

**Testimony of Stacy Mitchell, Institute for Local Self-Reliance
Before the New York City Council
Public Hearing on Wal-Mart
February 3, 2011**

Good afternoon, Speaker Quinn and Co-Chairs Reyna, Koslowitz, and Vann, and Members of the New York City Council. Thank you for holding this hearing and for the opportunity to testify today.

My name is Stacy Mitchell. I am a senior researcher with the Institute for Local Self-Reliance, a 37-year-old national nonprofit research and educational organization with primary offices in Minneapolis and Washington, D.C. My area of expertise is the retail sector and, in particular, the impacts of large-format retailers, notably Wal-Mart, whose size, market power, and aggressive tactics put it in a category of its own. I have presented on this topic at numerous national conferences organized by groups like the American Planning Association, and have served as an advisor to many communities seeking guidance on policy responses. I am also the author of *Big-Box Swindle: The True Cost of Mega-Retailers* (Beacon Press), which was named a top-ten business book of the year in 2007 by the American Library Association's *Booklist*.

My testimony examines some of the economic and community impacts that New York would experience if Wal-Mart expanded into the city, and closes by briefly mentioning some of the potential policy approaches the City could take.

Wal-Mart's Urban Expansion Strategy

As Wal-Mart makes plans to move into major cities, its approach is not to open one or even a handful of "flagship" stores. Rather, the retailer appears to be following the same expansion strategy it has used for over 50 years in rural and suburban areas. When Wal-Mart enters a new region, it saturates that region, building stores and then filling the gaps between those stores with new stores, and so on, until the market areas of all of its stores overlap and blanket the entire region. This approach enables Wal-Mart to maximize its competitive position in that market area.

Wal-Mart appears to be approaching major cities in much the same way. In Chicago, Wal-Mart has announced that it wants to open more than two dozen supercenters as part of its first phase of expansion.¹ That works out to about 4.5 million square feet of retail store space, which is the equivalent of more than 100 football fields and would be

expected to capture at least \$2 billion in local spending each year.² Wal-Mart's intentions in New York are likely to be similar in scale and scope, and the company has indicated that it will deploy stores of a variety of sizes in order to ensure its reach into every neighborhood, including those too dense to accommodate a supercenter.

The key point here is that this is not about a few Wal-Mart stores opening in the city. It is the beginning of what the company hopes will be a much more extensive deployment and takeover of the New York City market, leading ultimately to a substantial transformation of the city's retail sector, which will have broad implications for its economy and neighborhoods. This is why today's hearing is so important and why I believe the City Council needs to develop a comprehensive policy response.

Wal-Mart's Impact on Locally Owned Businesses

When Wal-Mart opens, nearby local businesses downsize and close. This has been the consistent and well-documented pattern in communities across the country. At the national level, U.S. Census data show that the number of small retail businesses has fallen sharply as Wal-Mart has proliferated in recent years.³

Even competitive and popular businesses often struggle to survive Wal-Mart's aggressive tactics. As antitrust officials in Arkansas, Wisconsin, the United Kingdom, and Germany have found, and as various industries, most recently the toy industry, have documented, Wal-Mart regularly employs predatory pricing, selling key items or even entire departments below cost in order to grab market share from competitors.⁴ Once those competing businesses close, Wal-Mart's prices rise. It's a tactic that even the best-run, most efficient small businesses struggle to withstand.

Wal-Mart insists that, rather than hurting nearby local businesses, its stores actually create spillover benefits for them. But there is no data to support this assertion. In fact, there is much evidence to the contrary, including the findings of a Chicago study being presented at today's hearing by Professor David Merriman.⁵ Research elsewhere has likewise found that Wal-Mart's "one-stop shopping" formula results in virtually none of its customers visiting nearby businesses.

Even though Wal-Mart is now the nation's largest grocer, accounting for more than 25 percent of all U.S. grocery sales, its economic function within a neighborhood is very different from that of a traditional grocery store. While supermarkets have long anchored neighborhood business districts, drawing customers who then shop at other nearby stores, Wal-Mart has the opposite effect: customers who visit a Wal-Mart to stock

up on groceries then purchase other types of merchandise that they previously bought from nearby businesses. Rather than creating opportunities for local merchants, Wal-Mart eliminates them.

It's hard to overestimate the importance of small businesses to New York City's economy, its job market, and the health of its neighborhoods. As I discuss in more detail below, locally owned businesses contribute to the city's economy in ways that Wal-Mart and other national chains cannot match. Generations of both native and immigrant New Yorkers have pulled their families into the middle class by starting a small business, but that avenue for advancement will be increasingly cut off if Wal-Mart expands into the city. Instead of middle class opportunities, residents will be left with nothing but very low-wage jobs working in its stores.

