

# Center for American Progress



## **PANEL DISCUSSION:**

### **“DEBATING WAL-MART’S IMPACT ON AMERICA’S WORKERS”**

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ROBERT GORDON: Welcome, everyone. Thank you so much for coming. My name is Robert Gordon. I am the director of economic policy here at the Center for American Progress, and we are very excited to be having what should be a spirited discussion about “Wal-Mart’s Impact on America’s Workers.” I will be the least interesting person you hear from today, so I’ll be very brief.

Wal-Mart, as we all know, is America’s largest employer: 1.3 million employees, more people than in the U.S. Army; \$250 billion in sales that accounted for over 2 percent of America’s GDP. If Wal-Mart were an economy unto itself, it would be China’s eighth largest trading partner, ahead of Russia, Australia and Canada. Just yesterday, Wal-Mart announced its profits from the most recent quarter were \$2.4 billion, up 3.8 percent. Also, a subject of enormous controversy: a new documentary out entitled “The High Cost of Low Price,” sort of catalogs concerns about Wal-Mart’s impact on workers, low wages, low benefits, poor treatment of workers, driving out local businesses, poor environmental practices, poor treatment of workers overseas.

On the other hand, many arguments that Wal-Mart is, in fact, good for low-wage workers, for low-wage Americans by cutting prices and that it sorts of represents capitalism at its best. So these are obviously disputes that we as progressives have a great stake in figuring out where we stand on – obviously come with a set of beliefs, but always interested in digging deeper and challenging those beliefs. So that’s the subject of today’s panel.

I’ll do brief introductions of everyone and then we will get started. Directly to my left is Leo Hindery, who will be bringing the perspective of many, many very successful years in business. He’s the founder and managing partner of InterMedia Partners, which makes equity investments in media companies. Previously, he was chairman of the YES Network, the nation’s premier regional sports network. Mr. Hindery has won numerous awards and honorary degrees including being named one of *Business Week’s* Top 25 executives of the year. Serving as an executive leader-in-residence at Columbia Business School, and he is also the author of two books including *The Biggest Game of All: The Inside Strategies, Tactics and, Temperaments That Make Great Dealmakers Great*.

To his left is Jason Furman, who’s a visiting scholar at NYU’s Wagner School and non-resident senior fellow at the Center on Budget and Policy Priorities. He served in the Clinton administration as a special assistant to the president for economic policy. He was the director of economic policy for John Kerry’s 2004 presidential campaign. I should mention Jason is here today in his capacity at the NYU school.

And finally, on the end is Arin Dube. He’s a labor economist at the University of California at Berkeley, received his Ph.D. in economics from the University of Chicago and his Masters in development policy studies from Stanford. He’s done numerous studies on Wal-Mart; most recently reported about them in the *New York Times* and

elsewhere. He's also done work on paid leave in California and pay-or-play healthcare legislation there.

So I think that the central questions we'll be talking about today are: what is Wal-Mart's impact on low-income workers? How do we trade off the effect on wages and benefits on the one hand with the effect on prices on the other hand? And more broadly, what's the risk – what, if anything, can we advocate either as a matter of public policy or as a matter of private action – collective action through unions, for example – that would change Wal-Mart's practices and improve lives for workers and lower-income Americans?

And so without further ado, let me turn it over to Mr. Hindery.

LEO J. HINDERY JR.: Thank you, Robert, and thank all of you. And obviously this morning's discussion is about Wal-Mart. I do think it's an interesting starting point for a larger discussion. As Robert said, the perspective I bring is as somebody who's been in business my whole career. I had the privilege of being a chief executive several times and so most of the perspectives I will bring will be from that vantage point, but I do hope it elicits more debate than solutions. I think this is an enormously important topic. When Robert was kind enough to suggest that I could go first, I thought that I was somewhat like Mark Antony at Caesar's funeral, but I couldn't remember if I was supposed to bury Wal-Mart or praise it. And I'm actually not going to do either; I hope to do more raising questions for the panel discussion and our interchange later on. Certainly we've got, in Jason and Arin, people who very capably can address this issue from various vantage points.

Robert is right. We have never seen anything like Wal-Mart. We've never seen a company grow so large and so impactful so quickly: \$288 billion of revenues, \$11 billion of profits, and 1.6 million employees – 1.3 here in the U.S., another 300,000 off-shore. Its impacts – no surprise – both good and bad are in fact just momentous. The thing that I find more interesting and more notable beyond the enormity of this company, and it's enormous in every facet, is the fact that since 1992, which was an important year – that was the year Sam Walton passed – in my opinion, Wal-Mart has achieved its growth, its success by focusing solely on the interests of its shareholders and management with, in my opinion, little or no regard – little or no regard for employees, for communities, to the overall American economy and American employment, and to the adverse effects – the adverse effects of unfair globalization.

The Business Roundtable, which is a much esteemed aggregation of the big public company chief executives, not of which I'm a member I must add, in 1992 the same year that Mr. Walton passed, actually adopted formally in a formal action a sense of corporate responsibility that extended to more than just shareholders. It identified notably a responsibility as well – a specific responsibility to employees, to society as a whole, and to the American economy. Last year, 2004, post-Enron, post-WorldCom, post this explosive growth of Wal-Mart, not in some senses all coincidence, the same

Business Roundtable formally disavowed corporate responsibility to multiple constituencies and instead codified a shareholders-only perspective.

The sense that I bring to this that if corporate and CEO responsibility is indeed only to shareholders, then Wal-Mart, the world's largest employer – largest employer and retailer, should in fact probably pay its workers the paltry \$9.68 on average that it does. It should, in fact, have a medical plan for employees that is so miserly that tens of thousands of its employees' children are uninsured and covered only by Medicare, and it should, sadly, abandon Sam Walton's very notable, very publicized "Buy American" purchasing program to such a degree that Wal-Mart as Robert said is standing alone – Wal-Mart standing alone is now China's eighth largest trading partner.

The piece that makes this all such an important debate is indisputably we know that Wal-Mart customers, on a direct basis, pay at least \$10 billion less for the goods they purchase than they would sans Wal-Mart. And very smart people, Arin being one of them, has suggested that they may be as much as \$50 to \$75 billion of annual net purchasing power benefit through ripple effects. But at what cost I must ask – at what cost have these purchasing power benefits come?

We now know more than just anecdotally about the painful, painful comparison of Wal-Mart to Costco. We do know about the company's miserly healthcare plan and thanks to a leaked memo we know about its attempts to make the plan actually even more miserly and more discriminatory. I wouldn't qualify to work for Wal-Mart unless I had a pretty sparkling clean medical history that would be proven by physical activity. They have gone to conscious attempt to weed out people of lesser physical capabilities. We know firsthand of its vicious – in my opinion, vicious anti-union and non-union practices. We know – as Arin's university did a study on the state of California, we know about this subsidization – the extreme subsidization in effect of the company's workers by state welfare plans: \$86 million in the last fiscal year in the state of California alone was given to full-time Wal-Mart employees for welfare benefits. And we know – and we know sadly again about this – its active encouragement, in my opinion, of not just international trade but unfair international trade, especially with China.

But then again there is this verifiable – deeply verifiable positive contribution to consumer purchasing that has to be considered. Twenty-five years ago, there was a clear mandate for businesses to consider and to make tradeoffs for all possible constituencies. Fifteen years ago, Wal-Mart abandoned those tradeoffs. In a conscious initiative, it abandoned those tradeoffs and began to focus its, as I said, solely on shareholders' and on management interests. And then last year, in part I guess because of the success of the Wal-Mart story, the Business Roundtable abandoned for all businesses, not just Wal-Mart, that code of multiple constituencies.

