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The Rich Can't Save Retail

Why the Retail Industry Needs a Middle-Out Agenda

By Brendan V. Duke March 2015

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Introduction

The middle-class squeeze has produced a retail squeeze. Stagnant wages and increasing costs are not just hurting the nation's middle class; their effects have now spilled over and are damaging the retail sector as well.

A recent Center for American Progress report showed that the median married couple with two kids in the United States made the same in 2012 as they did in 2000 after adjusting for overall inflation, but the growing cost of basic middle-class security—education, health, housing, and retirement—left the family with $5,500 less to spend on other needs.[1] *The Wall Street Journal* similarly reported that slow income growth combined with the growing cost of middle-class security has reduced American spending in the middle 60 percent of the income distribution on clothing, furniture, appliances, and other consumer goods—even before adjusting for inflation.[2]

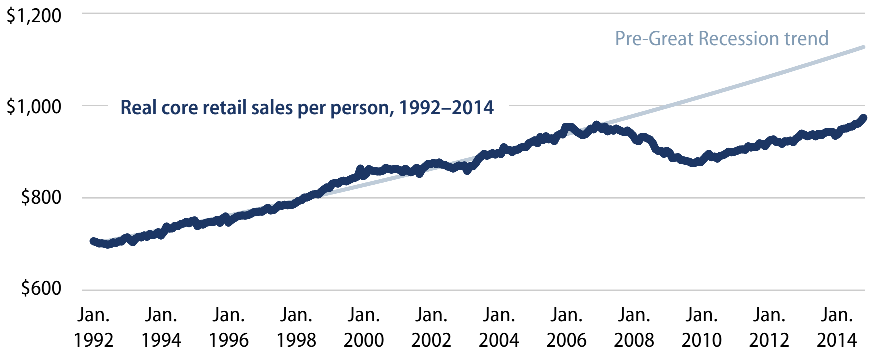
This squeeze on the middle class reduces their buying power and, as a result, hurts the retail sector. Core retail sales per person—retail sales minus auto and gas sales[3]—took five years after the end of the Great Recession to reach their December 2006 prerecession peak. As of February 2015, core retail sales per person still stood 14 percent below their prerecession trend, costing retailers $51 billion in February 2015 alone. Wall Street giant Morgan Stanley blames poor consumer spending on meager wage growth:

> *So, despite the roughly $25 trillion increase in wealth since the recovery from the financial crisis began, consumer spending remains anemic. Top income earners have benefited from wealth increases but middle and low-income consumers continue to face structural liquidity constraints and unimpressive wage growth. To lift all boats, further increases in residential wealth and accelerating wage growth are needed.*[4]

FIGURE 1

Retail's long, slow recovery

Real core retail sales per person, 1992–2014



Note: Dollars are in constant 2014 dollars.

Source: Federal Reserve Bank of St. Louis Economic Database, "Retail Sales and Food Services Excluding Motor Vehicles and Parts Dealers"; "Retail Trade: Gasoline Stations"; "Total Population: All Ages including Armed Forces Overseas"; and "Personal Consumption Expenditures: Chain-type Price Index," available at http://research.stlouisfed.org/ (last accessed December 2014).

Retailers themselves have confirmed their concerns about poor consumer spending. The Center for American Progress' previous analysis of retailer U.S. Securities and Exchange Commission, or SEC, filings found that 68 percent of retailers cite flat or falling disposable incomes as a risk factor to their stock price—double the percentage that cited this risk in 2006.[5] When customers don't have money, retailers don't have customers.