Wal-Mart Eliminates More Jobs Than It Creates

Wal-Mart often touts job creation as a reason to welcome its stores, but its arrival typically leads to many more job losses than job gains. Wal-Mart has both primary and secondary impacts on employment, and in both cases the effect is negative.

In terms of the primary impact, the opening of a Wal-Mart store does not increase the amount of money that people in a region have to spend. Since there is no overall growth in retail spending, sales gains at a new Wal-Mart are invariably mirrored by sales losses at other retailers. As these competing businesses downsize and close, they lay people off. What economists have discovered is that Wal-Mart and other big-box retailers actually cause more layoffs than job gains, because they employ fewer people per \$1 million in sales than their smaller competitors. In the most extensive study to date, economists at the University of California examined more than 2,000 Wal-Mart store openings and found that the average Wal-Mart eliminates 1.4 retail jobs for every one job it creates.⁶

The secondary impact that Wal-Mart has on employment has to do with what happens to a consumer's dollar once it is spent at a retail store. Studies in Chicago, San Francisco, New Orleans, and other cities have found that independent retail businesses rely much more heavily on other local businesses for goods and services than national chains like Wal-Mart do. Local retailers hire local accountants, web designers, and other professionals; they get their printing done at a local print shop; they source more of the goods they carry from local suppliers; and so on. Wal-Mart, in contrast, has virtually no need for local goods and services.

As a result, while much of the money spent at locally owned stores re-circulates in the local economy, supporting a variety of other businesses and jobs, most of the dollars that flow into a Wal-Mart leave the region altogether. How big is the difference? A study in Chicago by the firm Civic Economics found that every \$100 spent at national chains created an average of \$43 in economic activity in the city, while \$100 spent at locally owned businesses generated \$68 in local economic activity — a considerable difference that translates into a substantially larger number of local jobs.⁷ If Wal-Mart expands into New York, therefore, it will harm not only local retailers and their employees, but also the owners and employees of the many service providers, wholesalers, and other businesses that depend on local retailers for their revenue.

Putting "Leakage" in Context

Wal-Mart has also argued that by opening stores in New York, it will enable the city to recapture spending that some city residents currently do at Wal-Mart stores outside the city. It's crucial to understand the magnitude of this "leakage" in the context of Wal-Mart's overall expansion goals. According to the company — this figure has not been independently verified — New York residents spend \$165 million a year at Wal-Mart stores in New Jersey and Long Island. But if Wal-Mart's expansion goals in New York are of the same scope as its announced plans in Chicago, then its intention is to build stores that will bring in billions of dollars in revenue each year. That means as little as 5 percent of Wal-Mart's anticipated sales will be recaptured leakage; more than 90 percent will come at the expense of existing New York City businesses and their employees. Moreover, this recaptured leakage may well be offset by lost "surplus" as Wal-Mart squeezes out independent businesses and homogenizes the city's retail offerings, thus making New York less appealing to non-residents and reducing its ability to capture non-resident retail spending.

Wal-Mart's Impact on Consumer Choice & Economic Resilience

Jane Jacobs once wrote that "the point of cities is multiplicity of choice." New York City's retail sector has long been characterized by both an incredible diversity in the range and variety of stores and a substantial degree of local ownership. This vitality has contributed to the city's appeal and thus its prosperity, and produced an incredible range of choice for consumers, both in terms of businesses and products.

Everywhere Wal-Mart has expanded, it has reduced the number and variety of stores and shopping options, leaving consumers with fewer choices. Nationally, Wal-Mart captures

25 percent of U.S. grocery spending, but its market share is closer to 50 percent in a growing number of metro areas. Large sections of these metro areas are thus utterly lacking in competition. Wal-Mart is the only choice in many neighborhoods for groceries and other basic necessities.

This kind of dependency is risky. As New York found in the 1970s, national retailers often turn out to be fair-weather friends; they are there when times are good, but quick to pull up stakes when the going gets a little rougher. Cities are the last places that Wal-Mart has opted to open stores and will be the first places that the company abandons. New York's long-term stability and resilience would therefore be best served by limiting Wal-Mart's presence and instead cultivating a diverse mix of businesses, especially those that are locally owned and deeply rooted in the city.