We are going to talk this morning about Wal-Mart pro and con, but we are also going to try to assess which Business Roundtable was correct: the one in 1992 which Sam Walton was embracing before his passing, or the one in 2004 which now Wal-Mart CEO Lee Scott has vociferously and aggressively endorsed in his speeches and his

actions. It really is not about burying or praising Wal-Mart. I think Wal-Mart is a poster child for the debate that I think is vital to have. Everything that this Center does is influenced by the outcome of that debate. If again it is shareholders only, if somehow or another management has become a constituency unto itself, the employees, communities, the national economy, unfair globalization are not the agendas of the major companies of this country. All of the issues about which so many of us are concerned about: jobs, jobs' quality, some form of sensitive and universal healthcare, the tragic loss of jobs on regional levels and national levels, none of that is addressable, in my opinion, from the corporate level sans an alteration back to the Sam Walton era and away from the Lee Scott era.

So thank you. I think it's a pleasure for me to be here. It's a provocative subject. It's one that – I said to an associate of mine a minute ago: at some point, we need to move off of Wal-Mart. It's fun to punch it around here but the debate – the debate has to be about this larger constituency issue, and I hope we begin to have it throughout Washington at all levels very soon.

MR. GORDON: Thank you.

Jason?

JASON FURMAN: Thank you, and thank you, Robert, for organizing this and giving me the opportunity to really learn about this topic. There's only a handful of decent studies that would pass anything resembling academic muster about Wal-Mart, and the author of one of those studies is sitting to my left and will talk to you next. I tried to take a look at a lot of the evidence and sort through it, and some of these are factual differences that I have, in terms of whether we really think that Wal-Mart pays more or less, but a lot of them are profound ones or interpretive differences, and I'll talk about both of those.

Big picture: people blow past the price issue. Yeah. Yeah. Of course, Wal-Mart has lower prices. The lower prices at Wal-Mart are staggering. They are eight to 40 percent lower than what people would pay elsewhere. The total annual savings in one recent study, and I'll talk more about it in a moment, for consumers are \$263 billion. That's \$2,300 for every household in America. They're very few public policies that I've advocated in my life that would make as big a difference as that.

Compare that to estimates of wage suppression by Wal-Mart, and I'm going to talk about these estimates also in a little bit more detail in a moment. Arin's written a previous paper finding that that was \$5 billion a year in lower wages due to Wal-Mart. \$5 billion, \$263 billion – it's just an enormous differential. Because of that I called my paper, and also to be a little bit provocative maybe, "Wal-Mart: A Progressive Success Story," and part of it is the progressive benefits that Wal-Mart has delivered. But even more importantly, Wal-Mart through no fault of its own largely but maybe a little fault of its own, I don't know, but mostly because of the type of people it employs have lower skills and we're in an economy that has an increasingly high reward to skills and

increasing low reward to lack of skills, doesn't pay as much as most of us think it should pay. And the second progressive success story is that especially in the 1990's, we expanded the EITC, we raised the minimum wage. It used to be that when you went to work, you lost your Medicaid. We changed that so you could keep your Medicaid when you worked. All of these are enormous progressive success stories, and when people deride these programs as corporate welfare, as some have, it just baffles me.

And I'd like to convince you about the first progressive, well, progressive story, in terms of, the prices and the wages. If I can't succeed now, I'd like to at the very least try to convince you to drop the corporate welfare attack and rather than attacking Wal-Mart employees for benefiting from these programs, celebrate it and push to expand it.

Now, there's somebody else that needs to do a lot more work. Wal-Mart claims to care about the welfare of its employees. Any corporation is going to put 98 percent of its effort into maximizing its profits and share prices. If Wal-Mart cares about its employees, rather than law being against progressive issues, it would lobby for them and it would work to expand these types of programs. If there were corporate welfare, it would help Wal-Mart's profits and they would have an interest in lobbying for more Medicaid, EITC, food stamps. I don't think it will help their shareholders at all, but it will help their workers a lot and that's something that it claims to care about.

Okay. Prices: 8 to 40 percent lower at Wal-Mart. There's been one really high quality economic study by a top economist, Jerry Hausman at MIT, who received no funding from any side of this debate. He actually had scanner data and looked at where people bought the products they bought, how much they paid for them, took into account discounts. There're all sorts of tricky issues Wal-Mart has, so-called everyday low prices. Other stores put certain items on sale every week, so people are going to show up and buy more of it when there is a sale. Plus, there is a convenience difference for shopping at Wal-Mart, in some ways it's more convenient, one-stop shopping; in some ways you might have to travel further, wait on a longer line, et cetera. This is the only study that's taken all of that into account, that looked just at food, and found out the benefits of low prices for superstores as a whole, a category that includes Wal-Mart, and in this it's primarily Wal-Mart, was 25 percent of food consumption. That means for a typical family, you're getting a \$500 benefit from the existence of Wal-Mart in your community. These benefits are also extremely progressive. Low-income families spend a higher fraction of their budget on food; it's equivalent to a 3 percent increase in after-tax income for low-income family. High income families spend much lower fraction of their monthly budget on food and also, by the way, shop at Wal-Mart a lot less, and for them it would be like a 1 percent boost in their after-tax income. This is just food alone; it's enormous.

In terms of aggregating and focusing just on Wal-Mart, focusing on categories other than food and trying to do it nationwide, a recent study funded by Wal-Mart and done by a respected economics consulting firm, Global Insight, came up with a number \$263 billion, at \$2,000 per household. A study – I'd like people smarter than me to take a closer look at it. I have three particular problems with the methodology. Two of them I

can't figure out what effect they have; the third would lead me to think the number is a lot bigger than what the study estimated, but I won't get into all of that. Everyone agrees these magnitudes are just enormous.

So does this come at the expense of Wal-Mart's workers? Just – and this comes down to a few questions: one, how do Wal-Mart's workers do compared to others? Well, one anecdote on this before we get to any data. Last year in Glendale, Arizona, Wal-Mart opened up a superstore. Eight thousand people showed up and applied for 525 jobs. It was harder to get into that Wal-Mart, statistically, than to get into Harvard University. That doesn't mean that Wal-Mart pays more or less than other retailers. What that does give you is a very, very strong presumption that jobs at that Wal-Mart were better than the alternatives for those people applying. And the alternative for those people applying was a job in a unionized grocery store if they were lucky enough to get it, or maybe a job at McDonald's, or maybe a job in another retail store, or maybe unemployment. So Wal-Mart was clearly much, much, much better for these workers than the weighted average of the alternatives they had. Even if you observed that all the jobs in Glendale paid more than the jobs at Wal-Mart, people couldn't get those jobs. Those jobs weren't really benefiting them and the addition of these Wal-Mart jobs, even if they paid less than those other jobs, clearly to these workers seemed to be an advantage. That's just the big picture.

In terms of how Wal-Mart compares to comparable jobs, we don't have any very good evidence on that, to tell you the truth. What I'd like to know is I'd like to compare, not just look at Wal-Mart and look at the retail sector which is what most people do, I'd like to look at how it compares for people with similar skills and experiences, similar geographies. Wal-Mart tends to be concentrated in areas where people are paid less. I'd like to adjust for factors like benefits, factors like the prospects for advancement. Seventy-six percent of Wal-Mart management comes from the store. I have no idea whether that is higher or lower than it is in other parts of the retail industry. Full-time versus part-time work: 74 percent of Wal-Mart employees are full-time. It's 20 to 40 percent full-time in the rest of retail. You want to be able to control for all these factors.

The closest anyone's come to doing that is the Global Insight study, which again was funded by Wal-Mart, and I'd like myself to take a closer look at the data. And what they did was they compared people of the same occupation in Wal-Mart to the rest of retail. So how much does a cashier at Wal-Mart make versus a cashier somewhere else? How much does a stockperson make at Wal-Mart compared to a stockperson somewhere else; a driver for Wal-Mart, et cetera? Doing that comparison, which gets closer to controlling for skills than any other estimates out there, they found that the wages at Wal-Mart were \$9.17 an hour compared to \$8.46 an hour outside of Wal-Mart. So they found Wal-Mart was a little higher.

