Hidden Cost of Wal-Mart Jobs

Use of Safety Net Programs by Wal-Mart Workers in California

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Executive Summary

Wal-Mart is the largest employer in the United States, with over one million workers. It is the largest food retailer and the third largest pharmacy in the nation. The company employs approximately 44,000 workers in California, and has plans to expand significantly in the state over the next four years. Wal-Mart workers receive lower wages than other retail workers and are less likely to have health benefits. Other major retailers have begun to scale back wages and benefits in the state, citing their concerns about competition from Wal-Mart.

We estimate that Wal-Mart workers in California earn on average 31 percent less than workers employed in large retail as a whole, receiving an average wage of $9.70 per hour compared to the $14.01 average hourly earnings for employees in large retail (firms with 1,000 or more employees). In addition, 23 percent fewer Wal-Mart workers are covered by employer-sponsored health insurance than large retail workers as a whole. The differences are even greater when Wal-Mart workers are compared to unionized grocery workers. In the San Francisco Bay Area, non-managerial Wal-Mart employees earn on average $9.40 an hour, compared to $15.31 for unionized grocery workers—39 percent less—and are half as likely to have health benefits.

At these low-wages, many Wal-Mart workers rely on public safety net programs—such as food stamps, Medi-Cal, and subsidized housing—to make ends meet. The presence of Wal-Mart stores in California thus creates a hidden cost to the state’s taxpayers.

This study is the first to quantify the fiscal costs of Wal-Mart’s substandard wages and benefits on public safety net programs in California. It also explores the potential impact on public programs of Wal-Mart’s competitive effect on industry standards.

Main Findings:

• Reliance by Wal-Mart workers on public assistance programs in California comes at a cost to the taxpayers of an estimated $86 million annually; this is comprised of $32 million in health related expenses and $54 million in other assistance.

• The families of Wal-Mart employees in California utilize an estimated 40 percent more in taxpayer-funded health care than the average for families of all large retail employees.

• The families of Wal-Mart employees use an estimated 38 percent more in other (non-health care) public assistance programs (such as food stamps, Earned Income Tax Credit, subsidized school lunches, and subsidized housing) than the average for families of all large retail employees.

• If other large California retailers adopted Wal-Mart’s wage and benefits standards, it would cost taxpayers an additional $410 million a year in public assistance to employees.
Introduction

When workers do not earn enough to support themselves and their families through their own jobs, they rely on public safety net programs to make ends meet. In fact, more than half of the public assistance in California now goes to the working poor.¹

This report estimates the public assistance expenditures for California workers employed by Wal-Mart. The report quantifies the cost of public assistance in California resulting from Wal-Mart’s pay and benefit package, using data compiled on the ten largest public assistance programs in the state.² Wal-Mart is the largest employer in the United States, with more than one million workers. As of 2001, Wal-Mart had 143 stores and employed about 44,000 workers in California. It is expanding rapidly. Wal-Mart’s wages and benefits are significantly below retail industry standards. Since Wal-Mart’s future growth trajectory may have a significant impact on industry standards, the study also assesses the potential costs that taxpayers would incur if other large retailers in the state were to follow the Wal-Mart model due to real or perceived competitive pressure.

Several recent reports have explored the issue of public supports to Wal-Mart workers. The best documented example comes from Georgia and involves a single healthcare program. A state survey found that Wal-Mart employees rely disproportionately on the state’s Children’s Health Insurance Program, PeachCare, accounting for more than 10,000 of the 166,000 children enrolled in the program (see A. Miller 2004). A report by the Democratic Staff of the Committee on Education and the Workforce of the U.S. House of Representatives, prepared for Congressman George Miller (2004), looked at the issue of public support to Wal-Mart workers across a wider range of programs. Using employee eligibility for programs to estimate the public costs of Wal-Mart’s compensation policies, the report estimates that a typical 200-employee Wal-Mart store may cost federal taxpayers $420,750 a year—about $2,103 per employee. The research reported here goes a step further and models actual program utilization, as opposed to worker eligibility, across the same wide range of programs.

To fully understand the impact of Wal-Mart’s compensation policies on public safety net programs, we must look beyond the number of Wal-Mart workers who participate in these programs and also consider Wal-Mart’s growing influence on the retail industry as a whole. Wal-Mart is expanding into retail sectors and geographic areas with traditionally higher standards for wages and benefits. With the development of “supercenters” that combine retail with groceries in mega-stores, Wal-Mart has become the largest grocery retailer in the United States, accounting for a 19 percent share of the grocery market. Wal-Mart is the third largest pharmacy in the country, behind Walgreens and CVS. While more than half of Wal-Mart’s stores nationwide are supercenters, they have only just begun to enter the California grocery market. The first super-center opened in Palm Springs earlier this year; Wal-Mart plans to open 40 more super-centers in the state over the next five years (Goldman, 2003).

