – that is, they are supplied from Wal-Mart's Bentonville, Arkansas headquarters.

Finally, while net creation of new jobs is an effect that often receives attention in newspapers, the more meaningful indicator of local economic impact is the net effects on community-wide earnings. Wal-Mart jobs tend to be significantly lower paying than comparable retail sector jobs (Dube and Jacobs, 2004). This is an outgrowth of Wal-Mart's aggressive cost-cutting, as well as its well-chronicled hostility toward unionization of its workers. Thus, the modest overall increase in local employment translates to an even more modest increase – or maybe even a decline – in overall incomes associated with the coming of a Wal-Mart.

### **Fiscal Impacts**

A Wal-Mart generates substantial sales tax and property tax revenues for the county in which it locates. This could potentially be of great benefit to the fiscal well-being of the local government in the town or county where the Wal-Mart is located. However, a meaningful assessment of the fiscal impacts of a new Wal-Mart requires careful consideration of the extent to which tax revenues are merely displacing other sources of tax revenues. It also requires assessment of any additional costs that the local government must assume in providing new public services to the Wal-Mart. These things will vary on a case-by-case basis; the salient issues necessary for making such a fiscal impact assessment are summarized below.

#### *Sales Taxes*

In considering the impact of Wal-Mart on local sales tax revenues, the key issue is the extent to which shoppers simply shift from one (higher-priced) local store to Wal-Mart for making their purchases. If this were the case, then there would be a minimal net effect on sales tax revenues. Indeed, to the extent that Wal-Mart's prices are lower, one could imagine a net decrease if shoppers bought the same goods but at lower prices.

However, the tremendous range of products available at any Wal-Mart store make it much more likely that overall local retail sales would increase with the coming of a Wal-Mart, and hence some increase in sales tax revenues seems likely. Again, though, the lower unit prices at Wal-Mart coupled with lower retail sales at competing retail stores have counter-balancing effects on the net revenue effects.

Finally, the number of shoppers from other communities matters in assessing net impacts on sales tax revenues. "Outsiders" who shift the location of their retail activities into a community represent an injection of economic activity (and associated sales tax receipts) into the local economy. These benefits are likely to be particularly important when Wal-Marts locate near town or county lines.

**Table 1. Likely Impacts of a New Wal-Mart Store**

Type of Impact	Positives	Negatives	Net Effects
Direct Economic	<ol style="list-style-type: none"> <li>Earnings of new Walmart employees</li> <li>Lower prices for consumers</li> </ol>	<ol style="list-style-type: none"> <li>Lost earnings associated with job losses in competing businesses</li> </ol>	<ol style="list-style-type: none"> <li>Probably positive</li> <li>Definitely positive</li> </ol>
Indirect Economic Impacts	<ol style="list-style-type: none"> <li>Spillovers to some local businesses</li> <li>Increased local retail activity associated with earnings of Walmart employees</li> </ol>	<ol style="list-style-type: none"> <li>Lost spillover business at nearby malls</li> <li>Lost local retail activity associated with job losses at competing businesses</li> <li>Loss of business for local white collar firms servicing competing businesses</li> </ol>	<ol style="list-style-type: none"> <li>Definitely negative</li> <li>Probably positive</li> <li>Definitely negative</li> </ol>
Employment	New jobs created by Walmart (some of which will be taken by locals)	Job losses at competing local firms (some of which were occupied by locals)	???
Fiscal	<ol style="list-style-type: none"> <li>Increased sales tax revenues</li> <li>Increased property tax revenues</li> </ol>	<ol style="list-style-type: none"> <li>Lost sales tax revenues from competing businesses</li> <li>Increased demand for publicly provided waste management, police and fire services</li> </ol>	<ol style="list-style-type: none"> <li>Very likely positive</li> <li>???</li> </ol>

### *Property Taxes*

Assessing the net fiscal contribution of a new Wal-Mart in the form of property tax revenues requires addressing three issues. First, one must consider the prior property tax contribution of the property on which the new Wal-Mart is sited. If the new Wal-Mart is built on land that was previously undeveloped, then the incremental increase in property taxes may be quite large. If, on the other hand, the property was the site of a different land use (for example, a now-defunct shopping mall) then the net addition to property tax revenues would be smaller.

Second, one needs to consider any effects on the

values of other properties in the community. One often hears, for example, that Wal-Marts contribute to the demise of downtown shopping districts in small rural towns. If this is true – a difficult proposition to definitively prove – then there would likely be a countervailing negative impact on local property tax revenues that would at least partially offset the positive impacts of a new Wal-Mart.

Finally, one needs to account for any increases in publicly provided services associated with Wal-Mart. As is the case with all “Big-Box” retail outlets, the costs of providing police, fire protection and solid waste management services are substan-

tial offsets to the property tax contribution of a Wal-Mart.

### Concluding Remarks

As is commonly the case with any large shock to the economic system, the coming of a new Wal-Mart to a given community is accompanied by a multitude of different impacts on different individuals and on the local government. These are summarized in Table 1. Some of these impacts are unambiguously positive for certain groups – lower prices for consumers being an example. Some are unambiguously negative for other groups, such as the loss of business experienced by competing retail outlets. And still others are will vary on a case-by-case basis, such as the impacts on local employment and the local government’s budget. To a very large extent, whether a new Wal-Mart is a “good” or “bad” thing for an individual depends on which of these varied impacts are most strongly relevant to that individual.

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