Another way of doing it, I just took a look at the national median. Wal-Mart in 2001, its median wage – they always quote the average wage and their average wage is driven up by their high-paid employees, their median wage is about \$9 an hour. This is basically exactly the same as the retail median wage nationwide, a little bit higher than

the median wage for general merchandisers, these, sort of, sell lots of products sorts of stores. Finally, Arin takes a look at means, averages, and those are driven up when you have high-paid employees, and finds the opposite. So there seems to be something maybe going on in the wage distribution, but it's really important to make sure we're comparing apples to apples, people with similar skills.

Health benefits. Arin's work shows that the large retailers, 53 percent of health benefits; at Wal-Mart it's 47 percent. Those aren't very different. For retail as a whole, Wal-Mart has a higher fraction – a slightly higher fraction of its employees have health benefits than retail as a whole. If you look at the details of Wal-Mart's health benefits, they are slightly better in some respects. They, for instance, cover part-time employees with a two-year wait, that's very rare in retail. Target – almost none of their competitors do that. Very few companies do that nationwide, so that's one of the good things about them. They also have no lifetime maximum.

One of the bad things about them is you have to wait longer, you have to wait six months as a regular employee, two years as a part-time employee. In terms of the fraction of the premium they pay, the deductibles, some of the other issues – I have a table, too, in my paper – they're reasonably similar between Wal-Mart and other companies.

Wal-Mart has 5 percent of its employees on Medicaid, and this is a point I will talk about in a moment, but let's just think about this for one second right now. You're a Wal-Mart employee. You're getting \$17,000 a year and you're Medicaid eligible. You have a choice of keeping your \$17,000 and, by the way, you're in the zero percent tax bracket, so you get to keep all \$17,000 of it, or paying \$2,000 – and your Medicaid, or paying \$2,000 a year, getting to keep \$15,000 and getting the company health insurance. It makes sense for a lot of workers in that situation to choose Medicaid and choose higher take-home pay. Expanded Medicaid gives them that opportunity. More to the point, in our economy for high-income workers, we have a tax system that doesn't tax them for health benefits but does tax them on their wages. For low-income employees, the system that everyone in this room might, I suspect, really like does the exact opposite. If you pay someone at Wal-Mart in cash, you don't pay any taxes on it, for the most part. If you pay someone at Wal-Mart in health benefits, they might lose their Medicaid; they're effectively paying a tax on their health benefits. That affects the incentives that employers have to give health benefits. It's something that most of the people in this room – well, any of the obvious solutions to it most of us wouldn't want to do.

I want to go on next to this issue of making work pay, and to risk CAP's tax-exempt status by advocating the election of Bill Clinton in 1992. Want to read a phrase from his campaign where he wanted to make work pay. "People who work shouldn't be poor. In a Clinton administration, we'll do everything we can to break the cycle of dependency and help the poor climb out of poverty. We need to make work pay by expanding the earned income tax credit, at the same time ensure that all Americans have access to healthcare when they go to work." Well, it used to be the case that when you went to work, your wages would barely go up and you'd lose your healthcare. As a result

of the changes we had in the 1990s, you got to keep a lot of your means-tested benefits when you went to work. As a result, if you chose to work, your income would go way up and you could continue to get Medicaid. Most people think that's – I think most of the people in this room would think that that's a good thing.

Two questions have been raised. One is –

MR. GORDON: Jason, wrap it up.

MR. FURMAN: I'm sorry. Okay. Let me – I'll be really quick at this. One is what is the cost for taxpayers? And, you know, in one sense Wal-Mart pays \$6 billion a year in corporate taxes. I mean this is the company that on net is paying taxes. It's not really the right question. The right question is whether they are paying their fair share. Well, Arin did a paper and found that Wal-Mart pays its employees \$8,000 less and as a result, their employees end up costing the government \$550 more in food stamps and all this other stuff. Well, that study was incomplete because what happens to that \$8,000? That \$8,000 goes to corporate profits. That \$8,000 goes to high paid executives. They are paying a 35 percent tax on it. By taking money away from your moderate-income employees and giving it to your executives and shareholders, you help our fiscal system, you don't hurt it.

Now, I think helping our fiscal system is not what we want to encourage companies to do. I think that makes no sense as a criteria for public policy, but if you're trying to think about whether Wal-Mart helps or hurts fiscally, then you want them to pay people less and pay their executives more because their executives are in a higher tax brackets.

Finally, the very last thing. Could Wal-Mart do better? It may be able to do a little bit better, but let's put it in a little better perspective here. They make \$6,000 in profit per employee, that's average for the retail sector, below nationwide. Microsoft makes a \$143,000 per employee. If Wal-Mart paid everyone \$5,000 a year more, it would virtually wipe out its profits. If Microsoft did that, the company wouldn't notice it. If you have a corner store with four employees making \$24,000 a year, it looks a lot smaller than Wal-Mart but it can do, you know, it has about as much scope to expand wages and benefits as Wal-Mart does. Wal-Mart's stock price is down 10 percent in the last six years. This isn't the most powerful corporation ever.

Finally, the Costco comparison – you know, a lot of people have tossed this out. Costco's an extremely different because – I guess I'm skeptical if anyone in this room, except maybe Leo – I know I don't – knows what Wal-Mart needs to do to maximize its profits; behaving like Costco probably isn't it. According to Fortune magazine, Costco's – anyway, Costco has a much higher end clientele. Its average customer makes \$75,000 a year compared to \$35,000 a year for a Wal-Mart customer. It sells much higher margin goods. It sells much more per employee. It wants to attract a better workforce than Wal-Mart does, so to sort of casually look and say, "Oh, Wal-Mart can do the same thing." Fine, Wal-Mart should stop selling cheap stuff, start selling higher margin things like fine

wines, which Costco's the leading seller of, and it could be like Costco. It would just leave its customer base.

Finally, in conclusion, I think I've basically said what I think my conclusion is which is Wal-Mart, even if we didn't do anything, would be a force where the good vastly outweighs the bad. But the good isn't good enough and we need to do a lot more, and Wal-Mart should act in what it claims it's interested in doing on behalf of its stakeholders and work with all of us to do things like expand Medicaid, food stamps, EITC, raise the minimum wage, which Wal-Mart has finally come around to supporting.

Thanks.

MR. GORDON: Thank you, Jason.

Arin?

ARINDRAJIT DUBE: All right. I have a PowerPoint presentation. I guess I have to figure out how to use it. Apparently – that's probably easier.

MR. FURMAN: I bet if you just press the button, that works.

MR. DUBE: So, you know, I – as you see, the title of my presentation is “What we know about Wal-Mart and should we care when it comes to job quality?” I actually – I agree with the general characterization that there is a debate about the basic facts, and then there's a debate about how we interpret those facts. I do take the perspective that we know a lot about Wal-Mart's wages and I think the answer is a lot more clear than Jason painted it. I'm going to try to convince you of that. But then really get to the core issues which I agree with Jason: even if Wal-Mart's providing worse wages and benefits, there's a real question: how should we interpret that and what, if anything, can be done about that?

So, you know, just to start off with of course, we've heard this: Wal-Mart's the largest company, employer, dominating player in retail. If you look at Wal-Mart growth over the 90s, the number of stores doubled. At the same time, basically you find Wal-Marts spreading out, starting from the South to the Midwest and then finally by 2000 to the Northeast and West Coast, so that the Wal-Mart reach has at this point become obviously national.

Interestingly, if you look at the number of counties with at least one Wal-Mart, the majority of counties do not have a Wal-Mart in '88 – majority did. If you look at the number of retail workers in a county with Wal-Mart in '88, the vast majority of retail workers were not in counties with any Wal-Mart. In 2000, just about everybody was. So in terms of how the spread of Wal-Mart has affected retail workers, you can see most retail workers are now in places where Wal-Mart is, at least, somewhat of a factor.