But not every company's customers are being squeezed: The top 1 percent has seen its real income rise by more than 15 percent between 2009 and 2013,[6] and retailers that cater to these consumers have had a successful recovery. This report finds that the sales of retailers that appeal to high-income customers, such as Nordstrom, have grown much more quickly than the sales of retailers that target the middle class, such as the Gap Inc. and Target. Middle-class retailers are now following the money and trying to capture a larger portion of the 1 percent's growing incomes: In 2013, for example, Gap bought luxury chain Intermix,[7] and grocery giant Kroger acquired the high-end chain Harris Teeter.[8]

But this is a retail adaptation rather than a retail recovery, which is what the U.S. economy needs. While some retailers may thrive in an economy where 76 percent of income growth goes to 1 percent of households,[9] the retail sector as a whole will suffer because the rich cannot make up for the falling spending of the middle class. This is because the rich save more than the middle class does, suggesting that a smaller portion of their income gains translate into retail sales than middle-class income gains would. This report's back-of-the-envelope calculations illustrate how equal income growth between 2009 and 2011 could have increased consumer spending growth by more than $45 billion, 11 percent faster growth compared to the actual consumer spending growth over that period.[10] This is billions of dollars that could have been funneled back into the economy, helping boost the bottom lines of the retail sector and speeding up the sector's recovery.

The only way the United States can launch a sustained retail recovery is if the middle class spends more, and for that we need public policies that will alleviate the middle-class squeeze. A middle-out retail agenda would increase middle-class disposable incomes—and retailers' sales—by raising take-home pay through implementing progressive tax reform, reducing the student-loan burden through refinancing, and boosting workers' wages through fair labor standards. The retail industry should actively support these and other measures that will help its most important customers—the middle class—jumpstart a self-reinforcing cycle of consumer spending and hiring.

The hourglass retail recovery

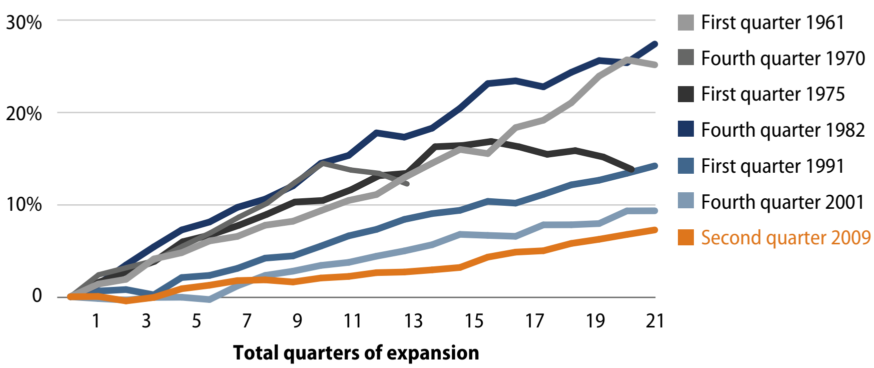
Retail sales in December 2014 declined by a seasonally adjusted 0.9 percent despite falling gas prices that many expected to boost consumer spending.[11] *The New York Times* paraphrased PricewaterhouseCoopers's Steve Barr, saying that "lower-income households still struggled to spend more despite the lower gas prices, because any money saved was offset by cost-of-living increases [and] Sluggish wage growth continued to limit demand."[12] But weak consumer spending growth has been the story throughout the economic recovery.

Figure 2 compares real consumption spending growth minus health, gas, grocery, and nonprofit spending—in other words discretionary spending—in every economic expansion after 1960.[13] The current economic recovery has displayed by far the slowest consumption growth of any economic recovery, which is especially jarring because spending should in fact grow faster after a deep recession.

FIGURE 2

Real per-capita discretionary spending growth in post-1960 expansions

Real growth of personal consumption expenditure per capita, minus health, gasoline, grocery, and nonprofit spending



Source: Federal Reserve Bank of St. Louis Economic Database, "Personal Consumption Expenditures"; "Personal consumption expenditures: Services: Health care"; "Personal consumption expenditures: Nondurable goods: Gasoline and other energy goods"; "Personal consumption expenditures: Services: Final consumption expenditures of nonprofit institutions serving households"; "Personal consumption expenditures: Nondurable goods: Food and beverages purchased for off-premises consumption"; "Total Population: All Ages including Armed Forces Overseas"; and " Personal Consumption Expenditures: Chain-type Price Index," available at http://research.stlouisfed.org/ (last accessed December 2014).