¹ By public assistance we are referring to the following means tested safety net and tax credit programs: Transfer Assistance to Needy Families (TANF), Food Stamps, Section 8 housing vouchers, Low income energy assistance program, women and infant care program, free or reduced price school lunch and breakfast, Earned Income Tax Credit (EITC), Women, Infants and Children (WIC) nutrition program, Medi-Cal (Medicaid), and Healthy Families (State Children’s Health Insurance Program–SCHIP).

² See the ten programs listed in footnote 1.
Other major retailers, most notably in grocery, have begun to scale back wages and benefits, citing concern over competition from Wal-Mart. In a report for the Orange County Business Council, Boarnet and Crane (1999) found that the economic impact of Wal-Mart’s entry into Southern California could depress wages and benefits in the region by as much as $2.8 billion a year by driving down compensation in the retail sector. The threat of competition from Wal-Mart supercenters was used to justify—however accurately—the major grocery chains’ proposal to significantly reduce wage and benefit levels for new employees in unionized stores in Southern California (Raine 2004).³

Wal-Mart’s impact on compensation across the retail industry is due to a combination of both genuine and perceived threats of competition, and to the fact that as the country’s largest employer, it has become a standard setter. In a commentary in Business Week, Holmes and Zellner (2004) discuss the pressure from Wall Street to follow the Wal-Mart model, noting that CEOs find it easier to follow Wal-Mart’s low-wage route, even when a higher wage/high productivity model may do as well for shareholders and be better for the economy over the long run. We will refer to this as Wal-Mart’s demonstration effect. In the final part of this report, we estimate the potential cost on taxpayer supported safety net programs in the state of Wal-Mart expansion and impact on industry standards.

Finally, we should ask if Wal-Mart’s expansion affects employment in a way that would offset the public costs for assistance to the firm’s employees. If Wal-Mart’s entry into a market creates net new jobs, an argument can be made that though Wal-Mart workers earn wages that leave many below self-sufficiency, the alternative for a part of the workforce would be unemployment, with other attending public costs. There is strong evidence, however, that the jobs created by new Wal-Mart stores generally replace other, often higher-paying jobs, as existing retailers are forced to scale back or go out of business. Stone (1997) found that in the 10 years following the opening of a Wal-Mart, nearby towns lost up to 47 percent of their retail trade. Retail trade in urban areas also declined following the entry of Wal-Marts in nearby suburbs. Studies of the overall impact of Wal-Mart on employment are inconclusive, with some pointing to a net job loss and others to small increases in employment.⁴ For the purposes of this study, we take the middle ground and assume no overall change in employment levels from Wal-Mart’s entry into the market.

Wal-Mart Wages and Benefits

Data Sources

In the absence of data on actual public assistance utilization by Wal-Mart workers, we rely on information about Wal-Mart’s compensation policies and on the March 2002 Current Population Survey data to estimate the taxpayer cost, covering the period between March 2001 and March 2002. For wage and benefit information, we utilize 2001 data made available publicly by Wal-Mart via the testimony of Dr. Richard Drogin in a sex-discrimina-

³ For a discussion of the impact of the two-tier contract on grocery industry compensation see Dube and Lantsberg (2004).

tion lawsuit brought against Wal-Mart. The wage data we utilize is national in scope, and is not broken down by state. However other corroborative evidence suggests that applying this national data to California is unlikely to exaggerate Wal-Mart's share of public assistance and is therefore unlikely to inflate our cost estimates.5

Number of Wal-Mart Workers in California

Wal-Mart employed 930,770 employees nationally in 2001,6 the most recent year for which we have data and on which we base our analysis. Although we do not have specific employment numbers for California, we are able to estimate the size of the California Wal-Mart workforce using store locations data available publicly on Wal-Mart’s website. We find that there are 3,018 Wal-Mart and Sam’s Club stores, and that 143 (or 4.7 percent) are located in California. Applying this proportion to total Wal-Mart employment, we estimate that there are roughly 44,000 Wal-Mart employees in California.

Wages and Benefits of Wal-Mart Workers

The wage data provided by Wal-Mart via Dr. Drogin’s testimony7 covers all active part-time workers and active full-time workers with at least one year of tenure—about 65 percent of Wal-Mart’s workforce. The dataset provides wage levels and number of employees for 382 full-time and 313 part-time occupational classifications. This level of detail allows us to estimate the distribution of Wal-Mart’s wages. We find that 54 percent of Wal-Mart workers in 2001 earned below $9 per hour, 21 percent earned between $9.00 and $9.99, while another 16 percent earned between $10.00 and $10.99 per hour (see Figure 1). Since the dataset only includes those full-time workers who have completed one-year of tenure, the wages in the sample are likely to be higher than the wages of the full Wal-Mart worker population. Since higher wage levels result in lower participation in safety net programs, this will produce conservative estimates of public assistance costs.