So that gets us to the issue of what is the impact of Wal-Mart, and I think we've got to be pretty upfront that there's some great things that they have done. They really have revolutionized retail. Their everyday low-pricing price strategy very different from a traditional retail sale strategy. They have exercised more control over suppliers and they have been able to squeeze out higher productivity gains from that. Certainly, in terms of their logistics operation they have made great strides, and I think that has led and allowed them to provide cheaper prices, and I think that has to be acknowledged. In fact, I don't have any qualms with that. In fact, I argue, as you will see, that this allows Wal-Mart to provide better wages and benefits, and the greater is the contribution of productivity to Wal-Mart's low prices, the easier it is for them to provide higher wages and benefits. So that's going to be the basic strand of my argument, as you will see.

So the question then becomes for the labor market, first of all, does Wal-Mart have lower wages and benefits compared to other retailers? I think that's a first question that one has to answer, but it's distinct from the question, what happens to wages and benefits when Wal-Mart sets up shop, when Wal-Mart enters a particular market? That's a second question. And finally, should we care? Say it does produce wages and benefits; what about price reductions? That's a plus. As Jason points out, is shifting health costs to the public a bad thing? Isn't it destroying the Medicaid system that's working? So that's another issue where we may not care that Wal-Mart workers are on Medicaid or they're increasing Medicare share of retail workers. And finally, even if we care, practically speaking what are the things that can be done? And really are – because sometimes you can do things, but the remedy might be worse than the disease, so that is the final question that I'm going to try to answer.

So first, I'm going to look at Wal-Mart's wages and benefits, and I think the Global Insight study that Jason cited had the, I think, critical flaw, which is it looks at occupational wages. So if you look at a cashier at Wal-Mart and then you compare to the average wage of cashiers including, for instance, someone working at McDonald's or any other industry, it's comparing apples to oranges. I think that's not a valid comparison and it also looks at a very handful of occupations, which I just have no idea of knowing if that's a representative sample of occupations or not.

What I do is to look at wages in retail sectors and although here I only reported for large retail, I'll give you some numbers for other subsectors of retail as well. And as Jason suggested, we need to account for the fact that Wal-Mart might be located in different areas than other retailers, and so this weights each state's average wage by Wal-Mart's share of employment in that state to account for that possibility. You find basically about a 14 to 15-percent gap in average wages between Wal-Mart and large retailers. If you just look at retailers, it's about 12 percent. Now, if you look at general merchandise, and Wal-Mart is a general merchandiser, the gap is smaller; it's 7.5 percent. However, Wal-Mart constitutes 55 percent of general merchandise, so comparing general merchandise to Wal-Mart is a little bit deceptive. If you take that out – if you take out Wal-Mart's share of general merchandise, the gap then rises to about 17 percent. So the residual general merchandise average wage and Wal-Mart wage, there's about a 17-percent gap accounting for locational distribution of Wal-Mart's stores.

So I think – you know, I look at that and I take that as pretty solid evidence. Of course, we can do more and we should try to understand the source of that, and I'm going to touch on this. Is it skills or is it just different wages? I take the perspective that simply chalking it to differential skills is not the correct way of interpreting the source of wage differentials, but that's, you know, we can talk about that.

In terms of job-based health coverage, you know, Jason mentioned this. So you see about 53 percent coverage rate for large retailers and it's about 48 percent for Wal-Mart. So there's a gap, you know, it's not the biggest gap in the world but there is a gap. And it is also true that if you look at just retail overall, it's in fact a slightly lower coverage rate than Wal-Mart. Now, that's not surprising. I mean, we all know that larger companies provide more healthcare, and that's – there are some basic economic reasons why that happens to be the case. And I think that a relevant comparison, especially in healthcare, is not simply the mom-and-pop retail store to Wal-Mart, but rather other major retailers.

But then that doesn't really get us to the full amount of discrepancy because one of the things that characterizes Wal-Mart's plan is sizably less comprehensive, or that's a very weird way of putting it. Wal-Mart's health plans are a lot less comprehensive than many other retailers. And actually this is a point where I – just factual disagreement with Jason is if you look at Wal-Mart's own tax filings – IRS 5500 filings – it actually pays 59 percent of healthcare costs for its workers and dependents in 2003, the latest you could find, and that includes both family and individual coverage. And the number for retail overall is 77 percent for individual and 68 percent for families. The point is Wal-Mart's providing less money on healthcare than other retailers, and if you adjust for all that, as I do here, the health cost per hour of work – the gap is about 37 percent. And I would be happy to go in more detail into the methodology but that's not really the purpose here. But I think in my opinion the evidence is pretty clear that there is a large gap in healthcare.

We can disagree about whether that's a good thing or a bad thing in terms of whether that gets picked up by Medicaid. Is that a good thing or bad thing? We can disagree about that, but I don't think it's fair to say that Wal-Mart's health plan is no worse than other retailers. So all of this adding up, you know, the compensation gap with other large retailers I find about 16 percent. For retail overall, it's about 12 percent. Is that a big deal? Well, most economists think about the union wage gap is about 12 to 15 percent accounting for, you know, certain other characteristics, and so if that's in the same order of magnitude here, it's not gigantic, but it's sizable. So that I think – you know, I take from this that there is a – if you compare in a cross-sectional sense Wal-Mart's wages and benefits, I think they are lower than retail overall, and certainly large retailers.

Now, the implication for this job-based health coverage in terms of public health plans. If you look at workers – you know, this is coming again from the leaked Wal-Mart memo. They did a survey of their own workers and it's – you know, they say that it's

about 24 percent of workers are either uninsured or on Medicaid. Now, the little anecdote here about the Medicaid number. When I first did this study estimating based on their workers' wage and health – job-based health insurance profile what fraction would be on Medicaid or uninsured, they claimed that that 19 percent was actually 10 percent. Since then, it's changed. Just want to put that out there. But let's take the 19 percent and 5 percent, that's about 24 percent on one of those two, okay? So in contrast, large retailers: 22.5 percent. Not a huge difference at all, in fact, no difference in a statistical sense.

However, when you look at dependents, the story is quite different. Wal-Mart has 46 percent of child dependents either uninsured or on Medicaid versus other large retailers that's about 29 percent. Unfortunately, we don't have the same numbers for adult dependents because sadly enough Susan Chambers's memo did not include that figure. So I think that sort of looks at the cross-sectional issue but then the question becomes: all right, so you're comparing it to large retailers or other retailers, but how do you know who's displaced when Wal-Mart comes into town? The question is what are the jobs that are lost versus gained? What are the difference in quality between this two? There is only a handful of studies that really assess this and, in my opinion, the number of studies that really try to account for what economists call endogeneity – that Wal-Mart may be systematically coming into places where the counterfactual wage or benefit would have been higher or lower – there's only a handful of studies, in my opinion, that really tries to address that issue. Surprisingly, I think mine is one of them, so I'm going to start –

MR. FURMAN: And I agree.

MR. DUBE: – so I'll start with that. You know, leaving aside the methodology, we – but if you think about those maps that are sort of Wal-Mart's spreading out, that gives you a way to instrument, as we say in economics, for the pattern of Wal-Mart growth. And doing it this way, what we find is in metro counties, counties that are part of MSAs, average earnings in general merchandise and grocery each fell by nearly a percent for a single Wal-Mart store opening. To put this in perspective, in the MSA county – the typical MSA county has about 4,000 general merchandise workers. Typical Wal-Mart in this period had probably something like 280 workers per store, taking different kind of stores into account. So those 280 new jobs in gross sense led to reduction about a percent for that 4,000 general merchandise workers. If you actually back out what kind of wage differences this must mean for the new jobs that are created versus jobs that are destroyed, it comes to be about 18 percent. Okay? Not too dissimilar from that cross-sectional gap that I just mentioned.