But not all retailers have suffered equally because not all Americans have suffered equally. Citigroup made headlines in fall 2011 when *The Wall Street Journal* reported that it had created its "Hourglass Index" consisting of 25 companies "best positioned to cater to the highest-income and lowest-income consumers"[14] based on the observation that high-income households were recovering and middle-class households were not, thus increasing middle-class purchases at retailers that offer steep discounts such as dollar stores. This observation was not only correct but also highly profitable—the "index posted a 56.5% return for investors from its inception on Dec. 10, 2009, through Sept. 1, 2011. Over the same period, the Dow Jones Industrial Average returned 11%," according to *The Wall Street Journal*.[15]

As the recovery continued in 2014, so too did the hourglass economy. In January 2014, Matthew Klein of Bloomberg charted the performance of luxury, middle-class, and discount retail stocks since 2006, showing that middle-class stocks languished while discount and luxury stocks had appreciated several times their original value.[16] Nelson Schwartz of *The New York Times* similarly reported in February 2014 that "the post-recession reality is that the customer base for businesses that appeal to the middle class is shrinking as the top tier pulls even further away." Schwartz covered the struggles of Darden Restaurants, the owner of Olive Garden that recently sold Red Lobster to focus more on its high-end restaurants. John G. Maxwell, the head of PricewaterhouseCooper's retail practice, put it best, saying, "As a retailer or restaurant chain, if you're not at the really high level or the low level, that's a tough place to be. … You don't want to be stuck in the middle."[17]

This report shows the inequality trend among America's top retailers by comparing the 2010–2013 real U.S. sales growth of some of America's 50 largest retailers. This analysis is limited to just two kinds of retailers—clothing and department stores and supercenters—to eliminate cross-sectoral comparisons. For instance, higher sales growth at Whole Foods than at Best Buy may reflect the strength of the grocery sales compared to electronics sales rather than measuring growing income inequality. This report measures sales growth using U.S. sales as calculated by the National Retail Federation in the 2011 and 2014 editions of its "Top 100 Retailers" report, which estimate U.S. sales in 2010 and 2013 based on data from Kantar Retail. The Personal Consumption Expenditure price index was used to adjust the 2010 sales numbers for inflation.

Clothing and department stores

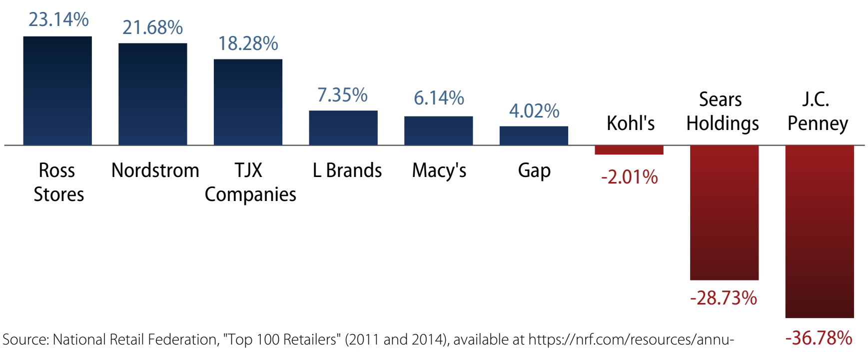
Nine clothing and department stores fall into the National Retail Federation's 2014 "Top 100 Retailers Chart":[18] Macy's at 14, Sears at 16, TJX—which owns TJ Maxx and Marshall's—at 19, Kohl's at 22, Gap at 30, Nordstrom at 33, J.C. Penney at 34, Ross Stores at 41, and L Brands—which owns the Limited and Victoria's Secret, among others—at 43.

Three of these companies enjoyed double-digit sales growth between 2010 and 2013: Ross, Nordstrom, and TJX.[19] Nordstrom is an upscale store; Ross and TJX appeal to shoppers looking to save money by offering heavy discounts. Ross CEO Michael Balmuth praised his firm's "terrific name brand bargains to today's value-focused shoppers,"[20] while TJX calls itself an "off-price retailer" in its own SEC filing.[21] The three department stores that sold less in 2013 than in 2010 were Kohl's, Sears, and J.C. Penney,[22] all midrange department stores targeting middle-class consumers.[23] The effect of the hourglass recovery is less clear on Gap and Macy's: Despite the midrange reputations of their namesake brands, Gap owns higher-end Banana Republic and discounter Old Navy, while Macy's owns high-end Bloomingdales.