Wal-Mart’s wages are significantly below retail industry standards. Figure 2 compares Wal-Mart’s average wages with the average wages of large retailers (defined as having 1,000 or more employees) as a whole. We find that Wal-Mart workers earn on average 31 percent less than workers in large retail as a whole, with wages of $9.70 per hour compared to the $14.01 average per hour earnings

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5 Utilizing separate Wal-Mart data for wages at stores only in the high-wage San Francisco Bay Area, we find a differential of 36 percent between average Wal-Mart wages and the average wage rate for workers in large retail as a whole in the same geographic area. This is a larger wage differential than we find comparing the national Wal-Mart data with the averages for large retail workers in the state. This provides confidence that our use of national data for wage comparisons is unlikely to have significantly inflated the wage differential between Wal-Mart and other large retailers in the state.

6 Dr. Richard's Drogin's Testimony, Appendix 4a, based on PeopleSoft Data.

7 Ibid. Appendix 8a and 8b.
for large retail workers. Utilizing Wal-Mart data for wages at stores only in the high-wage San Francisco Bay Area, we find an even greater wage differential of $10.93 per hour for Wal-Mart workers compared to $17.03 per hour for large retail workers as a whole, a difference of 36 percent.

Wal-Mart reports that 48 percent of its workforce is enrolled in its health plan (Goldman 2003). This data implies that of the 44,000 California Wal-Mart workers, 22,900 do not receive employer-sponsored health insurance, while 21,100 do. Figure 3 compares the rate of employment based health coverage for Wal-Mart employees with the average coverage rate for workers in all large retail establishments. We find that 23 percent fewer Wal-Mart employees are covered by employer-sponsored health insurance than large retail employees in general.8

We next compare Wal-Mart wages and benefits for non-managerial workers with those of unionized grocery workers in the Bay Area. Wal-Mart employees earn on average $9.40 an hour, compared to $15.31 for the unionized grocery workers, or 39 percent less (Figure 4).9 They are half as likely as unionized grocery workers to have health benefits (Figure 5).

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8 We assume Wal-Mart’s health coverage between March 2001 and March 2003 was the same as the present rate of 48 percent.

9 We impute this by multiplying the average Wal-Mart wage in the Bay Area ($10.93) by the ratio of non-managerial wage to overall wage of Wal-Mart workers nationwide.
Public Assistance Received by Wal-Mart’s California Workforce

We estimate the public costs going to Wal-Mart workers by utilizing (1) wage and benefit information about Wal-Mart workers, and (2) a statistical model of public assistance utilization based on a worker’s wages, employment-based health coverage and demographic information (including race, age, gender, family size structure, non-wage income, other family members’ employment-based coverage, number of children).\(^{10}\) We simulate Wal-Mart’s share of public assistance by using Wal-Mart data on wages and benefits; in the absence of demographic data on Wal-Mart workers specifically, we assume the same demographic structure of its workforce as that of other large retailers in California.\(^{11}\) For comparative purposes, we calculate assistance going to all workers in retail companies with 1,000 or more employees (the largest firm-size category in the CPS) in California. Finally we project the public assistance cost for large retailers in California under “Wal-Martization”—i.e., if wages and benefits at all large retail stores fell to the Wal-Mart standard. We report health and non-health public assistance amounts separately. Health related public assistance refers to Medi-Cal and Healthy Families, as California’s Medicaid and State Children’s Health Insurance Program are known, respectively.

We find that overall, families of California Wal-Mart workers rely heavily on public safety net programs. We estimate the total cost to the public for public assistance to Wal-Mart workers at $86 million a year. This includes $32 million in health related expenses, and $54 million in other assistance.

Wal-Mart workers rely disproportionately on public assistance compared to workers in other large retail firms. The following table shows that the average Wal-Mart worker receives $1,952 in public assistance, compared to $1,401 for workers in large retail in general. This figure is close to the estimates from G. Miller (2004), in spite of the different

\(^{10}\) Here we use a similar methodology to that used in our study The Hidden Public Costs of Low Wage Work (http://laborcenter.berkeley.edu/livingwage/workingpoor.pdf); details on methodology can be found in the appendix of that report.

\(^{11}\) This very well may underestimate Wal-Mart’s receipts. Wal-Mart tends to employ a greater share of women in its workforce than other retailers. Since women are more likely utilize public assistance programs than men, adjusting for gender differences would produce larger estimates. However, since data on gender is the only demographic information we have on Wal-Mart employees, we erred on the side of caution by excluding any adjustment, as it may be that there are other offsetting demographic factors.
methodologies employed in the two studies. Wal-Mart workers in California receive an estimated 40 percent more in family-level Medi-Cal and Healthy Families than workers at large retailers generally. Workers at Wal-Mart receive an additional 38 percent in non-health related public assistance compared to their counterparts at other large California retailers. It is worth noting that this premium is in addition to an already high public cost for retail workers. Zabin, Dube and Jacobs (2004) found that workers in the retail industry in general in California rely disproportionately on public assistance programs, compared to workers in other industries.