The other argument that's made is: but you're creating new jobs. In retail, I think, there's reason to believe that you're not really creating new jobs, you're substituting jobs. But we looked at this and we found that overall, the take-home pay of retail workers falls more than the average pay, which is only possible if you have, at least, no net job growth and, in fact, wage bill fell by 1.3 percent showing that even if there were to be any net job additions, it is swamped by the average wage fall.

We found a different story when you look at non-metropolitan counties. In fact, we saw some increased wages in – for general merchandise workers, and some reduction in wages for grocery workers, but overall, the take-home pay didn't change much. Now, to keep things in perspective, 80 percent of retail workers are in counties that are part of MSAs, so for that 20 percent of counties, you don't see the same kind of negative wage effect. And I don't think that's surprising because you have higher wage standards in more urban areas. So as Jason said, you know, this sort – leads to about \$4.7 billion in earnings loss in 2000 from Wal-Mart's presence.

The other study that did similar methodology – David Newmark at PPIC, the Public Policy Institute of California. We were both working on these – the similar papers without knowing until about a month ago. So Dave – there are some differences in data and also in the time period they look at and some in methodology, but generally some of our identification strategy. What they find, again, is very strong evidence that overall take-home pay in retail falls. They do find evidence that average wage falls or earnings fall like we find, it's about 3.5 percent. In fact, for most part, Newmark's study suggests substantially greater wage loss than our study. We can disagree about the interpretation, but I think the bottom line as I take it that the two studies that actually have looked at this issue in terms of what happens to earnings overall on average when Wal-Mart comes into town, the evidence points to a pretty clear negative.

MR. GORDON: If you could wrap up, Arin?

MR. DUBE: Okay. So should we care? I think we talked about wage loss, but what about price – reduced prices? I'm actually going to skip some of this. In fact, I'm just going to skip the presentation and just talk. I think as I see it – and I really have strong problems with the Global Insight Study which finds \$220-odd billion of annual (wage?) lost. They literally took 24 MSAs and looked at two years and drew a straight line, but leaving that aside, let's say – so I think it's an order of magnitude off and if you compare it to the other independent studies, including Jerry Hausman's, I think it is in order of magnitude off.

But let's say it is something very large, like tens of billions of dollars of price savings for consumers. So one may be tempted to say, okay, wage loss, five billion; benefit loss, maybe another few billion; price gains, 50 billion. If Wal-Mart were a public policy and we were choosing a public policy, we'd say yes. But I think that's not the relevant question. The relevant question is not yes or no, Wal-Mart. The relevant question is can Wal-Mart pay better wages and benefits?

If you take the retail – large retail standard that I mentioned, that 16 percent compensation gap, and if they were to provide just that, that would cost them – that 16 percent increase in compensation would come to be about less than 2 percent of sales. In other words, if they raised the price of an item that cost a dollar by two pennies, that would cover the added costs. If their price gap is 25 percent, right, as for instance as

some studies have suggested, a 2-percent price increase does not change their competitive advantage.

Looking at profit margins in retail is not the relevant question. The question is, if 90 percent of the price gain or lower prices from Wal-Mart are due to legitimate reasons – higher productivity, et cetera – and 10 percent due to lower wages and benefits, it's pretty easy to fix that. And I think more and more communities are actually looking at this issue. This last month, a Republican board in Nassau County passed a legislation that would require a provision of \$3 an hour towards healthcare for Wal-Mart workers – not Wal-Mart, just big-box retail workers generally, and similar legislation was also passed with a veto override in New York City just, I think, weeks ago.

So I think people get that, and I think it's for the same reason people get why if you raise the minimum wage, which Jason has suggested is a good thing, the price of a burger might go up. I might look for the cheapest burger when I'm trying to buy a burger, but I may at the same time support a higher minimum wage, understanding that as community members we think about the issue differently than we do as consumers. So I think that's basically the wrap that I wanted to give, so I'll leave it at that.

MR. GORDON: Great, thank you. Before we get to questions, I want to give both Leo and Jason, and Arin if there's more after that, a chance to respond to other comments that have been made.

MR. HINDERY: I'll go ahead briefly, but after listening to Jason, I've decided to bury Wal-Mart, not praise them. (Laughter.) Let me just go through four quick themes. It's rude to suggest that Wal-Mart's behavior is by happenstance. This is the biggest employer in the world. Everything it does is by design. Nothing happens by happenstance to Wal-Mart. It has taken a burden unto itself by being the largest employer in the world. Comparisons to mom-and-pop retailers are absurd to me on every level. It has brought to itself and has attracted to itself an inspection that requires us to have this debate.

The Wal-Mart employees turn over at twice the rate of comparable retailers: 50 percent. It costs them \$2 billion roughly a year to just compensate for that turnover. The fact that 8,000 people applied for roughly 600 jobs in Glendale, Arizona, is a commentary on the national economy, on the economy of Glendale, Arizona, and it just reinforces what O. J. proved to me once is that you can get away with murder. (Laughter.)

I just – I do find that there are in fact great comparisons for Wal-Mart. Arin has raised some of them. I find compelling the Costco story, where 82 percent of its employees receive a fulsome medical plan versus 48 percent at Wal-Mart that's perceived by every measure a miserly plan. We know that the effective coverage of the Wal-Mart plan is around 59 percent, as Arin has commented, that Costco which it – it's roughly 92 percent. Costco pays its average employee – now \$16 an hour is its average wage. Wal-Mart sits there at \$9.68.

Wal-Mart gets out of bed by design in the morning, and they go to bed at night by design. It is a practice of the company that they have embraced. This concept that this – that they save us \$263 billion, just think of it in your head. Their revenues were \$288 (billion). So what, they save us \$263 (billion)? They do not save us roughly 100 percent. I mean, that would imply that the costs, the revenues of this store should have been in a normalized setting 2X. It's not possible. It is much closer to tens of billions of dollars. No small number, as Arin has suggested, but it is not by any measure \$263 billion.

The piece that is getting lost here is, it is not just cheap goods. These aren't American goods. This company consciously seeks out low-priced goods, manufactured offshore under deplorable work circumstances, and that is the savings. We are losing American jobs – honest American jobs to fuel this machine. It's not a purely substituted retail phenomenon. The substitution is an offshore/onshore substitution.

And I just – I will tell you, the fact that Lee Scott made \$23 million last year – this premise that you should give all your profits to your management so that they can pass it down through our economy, that one just about did me in. This is a company that has brought – in closing quickly – as I said, unto itself this level of inspection. It has asked for it; it is entitled to it. It is the nation's and the world's largest employer and other sensitive employers are being very profitably treated in the stock market, to their shareholders, and doing a lot better in healthcare, in average wages, in community sensitivity, in sensitivity to international trade. They don't encourage these unfair labor practices that Wal-Mart does in foreign arenas.

And I just think that this is the debate we need to have, is should you think about employees and communities and the nation when you have this degree of responsibility, as well as just your shareholders and Mr. Scott and his fellow managers? I strongly believe you should. And I think you can do it with not great pain to this company. I think you can do it with sensitivity and an honest outcome for the communities that Wal-Mart serves and the employees that it has under its employ.

MR. GORDON: Thanks, and if Jason and Arin, if you can both be brief.

MR. FURMAN: Yeah, I'll try to be. Hello? Okay, that works. Well, a few things. One is that Arin and I do read some of this evidence differently in terms of the wages at Wal-Mart compared to elsewhere. It depends on some things, like whether you're using medians and means, whether you're looking at large retailer, retail as a whole. I do think the right thing is to compare the same occupations. I think it is apples to apples to do a cashier at Wal-Mart compared to a cashier at McDonald's. It seems to me to control for skills better, but I don't want to get into all of that. On the health evidence, I also am not going to go into, but there is – read my paper and there's a lot of arguments on the other side.