FIGURE 3

Top clothing and department stores

Real 2010–2013 sales growth



Source: National Retail Federation, "Top 100 Retailers" (2011 and 2014), available at https://nrf.com/resources/annual-retailer-lists/top-100-retailers; Federal Reserve Bank of St. Louis Economic Database, "Personal Consumption Expenditures: Chain-type Price Index," available at http://research.stlouisfed.org/ (last accessed December 2014).

Supercenters and dollar stores

Next, consider retailers where customers can buy large quantities of retail goods at a discount or for a low set price—"supercenters," such as Walmart, and the so-called "dollar stores," such as Dollar General—that fall into the National Retail Federation's "Top 100 Retailers Chart" in 2014: Walmart at 1, Costco at 3, Target at 4, Dollar General at 25, Meijer at 26, BJ's Wholesale Club at 29, and Family Dollar Stores at 40.

Again, the higher-end supercenters performed well in the recovery. Costco's average customer makes more than $96,000 per year, and the company's sales have grown by 20 percent since 2010.[24] Similarly, BJ's Wholesale—an East Coast warehouse discounter—has seen its sales grow 13 percent, likely because it serves a "target demographic that is more affluent than average" and its "customers are not as economically challenged as those of a mass merchant might be," according to its CEO Laura Sen.[25]

In contrast, Walmart and Target[26] have had an abysmal few years, seeing real sales rise by less than 3 percent between 2010 and 2013. In fact, both companies' real sales just kept up with the population growth of 2.1 percent between 2010 and 2013, suggesting that individual customers were not buying more at these retailers.[27] Critically, these stores depend on middle-class customers: More than half of Target and Walmart customers make between $35,000 and $100,000 per year.[28]

While some have suggested that a surging Amazon.com may be taking away sales from Target and Walmart,[29] these supercenters also face another competitor in this weak middle-class recovery—dollar stores. In 2013, Belus Capital Advisors equities strategist Brian Sozzi told Business Insider that "Dollar stores are winning, while Wal-Mart is having to cut orders ...This sends a strong economic message because dollar stores are getting the middle-income customers who can't afford to go to Wal-Mart.[30] *The Wall Street Journal* similarly reported in 2014:

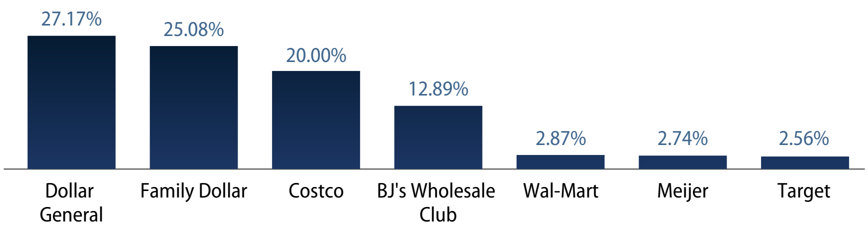
Dollar stores have posed a competitive threat to other discount retailers. Trips to dollar stores have risen since the financial crisis, with 53% of U.S. shoppers in 2013 saying they went to one in the past month, up from 48% in 2007, according to the consultancy Kantar Retail. Meanwhile, the percentage of U.S. shoppers visiting a Wal-Mart at least once a month fell to 65% in 2013 from 69% in 2007. Some 39% of shoppers made monthly visits to Target in 2013, down from 43% in 2007.[31]

The two biggest dollar stores—Dollar General and Family Dollar—have seen explosive sales growth during the recovery, each selling more than 20 percent more in 2013 than they did in 2010. McKinsey & Company reported that "the consumer mix in the dollar channel is shifting from almost exclusively low-income to a mix of low-income, lower-middle class and middle class consumers."[32] The reason for the increasing number of middle-class customers at dollar stores, explains Dollar General Chairman and CEO Richard Dreiling, is "that the economy is creating more of our core customers … The middle-income customer is getting squeezed."[33]

FIGURE 4

Top superstores and dollar stores

Real 2010–2013 sales growth



Source: National Retail Federation, "Top 100 Retailers," (2011 and 2014), available at https://nrf.com/resources/annual-retailer-lists/top-100-retailers; Federal Reserve Bank of St. Louis Economic Database, "Personal Consumption Expenditures: Chain-type Price Index," available at http://research.stlouisfed.org/ (last accessed December 2014).

