Wal-Mart presence may have stalled reduction in county poverty rates during 1990's economic boom

Counties that gained a Wal-Mart™ store experienced smaller reductions in family poverty rates during the 1990s than did counties not gaining a Wal-Mart store. That is the central finding of a new study examining the effect of the chain on county poverty rates. This result holds after other factors affecting changes in poverty over time are accounted for, including initial poverty and whether the county already had a Wal-Mart at the beginning of the decade.

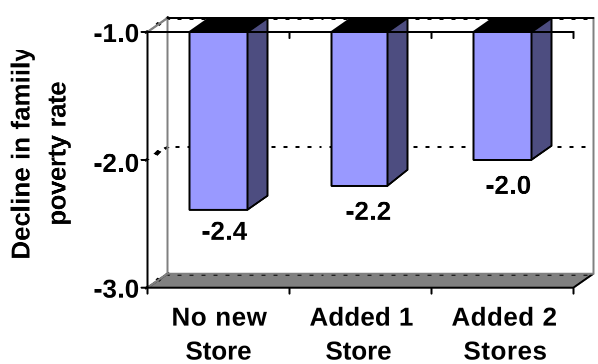
The average family poverty rate declined nationwide between 1990 and 2000, from 13.1 to 10.7 percent, or by 2.4 percentage points. The statistical model developed for this study suggests that the counties that added a Wal-Mart store during the decade saw the poverty rate decline by a smaller amount than did counties not adding a store. The net predicted effect of a new store was relatively small, amounting to a 0.2 percentage point higher poverty rate for one new store, 0.4 percentage points for two new stores, and so forth compared to the case where no new store was added. Even so, the effect was statistically significant.

Furthermore, the 0.2 percentage point increase in the family poverty rate associated with one new store represents 8.3 percent of the 2.4 percentage point national reduction in the poverty rate during the 1990s. In other words, the ability to decrease their poverty rates of those counties that gained a Wal-Mart during the decade was reduced by about 8 percent relative to those counties that did not gain a new store.

One possible explanation for this finding may be that Wal-Mart deliberately seeks out impoverished communities to locate new stores. These poorer communities may in turn have greater difficulty reducing poverty over time. However, this is not the case. The present study not only controlled for initial poverty rates, but it also found statistically significant evidence that the chain avoids poverty-stricken areas when it locates new stores.

Why Poverty May be Higher: The county poverty rate could rise because the chain pays its workers relatively low wages. This would especially be the case if these workers had previously earned higher wages in retail establishments that were driven out

Poverty reduction was stifled in counties adding new Wal-Marts...



by Wal-Mart. However, more subtle factors may also come into play. First, the owners of the mom-and-pop type retail operations that are driven out of business often represent the leadership class of the local community. As these retail operations are lost, so is the civic capacity needed to deal with local problems of a communal nature, and for economic growth to occur. Second, philanthropic capacity to deal specifically with local needs is destroyed as local business leaders lose the source of their livelihood. Finally, the loss of small retailers can cause jobs to disappear in well-paying local support sectors, such as accounting, wholesaling and transportation.

The higher poverty rate that is attributable to the presence of a Wal-Mart store means that more residents of the community become eligible for public assistance or welfare programs. Because these programs are in turn funded by taxpayers, the payments represent a direct transfer to the corporation's bottom line. In effect, taxpayers subsidize the operation of the chain, and these payments can offset any savings consumers may realize by buying goods at a lower cost.

Adding to this implicit public subsidy associated with higher poverty, local officials are often asked by the Wal-Mart corporation to provide subsidized land and infrastructure improvements. This kind of subsidy typically is not available to existing mom-and-pop stores and other local businesses.

Local officials and development proponents often point to the payroll and other taxes paid by the stores as a benefit that justifies payment of the subsidy. However, Wal-Mart is a retail enterprise and does not export goods outside the local region, as a manufacturer such as Hershey Foods™ or Toyota™ does. More specifically, retail enterprises are not generally part of what economists call the *export base*. Instead, a new retail store largely displaces existing retail activity and jobs, rather than bring new money into a region. At best, the store increases retail volume in the vicinity of the store, but this comes at the expense of the surrounding communities that see their retail dollars disappear. Thus, in the relevant region the area from which retail customers are drawn to a store, there is no net regional change in economic activity, except that which is induced by the higher real incomes resulting from lower prices. Whether this increase in income is sufficient to offset the public cost of the higher poverty rate and infrastructure subsidies awaits further study.

In conclusion, the Wal-Mart business model has been considered a marvel of modern management and cost-reducing discipline. Company officials point out that the stores make goods available to the poor that they would otherwise not be able to afford; yet the chain appears to avoid high-poverty areas as a principle of corporate location strategy. The results of the study summarized here suggest that the chain also creates costs to taxpayers in the form of greater local poverty than would occur in the absence of the chain. These costs must be added to other local infrastructure-related subsidies that the chain receives to assess the net cost of having a store in a community. In the end, these public subsidies are transferred dollar for dollar to the corporation's bottom line.

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*The full report on which this Issues Brief is based is available at: *cecd.aers.psu.edu*. Author contact information: 7 Armsby Building, Department of Agricultural Economics and Rural Sociology, Penn State University, University Park, PA. 16803-5602. Phone: (814) 777-4656, e-mail: *sgoetz@psu.edu*. The author's contact information appears for informational purposes only. Any opinions expressed are the author's.