I wanted to talk about three bigger issues. One, Wal-Mart's entry in lowering wages. The numbers in the Newmark study and the Dube study are both nominal. Wal-

Mart lowers nominal wages by 0.8. There's another study that uses a similar methodology and finds that Wal-Mart's entry into a county lowers prices by 1.5 to 3 percent in the short run and 6 to 12 percent in the long run. If you take these two sets of evidence together, that would say that the low prices that Wal-Mart brings about aren't just enough to make the workers not working at Wal-Mart better off, they're enough to make up for the wage effect that Wal-Mart has.

Now, all of these numbers are measured extremely imprecisely, so I have no confidence in that conclusion, but if you take the existing studies out there, what they collectively show is that the entry of Wal-Mart into a county raises the inflation-adjusted wages for people in the retail sector in that county. Now, I wouldn't be surprised if that wasn't the case and if it lowered the real wages for that county.

The other thing that I would not be at all surprised if it lowered was profit margins in that county. One reason that Wal-Mart went into groceries was profit margins for Kroger's and Safeways were really high. Wal-Mart has helped bring about a much more competitive economy. That's something that squeezes – could squeeze the rents that workers get. And it could squeeze the rents that owners of capital get as well. What's the – and profit margins have fallen a lot in the supermarket sector since Wal-Mart entered. What is the implication of that if it's true, that we have more competition squeezing the rents for workers and the rents for earners of capital? One, that the benefits go to consumers. Two, it's consistent with a lower sustainable level of unemployment. One of the big arguments for why we're able to have the unemployment rate below 5 percent for 50 straight months in the 1990s was the increased level of competition and our policy was consistent with a lower sustainable level of unemployment than what we had before. That was an enormous boon, needless to say, for the millions of workers who in previous expansions hadn't been brought into the workforce.

Finally, I just want to say something. When people just sort of casually say, well, the turnover at Wal-Mart is much higher than a turnover somewhere else, and if they just raised their wages, they'd lower their turnover and that would increase their profits, I'm just extraordinarily skeptical. I have no idea what Wal-Mart should do in terms of pay for its employees to reduce its turnover. I don't think – but I have a lot more faith though, that the people in Wal-Mart know than the people that I know.

So it is a coherent view to say Wal-Mart should have smaller profits and pay workers more. To imagine that they can pay workers more and increase their profits, it might be true. I sincerely hope it's true. But I have no basis for thinking it's true. And the Costco model, where Costco pays – has its – you know, has a lot of – its customers make a lot more. Target also – the customers at Target make a lot more than customers at Wal-Mart. It's a different business model.

The same thing with sales. Could Wal-Mart raise its prices by 2 percent? If it could do it without much consequence, my guess is they'd be doing it today because they would make, if they raised them by 2 percent, an extra \$40 billion a year. I just did that in my – \$4 billion a year. That's a lot of money. My guess is that they've calculated that

will lowered their sales a lot. Now they could do that. They could lower their sales. They could hire fewer people if prices in retail as a whole were higher. Fewer people would be hired in retail. So all of that could happen. But to just sit back here casually without having done any estimates at all, and be like blithely, they can raise their prices – I'm reasonably skeptical about that as well.

Finally, I just don't think everything about Wal-Mart is pretty. They've done a lot of bad things. I have no problem with them being punished for all of that. There may be further scope for higher wages there. It's just – you know, to a first approximation, the problem they reveal is a problem with our economy as a whole. On balance, I think they do good, and we could make them do a whole lot more good if we, for instance, confiscated half of their fortunes through the estate tax and did better things with it.

MR. DUBE: So, I think Jason and I do disagree about some facts about wages and benefits. I'm not going to go into that. I also disagree that the evidence suggests that the real wage of retail workers would rise. I – but again, you can read our papers, and I'm happy to talk about it afterwards. But I think what I'm going to just say is just reiterate the position that if you have a 25-percent price advantage, something that costs – increases your cost so that it's 2 percent of your sales is eminently absorbable. Like, I would – I mean, I could come up with an economic model where that's not, but I think I'd have to spend a lot of time doing that.

But I really want to end with a historical anecdote. I'm not a historian, but an economist, but I think this is actually an interesting story that helps us understand how wage standards actually get set, and historically and empirically in the retail sector. Wal-Mart is a new phenomenon in many ways, but in some ways it's not. And one way it's not is this is not the first time that a major retail chain swept through the lands and it's not the first time communities had a lot of problems with that. There was a lot of political fight over that. It's not the first time there were contentions over the wage practices.

In fact, Woolworths is one that in the early 20<sup>th</sup> century was at the leading edge of retailing, and in 1937 there was a famous strike. A hundred and eight women, and there was a largely female workforce similar to Wal-Mart, struck for better wages. And in seven days they actually won the strike, leading to proliferation of strikes and really that led to setting of a wage standard in the retail sector for the – in the department stores for the post-war era. We can argue maybe those women were paid lower wages because they didn't have skills that commanded a premium. We could argue that, but we could also argue that wage standards were set based on community pressures and organizing. As we think about Wal-Mart's wages and whether it just simply reflects skill premium or certain wage standards, I think it's useful to think about the Woolworths story.

MR. GORDON: Thank you. I just want to ask one question, and then I'll open it up. And it may be more of a comment. It seems to me in Jason's very provocative presentation, there's a sort of implicit model that's been the 90s model, that a combination of great respect for and deference to markets and management, not success in worker organizing, and genuine and very important commitment to public supports for

low-income workers – a huge expansion, the EITC expansions and Medicaid expansions and child care, and that this was a successful model where we saw for – in the late 90s for the first time, big growth in wages and after all, benefits, even bigger growth in the living standards for people at the bottom.

And I guess that the question I have or the comment is just about two factors today that seem to put us in a different place. One is – and I don't have the data at my fingertips, but the fact that in the most recent whatever we're in – technically we're in an economic expansion, I think – that corporate profits are gobbling much more than, I think, historic postwar – post-World War II record, and wages are the lowest share in the post-war period. Something to that effect. Jason will know the statistic (laughter) because I think it's from the Center on Budget where he's a fellow.

And the second fact is that we've got no money. We have huge deficits, deficits for as far as we can see, so that those of us who are most deeply concerned about low-wage workers will say that we would love to expand the EITC, we would love to expand Medicaid to more working adults, but it's not on the horizon right now.

And I guess I wonder, thinking about those two facts, it seems to me that if our goal is to increase living standards at the bottom, the natural place to look is reinvigorating worker's power at the bargaining table and enabling them to capture some of this record level of profits that we're seeing. I don't – I'm not enough of an economist to know that if you imagined a world where workers had more power, either because we actually gave unions a real chance to organize or because – well, wages rose either because we gave unions more power or because we did things like raising the minimum wage more and more – living wage statutes or other forms of employer mandates – what the breakdown would be between increases in prices and reductions in corporate profits, but I guess my question/comment is that based on all these things, it just seems to me that progressives and people who care about low-wage workers have to be looking to a different model than the one that we had – the one that you seem to be working from. I don't know if you want to comment on that if it makes sense, do others want to comment?

MR. FURMAN: Sure. I'd say a few things. One is, sometimes there's a public policy that, let's say, hurts the bottom 50 percent of Americans, helps the top 5 percent of Americans, but if we could raise taxes and redistribute the money, we'd make everyone better off. And I might say I like that policy, you might say that redistribution half of it is totally unrealistic; it's never going to happen so we shouldn't do the policy in the first place, and I'd be pretty sympathetic and usually agree. Wal-Mart isn't like that. Even if we didn't have the EITC, Medicaid, all that stuff, it would still make low and moderate income Americans better off. It's a real-wage increase for all people that don't work at Wal-Mart, and I'm not persuaded that it's a real wage decrease in people that do work there. So I am really happy about the progressive policy part of the success story, but it's not contingent on it, first of all.