This analysis shows one way that unequal income growth affects corporate America. Companies that cater to the rich—the only group of consumers experiencing income growth in the recovery—have seen their profits grow. Retailers that offer steep discounts to squeezed middle-class consumers who are trying to save money have also profited. But retailers stuck in the middle—not only J.C. Penney but even Walmart—have struggled to post positive real U.S. sales growth.

The bottom 95 percent is consuming less

However, the booming sales of discount department and dollar stores disguises the declining overall consumption of the middle class. The savings that these retailers provide result from lower profit margins and cheaper products when compared to middle-tier retailers. When middle-class families cut costs by shopping at dollar stores, their overall spending will fall: These families will spend, for example, $1 on deodorant at a dollar store, instead of $2 for a similar product at Target.

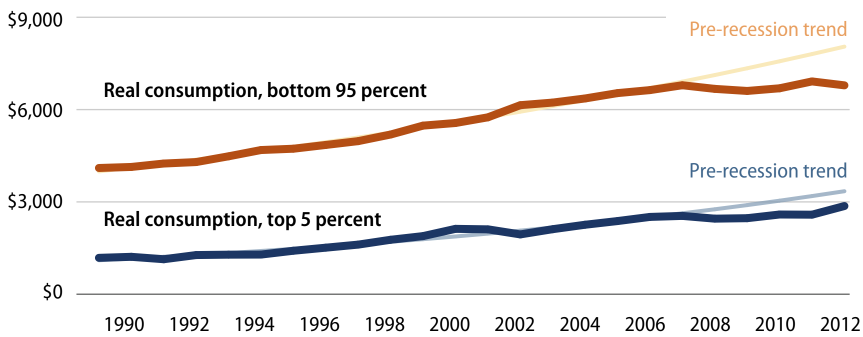
A recent paper co-authored by economists Steve Fazzari of Washington University in Saint Louis and Barry Cynamon at the Federal Reserve Bank of Saint Louis demonstrates weak U.S. consumption growth outside of the rich. Fazzari and Cynamon show that consumer spending by the bottom 95 percent of households was growing at a little more than half the rate of consumer spending by the top 5 percent before the Great Recession. (see Figure 5) The divergence became even more pronounced in the recovery, as consumption by the top 5 percent was well above its prerecession level— 13 percent higher—in 2012, the most recent year studied, and had resumed its prerecession rate of growth. The bottom 95 percent's consumer spending, on the other hand, was still below its prerecession level and was not increasing. Fazzari and Cynamon fear that "the demand drag from rising inequality that was postponed for decades by bottom 95 percent borrowing is now slowing consumption growth and will continue to do so in coming years."[34]

Retailers now face a choice: Follow the money by marketing to the rich or continue to fight over the shrunken pie of the bottom 95 percent's consumption by cutting prices, reducing margins, and squeezing out whatever profit is left.

FIGURE 5

Consumption by the bottom 95 percent had not recovered by 2012

Real personal consumption expenditures of bottom 95 percent and top 5 percent



Source: Barry Z. Cynamon and Steven M. Fazzari, "Inequality, the Great Recession, and Slow Recovery" (2014), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2205524.

