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# Mitigating Impacts of Big Box Retail on Local Communities

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Large discount retail stores (or "big box" stores) generate both costs and benefits to local communities that are unevenly distributed across local employees, shoppers, other businesses and government. While these impacts affect communities across the urban-rural spectrum, the hardest hit communities are often rural towns that struggle to retain a mainstreet retail base. States can mitigate many of the negative impacts on local communities by implementing sound planning, zoning and design standards that strengthen local priorities and provide a means for assessing the infrastructure, environmental and fiscal impacts of large retail development.

## Who Benefits and Who Loses?

Consumers benefit the most from big box retail through substantially lower prices. For example, Wal-Mart's food prices are estimated to be anywhere from 8-27% lower than large supermarket chains for an identical market basket across different U.S. metropolitan areas (Hausman and Liebtag, 2005). The direct savings to customers that shop at these large retail stores as well as the indirect savings to all local consumers due to competition that reduces prices at other stores are substantial. Hausman and Liebtag (2005) estimate that these two effects combined generate a reduction in the average household's food expenditures by 25 percent when a supercenter food retailer locates in a community.

On the other hand, big box retail imposes costs on local workers and other businesses. For example, Neumark et al. (2005) find that retail wages at the county level decline by about 7.5% as a result of the opening of a Wal-Mart store. Competition from big box retailers forces some existing retailers out of business. Neumark et al. (2005) find that Wal-Mart entry reduces average retail employment at a county level by about 180-270 workers; this translates into each Wal-Mart workers displacing about 1.5 to 1.75 other retail workers. On the other hand, Basker (2005) finds that five years after a Wal-Mart store's entry, there is a modest increase in county retail employment of about 50 retail jobs. However, many of the new jobs associated with supercenters displace existing jobs with small retailers. Five years after Wal-Mart's entry in a local community, an average of four small retailers are displaced (Basker, 2005). Thus, a zero-sum game frequently prevails: a new entrant (such as a new big box retailer) captures sales from existing businesses rather from a growing market (Stone, 1991).

Other impacts of big box retail on communities are mixed. While big box retail may generate additional tax revenues, traffic congestion and additional land development can saddle the local jurisdiction with higher infrastructure costs. In a 2002 study of the Town of Barnstable, Massachusetts, the net costs to the community of bog box retail was $468/10,000 square feet (Tischler & Associates, Inc. 2002), costs driven largely by the increase in daily car trips. Other impacts on communities are less tangible, such as the loss of local ownership and a community's sense of place. Finally, to the extent that higher quality retail jobs are displaced by lower quality ones, local communities are faced with the potential of increased poverty and increased expenditures on public assistance. Some evidence supports this claim. For example, Goetz and Swaminathan (2004) find that the opening of a new Wal-Mart store increases the average poverty rate in a county by 0.2 percent.

## States' Role - Planning & Plan Enforcement

To mitigate infrastructure, aesthetic, environmental and other costs, some local communities have attempted to fight the opening of new big box retail stores, but few have been successful in keeping them out permanently. In communities without big box retail, the opportunity costs of keeping out these supercenters are high: consumers must forgo the benefits of substantially lower priced products. On the other hand, communities that already have several big box retailers are unlikely to experience further reductions in consumer prices and are likely to suffer many of the costs.

In light of these considerations, the most important action for communities is to develop comprehensive plans that explicitly address big box retail by identifying locations that maximize existing infrastructure investments and that generate the greatest net benefits for the community. Comprehensive plans should explicitly address large retail development by identifying locations that maximize existing infrastructure and potential attraction effects and that minimize land impacts and traffic congestion. For example, the City of Hailey, Idaho's 2000 comprehensive plan clearly specifies community goals and implementation procedures that anticipate new retail development. These goals promote the health of the existing downtown (a defined, walk-able business core) and fiscally responsible use of existing infrastructure (City of Hailey, Idaho, 2000). St. Petersburg, Florida dictates concurrencies for public services (St. Petersburg, Florida, 2005), where concurrency is defined as having the "necessary public facilities and services to maintain the adopted level of service standards that are available when the impacts of development occur (page GID-20)." Zoning and site design can dictate the placement of public services (water, sewer, roads) and standards can be instituted that achieve local goals for aesthetics and other development priorities. The zoning ordinance can require adherence to the comprehensive plan, cap the size of retail structures (Easton, Maryland, 2006), or require that any new development over a certain size meet minimum standards so as to not adversely impact the community (Greenfield, Massachusetts, 2006). Design and site standards can be enforced that promote reuse of vacant retail structures, such as the reuse of a former three-story Macy's department store in Baldwin Mills, California by Wal-Mart.

