

Subject: NEW ECONOMIC STUDY DISPROVES WAL-MART CLAIMS

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Contact: Nu Wexler or Laura Jack, (202) 557-7440 or (202) 739-1020

Washington, D.C., Thursday, June 15, 2006 – A study released today by the Economic Policy Institute (EPI) asserts that Wal-Mart, the world's largest retailer, can offer better wages to its employees while keeping profit margins nearly 50 percent greater than key competitors. The report also disproves a 2005 Wal-Mart-commissioned study by Global Insight (GI), which claimed that American consumers have saved \$263 billion because of expansion by Wal-Mart.

Economists Jared Bernstein and L. Josh Bivens assess the competing claims about Wal-Mart's impact on prices and wages in *The Wal-Mart Debate: A False Choice Between Prices and Wages*. The most important revelation in the new report is the inaccuracy of the claim that Wal-Mart's expansion saved consumers \$263 billion. Wal-Mart commissioned a study by the consulting firm Global Insight (GI), which found that Wal-Mart had whopping positive impacts on the economy. *The Wal-Mart Debate* reviews research that reveals the two top-line findings of the GI report are incorrect and the GI research methodology throughout is fraught with problems.

GI based its findings on the Consumer Price Index (CPI) – which measures the costs of a basket of goods and services on which families typically spend their money. But 60 percent of the items in the CPI basket are services like health care, housing and transportation, which can't be purchased at Wal-Mart. Moreover, future benefits from Wal-Mart's prices will shrink because health care, energy and other services constitute an ever-growing share of household expenditures.

“Working families need higher wages to keep up with the rising prices of gas and housing,” said co-author Josh Bivens. “Rent or mortgage, utilities, medical services and

transportation – these are what take up the largest portion of a family’s income – not goods bought at Wal-Mart.”

Not only do the authors discredit research commissioned by Wal-Mart that shows improbably large economic benefits from the company's expansion, they also show how Wal-Mart’s labor policies hurt low-income families. As Wal-Mart expands, its low wages supplant competing jobs that pay 18 percent more in urban counties. This leads to substantial downward pressure on wages, with Wal-Mart store openings leading to a 0.5 to 0.8 percent reduction in average earnings per worker in the general merchandising sector and pay lowered by 0.8 to 0.9 percent for grocery workers.

The authors’ analysis also shows that Wal-Mart could provide workers sizable increases in wages and compensation without affecting prices if the store accepted the same profit margins as some of its competitors or even accepted the same profit margins that characterized its own operations in the recent past. For instance, Costco, a competitor in the large-market food business, had a net profit margin of 2 percent in 2005, and Wal-Mart’s net profit margin grew from 2.9 percent in 1997 to 3.6 percent in 2005. Returning to its 1997 net profit margins would allow Wal-Mart to give its non supervisory workers 13 percent pay increases without raising prices, while still maintaining higher profit margins than a main competitor.

The authors conclude with an analysis of whether the Wal-Mart model is one that can deliver broadly shared growth. Essentially, many defenders of Wal-Mart have argued that its workers and the larger community should acquiesce to the low wages the company pays, and that Congress should be relied upon to make up the difference between these salaries and a decent standard of living. The authors argue that this is too narrow and unreliable a strategy.

Click here to download EPI’s issue brief:

<http://www.epinet.org/issuebriefs/223/ib223.pdf>

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For more information on the study, contact Karen Conner with EPI at (202) 331-5542.

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