Table: Family Level Public Assistance—Workers at Wal-Mart and Large California Retailers

<table>
<thead>
<tr>
<th></th>
<th>Health Related</th>
<th>Other</th>
<th>Total Public Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wal-Mart</strong></td>
<td>$730</td>
<td>$1,222</td>
<td>$1,952</td>
</tr>
<tr>
<td>Total Public Assistance Going To Wal-Mart Workers</td>
<td>$32,100,000</td>
<td>$53,800,000</td>
<td>$85,900,000</td>
</tr>
<tr>
<td><strong>Large Retailers in California</strong></td>
<td>$521</td>
<td>$880</td>
<td>$1,401</td>
</tr>
<tr>
<td>Total Public Assistance Going To Large Retail Workers</td>
<td>$390,800,000</td>
<td>$660,000,000</td>
<td>$1,050,800,000</td>
</tr>
</tbody>
</table>

Source: Drogin’s Testimony based on Wal-Mart Payroll Data, Wal-Mart Press Releases, March 2003 CPS, Administrative Data on Public Assistance Program Enrollment and Cost

There are 750,000 workers in large retail firms in California. Multiplying the average cost of benefits to Wal-Mart workers by the total number of retail workers in the state, we find that if other large California retailers adopted Wal-Mart’s wage and benefits standards, the total annual cost of public assistance to workers in large retailers would be $1.46 billion, an increase of $410 million (Figure 6). In other words, if other large retailers in the state adopted Wal-Mart’s wage and benefits policies, it would cost California taxpayers an additional $410 million a year. This provides an estimate of the long-term potential impact on California taxpayers of Wal-Mart’s effect on the retail industry as a whole in the state.

Figure 6: Total Annual Public Assistance to Workers of Large California Retailers (in Millions)

Source: Drogin’s Testimony based on Wal-Mart Payroll Data, Wal-Mart Press Releases, March 2003 CPS, Administrative Data on Public Assistance Program Enrollment and Cost

If our estimates for California are indicative of Wal-Mart workers’ utilization of safety net programs nationally, as the Miller report (2004) suggests, the cost to taxpayers nationally for public assistance to Wal-Mart workers could be as much as $2 billion a year.

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12 G. Miller (2004) uses eligibility criteria to determine the amount of assistance Wal-Mart employees may qualify for; we estimate assistance utilized by Wal-Mart employees.
Other Potential Costs Not Considered in Our Estimation

We believe our results provide conservative estimates of the indirect public subsidy to Wal-Mart. There is reason to believe that Wal-Mart affects public assistance utilization not only through its compensation policies, but also by actively encouraging employees to participate in such programs. For example, the PBS television program *Now with Bill Moyers* reported that Wal-Mart provides all new employees with a 1-800 number to call to determine benefits eligibility. This is important because for many programs, fewer people actually participate in the programs than are eligible for them. Assistance to help employees receive benefits by Wal-Mart may increase take-up rates. This is not factored into our analysis, which means we very likely understated the true cost of Wal-Mart to taxpayers. Second, our public health costs are limited to Medi-Cal and Healthy Families. In reality, some Wal-Mart workers are likely neither insured nor enrolled in Medi-Cal. When such workers or their family members get sick, they might visit emergency rooms—a particularly expensive form of care delivery. Moreover, oftentimes such care is not paid for by the patient, leaving taxpayers to pick up the tab. This “uncompensated care” costs California about $5 billion each year, with the greatest burden falling on County Health Systems. The share of these costs for Wal-Mart workers should be taken into account in a full accounting of the company’s impact on state taxpayers.

Conclusion

Wal-Mart workers’ reliance on public assistance due to substandard wages and benefits has become a form of indirect public subsidy to the company. In effect, Wal-Mart is shifting part of its labor costs onto the public. We estimate the cost of the subsidy to Wal-Mart in California for state taxpayers to be $86 million a year. Other retail firms that carry their own weight by providing self-sufficiency wages and employer-sponsored health insurance are placed at a competitive disadvantage, which can result in a downward cycle for wages and benefits across the industry. As we have shown, Wal-Mart’s long term impact on compensation in the retail industry has the potential to place a significant strain on the state’s already heavily burdened social safety net. We estimate the cost if large retailers throughout the state adopted Wal-Mart’s wage and benefits standards to be an additional $410 million a year in public assistance expenses. The public cost of low-wage jobs should be taken into account by policy makers at all levels as they make decisions about the kinds of economic development we should encourage in California and in our communities.
Bibliography


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