While planning and plan enforcement is initiated locally, states can play an important role. Foremost, the state can provide minimum sound planning, zoning and design standards dealing with large retail developments that strengthen local priorities and provide a means for assessing the infrastructure, environmental and fiscal impacts of large retail development. Many communities are apprehensive to institute these standards on their own and many do not have the resources to development them. The state can establish a framework that provides a common set of standards with built-in flexibility to address local needs. In addition, state laws can support communities by designating large developments as conditional uses and requiring a comprehensive economic and community impact review of any new retail construction that is over a certain footprint.

## Regulate Employer-Provided Benefits?

In response to claims that employees of large discount retailers like Wal-Mart disproportionately rely on public assistance programs, some states are considering various forms of legislation aimed at requiring large employers to increase their employee health care benefits. The first state to legislate this was Maryland, which passed a bill in January 2006 that requires private companies with more than 10,000 employees in Maryland to spend at least eight percent of their payroll on employee health benefits or make a contribution to the state's insurance program for the poor. Wal-Mart, which employs about 17,000 Maryland residents, is the only known company of such size that does not meet that spending requirement (Wagner, 2006). The rationale for such a regulation is both philosophical—that firms should pay employees a "living wage"—and practical, since low-wage households that are not earning enough to cover basic needs may place greater demands on states' public health care and other assistance programs. However, that conclusion depends critically on whether large retailers such as Wal-Mart are imposing an *additional* social burden by displacing higher quality retail jobs versus *lessening* the social burden by providing employment to workers that otherwise would be unemployed. While some evidence indicates that the presence of a Wal-Mart increases poverty rates (Goetz and Swaminathan, 2004), there is not sufficient research to definitely answer this question and the answer may differ across local communities. In addition, even if the net impact of low-quality jobs is to increase the burden on public programs, a law that would impose increased labor costs is likely to have economic consequences and thus the potential economic costs must be weighed against the potential gains. These costs include the potential employment losses and higher retail prices that may ensue. Specifically:

- Faced with higher labor costs, a profit-maximizing firm will seek to shed labor and substitute with capital or other inputs that will make labor more productive. However, reductions in employment may be small if firms' demand for low-wage workers is inelastic, meaning that increases in labor costs do not cause much, if any, change in firms' demand for labor.[1] In the case of big box retailers, their demand for workers may be relatively inelastic given that their workforce is already highly productive and additional reductions in staffing or gains in labor productivity may be difficult. In addition, with the rapid growth of supercenter stores such as Wal-Mart, the increasing demand for workers in local communities is likely to offset any potential employment losses from higher labor costs.

- The passage of such laws by some states may exacerbate differences in labor costs across states and thus compel some firms to relocate to low cost states. However, the local market base on which bricks-and-mortar retailers such as Wal-Mart rely makes large-scale migration unlikely. Retail stores such as these have to be within close proximity of their customers to sell their products. While some leakage of stores around high cost state borders may occur, this is unlikely to have a large effect on overall retail employment and sales at a state level.

- Regulations that force firms to absorb higher labor costs may result in these costs being passed on to consumers (Card and Krueger, 1994). Whether this would be the case for a large retailer, if forced to provide more employees benefits, depends on the magnitude of the cost increases and whether competitors would also be faced with these additional costs.

If lawmakers consider legislation to regulate employer-provided benefits, they should first commission a careful analysis of whether the presence of low-quality jobs associated with retail supercenters is adding to or lessening the burden on local and state public programs. Such an analysis would take into account the employment status of workers with and without the presence of the large retailer in the community and the potential losses of existing retail jobs that result from the large retailer's entry. They should also consider the extent to which increased benefits for workers for large retailers would meaningfully reduce the overall demand for public programs versus induce additional costs in terms of employment loss or higher consumer prices. Finally, in designing such a law, the mandated increases in labor cost should be modest to avoid substantial economic costs and careful consideration should be given to how "large" a large firm must be before it is subject to such regulation.

[1] Recent evidence supports this point; Card and Krueger (1995) show that modest increases in state minimum wage levels in recent decades has not induced large employment losses.

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