Unsurprisingly, retailers are moving upscale. Nelson Schwartz of *The New York Times* documented in March 2014 how Darden Restaurants—the owner of Olive Garden and then Red Lobster, which it has since sold—was focusing more on its high-end brand Capital Grille, where sales growth has been stellar, and was redesigning its LongHorn Steakhouse brand to be more upscale.[35] Similarly, Gap shuttered one-fifth of its namesake U.S. stores in 2011 citing poor sales[36] but bought luxury retailer Intermix in 2013.[37] Grocery giant Kroger bought upscale Harris Teeter in 2013 as part of a strategy of "lowering prices on staples like bread and milk even as it attracts more affluent shoppers with items like dry-aged beef and exotic cheese."[38]

The rich cannot lead a retail recovery

Some of these individual retailers may succeed in an economy where 76 percent of income growth resides in 1 percent of households.[39] But the retail sector as a whole will not recover if middle-class incomes do not recover, no matter how enormous incomes at the top become. That is because the middle class are retailers' best customers as they spend a higher percentage of their incomes than the rich and are more likely to spend an additional dollar than to save it. The rich cannot make up for declining middle-class spending.

A growing body of academic evidence shows just how little the rich spend as a percentage of their incomes. Economists Gabriel Zucman of the London School of Economics and Emmanuel Saez of University of California, Berkeley, for example, show that the bottom 90 percent of households did not save any money between 2010 and 2012, while the top 1 percent saved more than 35 percent of its income.[40] Similarly, economists Chris Carroll, Jiri Slacalek, and Kiichi Tokuoka of Johns Hopkins University, the European Central Bank, and the Japanese Ministry of Finance, respectively, estimate that U.S. households in the top 1 percent of the wealth distribution will spend only 25 percent as much of an additional dollar as the overall population.[41] Economists Karen Dynan, Jonathan Skinner, and Stephen Zeldes—then, respectively, at the Federal Reserve Board, Dartmouth College, and Columbia University—estimated that the middle 20 percent spend almost 90 percent of their incomes while the top 1 percent spends less than half.[42] Economists Atif Mian of Princeton University and Amir Sufi of the University of Chicago show that households in ZIP codes where the average income is less than $100,000 will respond to a dollar increase in housing wealth with an increase between 1 cent to 2.5 cents of auto spending while households in ZIP codes where the average income is more than $100,000 do not have any measurable increase.[43] Cynamon and Fazzari find that:

> *From 1989 through 2007, prior to the large changes that start with the Great Recession, the average consumption rate for the bottom 95 percent exceeds that for the top 5 percent by about 10 percentage points. This result provides empirical support for the widely held view that, other things equal, rising inequality will create a drag on consumption spending.*[44]

The exact estimates vary, but the message from the economic literature is clear: The rich save a much higher fraction of their incomes than the rest of the population and will spend a lower fraction of any additional dollars. The combination of the 1 percent's low spending rate and growing share of income is toxic for retail: A given level of GDP growth translates into less retail spending than it did when income growth was more widely shared. The rich's share of retail spending may increase if it continues to receive the lion's share of income gains, but retail spending overall will grow very slowly without increased spending from the bottom 90 percent of households.

The cost of unequal growth on consumption

In 2012, Princeton University economist Alan Krueger estimated that the rich's growing share of income between 1979 and 2007 combined with its low spending rate reduced overall 2007 consumption by 5 percent.[45] This section uses a similar methodology to show how the continued unequal income growth experienced during the economic recovery may contribute to the slow consumer spending growth in this particular recovery. This section also sketches out how a more equal recovery with broad-based income growth would have affected consumption.

The top 1 percent's share of after-tax income fell from 16.7 percent in 2007 to 11.5 percent in 2009—likely driven by the crash in asset prices—but nevertheless remained historically high: The top 1 percent's share of after-tax income was only 7.4 percent in 1979.[46] And it has been growing quickly during the recovery, standing at 12.6 percent in 2011, the most recent year for which the Congressional Budget Office provides income data that include taxes and transfer payments. At the same time, the bottom 80 percent experienced no recovery: The average after-tax incomes of each of the bottom four quintiles were essentially flat between 2009 and 2011, while the top 1 percent's average income grew 15 percent.[47] These divergent 2009–2011 income trends reduced the bottom 80 percent's share of income by 1.1 percentage points while increasing the top 1 percent's share of income the exact same amount, while the share of income received by the rest of the top quintile stayed the same.