Wal-Mart Erodes Social Capital and Undermines Neighborhood Well-Being

Small businesses are important not only to the economic vitality of cities, but also to the social health and well-being of their neighborhoods. Several published studies have found that neighborhoods and regions that have a large number of small, locally owned businesses have lower crime rates, higher levels of well-being, and more social capital than places that are dominated by a few large, non-local businesses. According to studies by Thomas Lyson of Cornell University and Charles Tolbert of Baylor University, people who live in places that are rich with local businesses volunteer more often; participate in community organizations and public meetings in greater numbers; and are more likely to know their neighbors.⁸

All of these measures of community health decline sharply when Wal-Mart opens in a neighborhood, according to research by Stephan Goetz of Pennsylvania State University. After controlling for other factors that affect social capital, Goetz found that communities that gained a Wal-Mart store had fewer non-profits, churches, civic organizations and other social capital-generating associations than those where Wal-Mart did not open. "Both the initial number of [Wal-Mart] stores and each store added ... during the decade reduced the overall social capital measure," his study found.⁹

What accounts for these findings? Local businesses nurture community, both by their own contributions and involvement in neighborhood organizations and by creating a vibrant "Main Street" environment that fosters interaction among neighbors and builds social networks. Wal-Mart's arrival does irrevocable damage to this social fabric by destroying the small businesses that play such a crucial role in community life.

Policy Options

Because of the significant negative impacts that a proliferation of Wal-Mart stores would have on New York City's economy and neighborhoods, I believe the City of New York needs to develop a comprehensive policy response. Although Wal-Mart is in a league of its own in terms of its size, market power, and aggressive expansion strategy, it is not the only retailer that follows this low-wage, big-box business model that is so harmful to small businesses and middle class jobs. An appropriate policy response would be designed to limit the spread of this destructive business model and foster substantial changes in how these companies operate.

The Institute for Local Self-Reliance, through our New Rules Project (www.newrules.org/retail), provides policy research and models to cities. We have helped a number of cities and states enact policies to address the impacts of large retailers like Wal-Mart. Among the policy tools we recommend:

- limiting the size and location of large-format stores,
- mandating an economic impact review that certain types of proposed stores must pass in order to be approved,
- establishing small business zones where zoning rules and economic development policies are designed to support small local businesses that serve neighborhood needs, and
- establishing a loan fund to bring independent grocers to underserved neighborhoods.

I would welcome the opportunity to share additional information about these and other policy approaches as your investigation of this issue continues.

Thank you very much for this opportunity to testify at today's hearing. I would be glad to answer any questions you may have now or in the future.

Stacy Mitchell
New Rules Project
a program of the Institute for Local Self-Reliance
Tel: (207) 774-6792
Email: smitchell@ilsr.org
Web: www.newrules.org/retail

¹ "Walmart Sees Up To Two Dozen Stores In Chicago," *Chicagoist*, Oct 15, 2010

² Based on average revenue-per-square-foot figures derived from Wal-Mart's 2010 Annual Report.

³ The U.S. Economic Census shows that the number of single-outlet retail firms and their market share has declined since the 1980s.

⁴ David L. Kurtz, Scott B. Keller, Mike J. Landry, and Daniel F. Lynch, "Wal-Mart fights the battle of Conway, Arkansas, predatory pricing suit," *Business Horizons*, Sep. 1996; Supreme Court of Arkansas, *Wal-Mart Stores, Inc., v. American Drugs, Inc.*, Jan. 9, 1995; Tom Daykin, "Wal-Mart faces state charges of illegally cutting prices to ward off competitors," *Milwaukee Journal-Sentinel*, Sep. 26, 2000; "Court: Wal-Mart Hurts Competition," Associated Press, Nov. 12, 2002; Carol Matlack, "Wal-Mart's Overseas Stumbles: The discounter has been facing an uphill battle in Britain and Germany," *Business Week*, Jul. 27, 2005.

⁵ Julie Davis, David Merriman, Lucia Samayoa, Brian Flanagan, Ron Baiman, and Joe Persky, "The Impact of an Urban Wal-Mart Store on Area Businesses," the Center for Urban Research and Learning Loyola University Chicago, December 2009.

⁶ David Neumark (University of California-Irvine), Junfu Zhang (Clark University), and Stephen Ciccarella (Cornell University), "The Effects of Wal-Mart on Local Labor Markets," Jan. 2007

⁷ Civic Economics, "The Andersonville Study of Retail Economics," October 2004. A complete list of similar studies can be found in the first section of this compendium of studies at <http://www.newrules.org/retail/key-studies-walmart-and-bigbox-retail>

⁸ Thomas A. Lyson, "Big Business and Community Welfare: Revisiting A Classic Sociological Study," Ithaca, New York: Cornell University; Charles M. Tolbert, "Minding Our Own Business: Local Retail Establishments and the Future of Southern Civic Community," *Social Forces*, June 2005, 1309-1328.

⁹ Stephan J. Goetz and Anil Rupasingha, "Wal-Mart and Social Capital," *American Journal of Agricultural Economics*, Dec. 2006.