Second of all, there have been a lot of shifts in our economy, and there's a lot of bad things about them and there's a lot of good things about them and a lot of them we can't do a whole lot about. One is, there does seem to be increased competition in part because of globalization, in part because of other forces. That makes it harder for workers and it makes it harder for companies. A lot of companies that used to be pretty lazy about the way they way they went about business, and executives who used to work pretty short hours are actually working really hard and paying (unintelligible) and staying up all night and terrified about their competitors. And Wal-Mart, with stock prices down for the last six years, is in exactly that condition.

One of the things that does – I do think that's related to the lower sustainable level of employment and a higher number of jobs, so I do think that's the one silver lining of that. I don't know what's caused this change in compensation over the last couple of years. I really don't know. I guess I'm much more sympathetic to that as an argument for progressive taxes. And I think that we have an eroding power of laborer's ability to bargain for decades and decades with the labor share of compensation staying constant. Up until about five years ago, it was pretty much constant. So it doesn't seem to be, to me, that that's the most obvious explanation for the phenomenon we've seen in the last five years. I don't know what caused it. I do know what would solve it.

MR. DUBE: Yeah, I think the issue of having employer mandates is an important one. I think we've seen this in healthcare as well as with wages. Now if I'm talking with my friends from the University of Chicago, adding that it's pretty clear, I think, a the free-market position is employer mandate bad: end of story.

Now the thing that surprises me is if one supports the minimum wage, why would one not support a wage standard for retail workers? Why should McDonald's have to abide by a wage standard but not Wal-Mart? That – it's a hard – it's hard for me to come up with a good answer to that. And especially if one is concerned about globalization and offshoring having reduced both companies' ability to pay higher wages, et cetera, why not have wage standards in retail, which employs about a third of the low-wage workforce and which is completely anchored in the local economy? Why not have employer mandate in that sector? So I do think we need to have a different balance between using public finance and employer mandates as a way of redistributing income, if that's what one wants to do. If you don't, then obviously, that's a moot point.

And I do think each has merits, and I think depending on the situation, you'd want to use taxation and maximize efficiency and then use redistributive taxation. Now, of course, easier said than done. And I think as a practical matter, I think it's easier to convince average Americans that Wal-Mart should provide better wages or health benefits than convincing you should pay higher taxes, but that's a political issue and I should probably veer away from that. That's not my area of expertise. But I do think that having a balanced approach towards redistribution, which uses both of these, and especially in retail where employer mandates, I argue, would make more sense than in other sectors of the economy is the right way to go.

MR. FURMAN: I also agree that we need a balanced approach that balances mandates and the public finance system. In my ideal world, we would actually not have a minimum wage, we'd just have wage subsidies. And they'd be much, much more generous than the minimum wage. But the minimum wage is very, very good. And I'm not going to let the very, very good be the enemy of best that will never, ever happen in this world.

But, let's point out – I mean Wal-Mart, like McDonald's, is not allowed to pay anyone less than \$5.15 an hour. I think Wal-Mart, like McDonald's, should not be allowed to pay anyone less than \$7.25 an hour, just to pick a – the number, I think, that's in the Kennedy bill. I'm in favor of that. I'm in favor of that balance. That \$7.25 an hour though, it's not going to affect Wal-Mart employees very much. There aren't a whole lot of them making less than \$7.25. It's also phased in over a few years. If you look two years in the future or whenever it would take effect, it just wouldn't affect them very much – that type of mandate. That mandate would affect a lot of people in the economy. It'd give families an extra \$4,000 a year. I think that's terrific because we're not going to do that through our tax system realistically. But that's just – when you're talking about Wal-Mart, you have to be talking about \$10, \$12, \$14 – you know, \$10, \$12 an hour, and that's where the balance between the distortions of the minimum wage versus other ways of going about things do start to concern me.

MR. GORDON: Go ahead.

MR. HINDERY: I would just say that to listen to the chairman and chief executive of Wal-Mart call for an increase in the minimum wage is a Trojan horse of absurdity. I mean, it's not his issue. It's part of the PR campaign to try to reengage the image of Wal-Mart. It has nothing to do with the issues we've been talking about.

MR. GORDON: Questions from the audience? Yes, ma'am? In the back.

Q: Hello, I'd like to expand on what Mr. Hindery –

MR. GORDON: I'm sorry, if you could give your name please.

Q: Certainly, my name is Nancy Connors (sp), and I'm with Neal Pierce, who's a syndicated columnist, and we've covered retail in small towns, and we do state and urban policy.

You mentioned the corporate roundtable and the concept of responsibility to citizens, to communities. I'd like to ask all of you if you've seen a model that actually looks at Wal-Mart in a retail way. If I have a store, I have a profit and loss statement, and a great portion of my profit and loss statement has to do with real estate. It's my understanding that Wal-Mart owns all its stores. And when they move a store, they leave the abandoned property vacant for a long period of time so that no other competitor will move into their big box.

Now, this has a big impact on Wal-Mart's profit and loss. And I'm a little confused here. If we're talking about a corporate entity's profit and loss simply based on the lowest earners, why don't we look at the entire picture of Wal-Mart and see what – how its profit and loss comes, and look at different interventions – for example, its responsibility to a community – where it leaves skeleton store properties vacant; therefore, reducing the taxes that they pay on it. I mean, it's a very complicated issue, and I'm a little concerned that we're looking just at the least among us, and perhaps the least of their corporate expenses, which is employees.

And the other thing is, when Wal-Mart moves in, their concept is – or when any big box moves in, they own the store, they keep it open 24/7 because they have to pay the lights and the heating, so that's their concept. Smaller stores in the community don't do that. They don't – if it's a mom-and-pop store, they're not working 24/7, so it's a whole impact here that I think you need to look at. I'd like to hear of a model that takes all of these things into consideration, as opposed to putting the whole burden on wages to the least among us. Thank you.

MR. HINDERY: The actual statistic is that there are 3,600 acres of unused Wal-Mart space in America. About half of that is the – or the boxes, the other half are the parking facilities. It's just part of my comment about the any premise that anything Wal-Mart does as happenstantial (ph) is craziness. This is a very, very smartly-run, very cleverly-run company that has decided that against a single mandate of shareholder wealth, all of this makes tremendous amounts of sense.

I continue to argue that there are all kinds of comparables out there. The fact that Costco sells high-end wines is of no interest to me. The woman or man that serves me at Costco performs roughly the same task as the woman or man who serves me at Wal-Mart. And it's just one more economist headshake about high-end wines. I mean, there are comparables out there for good corporate behavior that take into consideration communities' interests, employee interests, the nation's interest, and shareholders, and do it successfully. The Costco stock price has performed more admirably, more capably, than has the Wal-Mart stock price, despite its behaviors. I could make a strong case to Mr. Scott that he could run his company differently to greater shareholder success and not be so inattentive to employees and to communities. But it's – there is no model out there. I wish there was.

But it really, for me, continues to be this imperative for the debate about – the simple debate and everything for me will flow from it: do we have, as corporate CEOs, responsibilities beyond shareholders? If we don't, I don't belong here. I'm just crying in the wind. It makes no difference for my views on this issue because Wal-Mart is doing exactly what they should do to maximize shareholder wealth. Although I do think again, I could personally prove to them, they could have more of the Costco multiples because I think there's – this turnover thing is killing them. But they're doing the right thing for shareholders as they perceive it.