Following a similar methodology to Krueger's, this report provides a back-of-the-envelope calculation to illustrate how much faster consumption could have grown between 2009 and 2011 if the after-tax incomes of the bottom 80 percent and top 1 percent had grown at the same 3.5 percent rate that overall personal disposable income did rather than concentrating at the top 1 percent. Like Krueger, CAP produced spending rates implied by savings rates compiled by Dynan, Skinner, and Zeldes, which show a savings rate of around 10 percent for the bottom 80 percent and a savings rate of around 50 percent for the top 1 percent.[48] [49]

This calculation implies that total real consumption could have grown $45 billion faster between 2009 and 2011 if all quintiles' after-tax incomes had grown at the same 3.5 percent rate than the actual unequal growth. The U.S. Bureau of Economic Analysis shows that real consumption grew $433 billion over those two years, so an additional $45 billion in consumer spending would have increased consumption growth by 11 percent. And this calculation only illustrates the result of unequal income growth over a two-year period—consumption growth would have been much faster if the bottom 80 percent had received the same share of after-tax income that it received in 1979.

These calculations sketch out how the rising concentration of income in the top 1 percent could dampen consumption growth by sending an ever-growing share of income to groups that have saved money at higher rates. While this may benefit hedge funds and private equity firms—which manage the money of the very rich—it hurts the retail sector as a whole because an ever-increasing amount of income is unavailable to them.

A middle-out retail agenda

The structural challenge facing the U.S. retail industry is a lack of consumer demand driven by stagnant middle-class disposable incomes. Individual retailers cannot fix this problem by streamlining their supply chains or creating new advertising strategies. What retailers need is a middle-out retail agenda—a collection of public policies that will boost the disposable incomes of ordinary Americans who will then spend a large portion of that money on retail goods, giving retailers a reason to hire more workers and raise wages, further increasing consumer spending, thus ushering in a virtuous, self-reinforcing cycle of economic growth.

A comprehensive middle-out retail agenda would touch on a wide set of policy areas, from comprehensive immigration reform—which would boost the wages of immigrant and native-born workers alike[50]—to health care cost reduction, which would also increase wages[51]. Here are three policies that could serve as building blocks for that agenda.

Progressive tax reform

Retailers should be the leading voice for progressive tax reform—whether as part of long-term deficit reduction or reforming upside down tax loopholes that mostly benefit the very rich in order to benefit all Americans. That is because the rich have a very low spending rate compared to the middle class and the poor. A tax hike on the rich will have a much smaller negative effect on consumption than a tax hike on the middle class or poor.

President Barack Obama recently proposed a $500 second-earner tax credit, tripling the maximum child care tax credit and providing students as much as $2,500 a year to complete college. These policies directly target the middle-class squeeze of flat incomes and rising costs and would likely boost retail spending by giving families more disposable income. The president proposed paying for them by closing a trust fund tax loophole and increasing the capital gains tax rate—policies that would only affect groups with very high savings rates.

Another example of pro-retail tax reform is President Barack Obama's proposal to expand the Earned Income Tax Credit, or EITC, and eliminate a tax loophole for investment managers.[52] The EITC effectively gives a raise to millions of low-income workers and pushes them toward the middle class, but it currently does not apply to enough young or childless workers. The president has proposed to partially fund an expansion of the EITC by eliminating the carried interest tax loophole that allows private equity and hedge fund managers to treat a portion of their earnings as investment income and thus pay a much lower tax rate than middle-class families.

Eliminating a tax loophole for Wall Street managers to fund a tax credit for low-income workers is not only fair but would also boost the retail industry overall. Low-income workers will likely spend a substantial portion of their tax credit, while top investment managers would barely adjust their spending based on their high savings rates as described above. The boost in overall consumption would make its way into the pockets of the retail industry.

Student-loan refinancing

The combination of high debt levels and low incomes is toxic for the economy, especially for sectors of the economy, such as retail, that depend on consumer spending, as two-thirds of Great Recession job losses were the result of indebted households cutting back on spending.[53] The growing burden of student loans similarly threatens to dampen consumer spending and retailers' profits.