Q: Thanks. I'm Sebastian Mallaby from the *Washington Post*. I haven't fully understood from our end – perhaps because you were running out of the time at the end, what are the policy prescriptions that you would want to see? I mean, do you want to have Wal-Mart pay better wages as a result of community pressure and organizing? Or do you want that – should it be many driven by government mandates – you know, in healthcare? Is this a government mandate issue or is this just sort of a social pressure issue? What, concretely, are the policy prescription that you have?

MR. DUBE: I think it's less about what I would prescribe than to understand and interpret what is actually being tried. Okay? So I think – I gave some examples, for instance, in a few – Nassau County and New York City, where you have basically mitigation fees or are requiring big-box retailers to provide health insurance. In New York – in rather, Chicago, there's a – I think there's a consideration of having a living wage ordinance for big-box retailers. So, again, this sort of applied – have a higher wage standard for big box retailer than the minimum wage because minimum wage – because retail wages are substantially above minimum wage, so that's not binding for the most part. So those are some things that are being tried.

Obviously, there's pressure campaigns that are going on. So I think the question that I posed is, given these different approaches, be it either directly pressuring Wal-Mart to increase wages or using local or state-level policies to do so, how should we interpret that? And is that a bad thing? And it – can that – can Wal-Mart afford to provide better wages and benefits? And I'd take the perspective that, A, yeah, they actually lower wages and benefits; B, that they do have a lot of price advantage; and C, as a result, these approaches are not – these approaches make sense. And I think there's a number of ways that could happen whether it happens in the direct pressure campaign, organizing or public policy, but I guess the broader point I take is that it is a sensible thing to do if that's what you're – if you want to raise wages and standards for retail workers.

MR. GORDON: Yes, sir?

Q: I'm – yeah, thank you. I'm Paul London. I wrote a book called *The Competition Solution* and there's a big section in it on Wal-Mart. Jason, I think courageously, has made some very good points about the macroeconomy here. Somebody wrote in the *New York Times* three or four years ago that Wal-Mart had mortified inflation in the Federal Reserve. And the fact that we had much lower inflation in the 1990s, and I think the 1990s are relevant, meant that we could have unemployment at 3.9 percent and no inflation.

If you look at the '70s and '80s, everybody said, gee, we had to have 6 percent unemployment, otherwise we're going to have inflation. Well, along comes Wal-Mart, but not just Wal-Mart; along comes new banking organizations, along come deregulation and airlines and trucking and things like that, all of which drove down prices, made things available to lower-income people. Every one of these industries, not just retailing – basically the difference between the '70s and the '90s is that they found ways to serve

low-income people and to broaden the market, which is what America has always been about.

I mean, basically, Leo, you talk about how could it be \$263 billion? Because when Wal-Mart comes in, the grocery store down the street lowers its price. When Wal-Mart comes in, CVS has to do something to react to Wal-Mart. That's how these numbers get to be bigger than Wal-Mart's total gross sales. So I think Wal-Mart has – you know, it's a part of a phenomenon in the United States that made lower unemployment possible, which is I think is the best thing you can do for low-income people. So I just wondered whether the others up there would talk about these macroeconomic impacts of the Wal-Mart phenomena and not just about the sort of narrow – you know, the narrower issues which I think get a lot too much focus.

MR. HINDERY: Can I just – the CVS, grocery store, gas mart example, that – the ripple effect, I think, is taken into account. I just don't think it adds anywhere close to a quarter of a trillion dollars because of retail substitution. This isn't new consumption going on. It's substituted consumption. And to suggest that it rises to a quarter of a trillion, I'm willing to acknowledge that it rises perhaps as high as \$100 billion. I don't get to a quarter of a trillion based simply on models of retail substitution.

Q: (Off mike.)

MR. HINDERY: I acknowledged 100, I did, but there's a lot of difference between 100 and 263 when you're trying to assess the issues of great – of import that we are today. I – it's not a casual 263 or 100. It's like a third.

MR. DUBE: Right. Could I just –

MR. GORDON: Very briefly.

MR. FURMAN: Really briefly. (Unintelligible) those numbers that the Global Insight study had a lot of problems, shortcomings; as I said, some of them go the other way. The Jerry Hausman study looked at what people bought, where they bought it, how they substituted – you know, every aspect of it – took all that into account and found 25 percent savings on food. We in this country spend \$800 billion a year on food. Now, there isn't a Wal-Mart in every place, and their study wasn't just about Wal-Mart, but if there were 25 percent at \$800 billion just on food, you're at \$200 billion right there. It's lower than that because of these other reasons, but that you can get numbers of \$250 billion – the very best MIT economist taking into account all of these factors have numbers in that neighborhood.

MR. DUBE: Again, I'm trying not to sort of squabble over particular statistics, but that's just – you know, Jason, just not true. I'll give you a simple example why that's the case. For Global Insight to get to that \$200-odd billion figure, they have a nine – they need a 9 percent reduction in grocery just from Wal-Mart. Jerry Hausman's study finds a 3 percent reduction in grocery prices for not just Wal-Mart, but including all super-

centers, including Costco, Super K-Mart, Super Target, et cetera. So right there it's about on grocery, I think you'd find four times larger reduction from the Global Insight study than you'd find for in Jerry Hausman's study.

But I think the broader point that you raise – I mean, yeah, I think Wall-Mart's kept prices lower somewhat, but I think – you know, I would attribute the lower unemployment to the Federal Reserve learning about that it can reduce unemployment without thinking they're going past the natural rate. I mean, I don't really – you know, I think it would be even more a order of magnitude off to talk about the unemployment rate being reduced from a macro perspective. But that's – you know, again that's – I'm not – I don't have research that I can really draw upon for that perspective. But –

MR. GORDON: We have time for just one more question. Yes, ma'am?

Q: I'm just trying to get a bit more clarification on this 200 –

MR. GORDON: If you could give us your name please?

Q: Oh, I'm sorry. Julie Martinez. I'm the research director at American Rights at Work. I'm just trying to get a bit more clarification on this 236 – 63, whatever, very large number. Is this number pertaining to the cost of goods sold in Wal-Mart? So things like toothpaste, and perhaps food in places where they have super-centers, or are they arguing and is the Global Insight Study arguing and is the MIT study arguing that across the board inflation has actually decreased because – I mean, you know, I grew up very poor. (Laughs.) And I actually have a number of family members who work at Wal-Mart and similar sorts of places and there's just a maximum amount of groceries and toothpaste and detergent you need and the rest of the money that you would have been earning from these increased wages would probably go to things like your housing and your rent, your mortgage if you can have that, gasoline costs clearly right now, today, energy costs – so I'm just trying to get a sense of – I mean, if the argument is that Wal-Mart is actually not having a net-negative effect on these people because their prices are so much lower so that offsets the wage decrease. It doesn't seem to completely follow if really what people would do with those wages is something besides buy more things at Wal-Mart.

MR. FURMAN: The MIT study finds that people with a big-box store in their area are made \$550 dollars better off, 5-5-0. I have a lot of faith in that study for reasons I think I've made clear. This other Global Insight study uses an overly simplistic procedure that looks at the aggregate inflation rate and doesn't control for certain things. I don't know whether that biases their number up or down. It also uses the CPI as reported by the Bureau of Labor Statistics, which is very biased due to something called outlet substitution bias, which is basically the equivalent of – assuming that Wal-Mart doesn't exist. If they hadn't suffered from that, they would have found even larger numbers. I – so I don't place as much weight in that one, but \$500 a family from the Hausman study.

The final thing is what their study is trying to do is actually measure the improvement in your utility, so it takes into account that you have more choices of where to shop. You can shop at night, which you didn't used to be able to; convenience, all those things are sort of in effect captured by their model. The Global Insight says that \$260 billion is saved. It doesn't say that people are \$260 billion better off, and as I've said, there are a lot of problems with it. I don't know if they made the number is larger or smaller.

MR. GORDON: Any last words? Great. Thank you all for coming, it's been a great discussion.

(Applause.)

(END)