Student-loan debt now tops $1.2 trillion,[54] and borrowers are having a harder time than ever repaying that debt: Only 60 percent of borrowers in repayment are actually making their scheduled payments, and the rest are in deferment, forbearance, or default.[55] The struggle to repay student loans directly affects retailers. There is growing evidence, for example, that mounting student-loan debt prevents Americans from buying new homes, a trend that hurts the bottom lines of companies such as Home Depot and Lowe's.[56] Similarly, student-loan debt is making it harder for young adults to move out of their parents' homes, reducing the sales at companies that sell household wares such as Bed Bath and Beyond and Williams-Sonoma.[57]

More broadly, a dollar that goes to paying off student-loan interest is a dollar that retailers do not have the opportunity to earn. One way that the federal government could ease the burden of student-loan debt would be to allow borrowers to refinance their loans, just like they can with a mortgage. Unfortunately, the Senate rejected a student-loan refinance bill last June.[58] Retailers should be strong advocates for proposals that allow borrowers to refinance their student loans, thereby reducing their interest payments, increasing their disposable incomes, and boosting retail spending as a result.

Fair wages and labor standards

Tax reform and student-loan refinancing would help Americans with one aspect of the middle-class squeeze by reducing their costs, but Americans also need a raise if retailers want them to be able to buy more.

One reason behind stagnant median wages is the erosion of labor standards that served as a cornerstone of the middle class. In 1969, the federal minimum wage guaranteed that almost no workers made less than half the median wage. Today, it only guarantees that those workers make 37 percent of the median wage.[59] Similarly, in 1975, overtime protections guaranteed that 65 percent of salaried workers would receive extra pay for extra work. Today, only 11 percent of them have that guarantee.[60] The United States is also the only developed country without paid family leave laws—a necessity in a world where women make up half the workforce.[61]

Labor standards such as these are critical for economic growth because they increase our nation's quality and quantity of labor; overtime laws prevent injury and disability, for example. But they also raise workers' pay, which in turn raises retailers' sales. A $10.10 per hour minimum wage, for example, would increase GDP by 0.3 percent because of the rise in spending by minimum-wage workers.[62] Raising the minimum wage would increase some retailers' labor costs but would also boost demand for their products because minimum-wage workers will spend almost every penny of that increase. One firm's wages are other firms' sales, and without robust minimum-wage laws, the economy can enter a downward spiral of low demand that reduces wages, which further dampens demand.

Retailers increasingly recognize this logic: Walmart, for example, announced in February 2015 that it would raise its lowest wage to $9 in 2015 and $10 in 2016, and T.J. Maxx quickly followed suit.[63] Gap, IKEA, and Costco were already slated to pay or will soon pay their employees more than $10 per hour.[64] Yet despite the decisions of some retailers to raise the wages of their employees, the United States still needs a higher minimum wage: Target Chief Financial Officer John Mulligan, for example, refused to follow Walmart's lead, saying it's "just not reasonable … [to provide] an arbitrary number that's some flat rate that we're going to pay across the country."[65] The retail industry should follow the lead of Kip Tindell, The Container Store CEO and chairman of the National Retail Federation, or NRF, who said that he is "working, frankly, to get the NRF to maybe moderate its view" on the minimum wage and that "it's unbecoming to speak out against raising the minimum wage."[66]

Conclusion

Retail industry observers have talked extensively about the new normal of retail. Pam Goodfellow, the consumer insights director of Biginsights—a marketing strategy and consumer behavior firm—summarized this new normal, saying, "heavy coupon usage, a strong focus on budgets, further attempts at debt reduction, targeted spending, price comparisons — smart shopping strategies executed by well-informed consumers."[67]

Retailers' new normal is linked directly to the middle-class squeeze of stagnant incomes and growing costs. A declining disposable income of the middle class means that retailers have to compete for a shrinking pie of consumer spending that demands heavy discounts. Some retailers may succeed in appealing to the top 1 percent—the group that saw the strongest income growth even before the Great Recession. But that group's low spending rate means that it cannot make up the gap caused by low middle-class spending if middle-class incomes do not grow soon.

If it wants to thrive, the retail industry needs a thriving middle class. A middle-out retail agenda that includes progressive tax reform, student-loan refinancing, and fair labor standards is the industry's best hope to launch a sustainable retail recovery.

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Endnotes

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