

# Retail's Hidden Potential

How Raising Wages Would Benefit Workers,  
the Industry and the Overall Economy

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# EXECUTIVE SUMMARY

**W**ith more than 15 million workers in the sector, and leverage over workplace standards across the supply chain, retail wields enormous influence on Americans' standard of living and the nation's economic outlook.

It connects producers and consumers, workers and jobs, and local social and economic development to the larger US economy. And over the next decade, retail will be the second largest source of new jobs in the United States.<sup>1</sup> Given the vital role retail plays in our economy, the question of whether employees in the sector are compensated at a level that promotes American prosperity is of national importance. According to the Bureau of Labor Statistics, the typical retail sales person earns just \$21,000 per year. Cashiers earn even less, bringing home an annual income of just \$18,500.<sup>2</sup> The continued dominance of low wages in this sector weakens our nation's capacity to boost living standards and economic growth. Retail's low-wage employment means that even Americans who work full-time fail to make ends meet, and growth slows because too few families have enough remaining in each paycheck to contribute to the broader economy.

This study assumes a new wage floor for the lowest-paid retail workers equivalent to \$25,000 per year for a full-time, year-round retail worker at the nation's largest retail companies—those employing at least 1,000 workers. For the typical worker earning less than this threshold, the new floor would mean a 27 percent pay raise. Including both the direct effects of the wage raise and spillover effects, the new floor will impact more than 5 million retail workers and their families. This study examines the impact of the new wage floor on economic growth and job creation, on consumers in terms of prices, on companies in terms of profit and sales, and for retail workers in terms of their purchasing power and poverty status. We model these effects based on the 2012 March Supplement to the Current Population Survey, using retail consumer data from the Neilsen Company and macroeconomic multipliers derived by Moody's Analytics. For a full description of the study methodology see the appendix.

## EFFECT ON WORKERS AND THEIR FAMILIES

**MORE THAN 700,000 AMERICANS WOULD BE LIFTED OUT OF POVERTY, AND MORE THAN 1.5 MILLION RETAIL WORKERS AND THEIR FAMILIES WOULD MOVE UP FROM IN OR NEAR POVERTY.** Retail jobs are a crucial source of income for the families of workers in the sector, yet currently more than 1 million retail workers and their family members live in or near poverty.<sup>3</sup> More than 95 percent of year-round employees at large retail firms are ages 20 and above. More than half

(54.2 percent) of workers in this group contribute at least 50 percent of their family's total income. A large number of them – almost 1 in 5 – are the sole earner for their family. Our study finds:

- A wage standard equivalent to \$25,000 for a full-time, year-round employee would lift 734,075 people currently in poverty – including retail workers and the families they support – above the federal poverty line.
- An additional 769,191 people hovering just above poverty would see their incomes rise to above 150 percent of the poverty line.

## THE EFFECT ON ECONOMIC GROWTH AND JOB CREATION

**THE ECONOMY WOULD GROW AND 100,000 OR MORE NEW JOBS WOULD BE CREATED.**

Families living in or near poverty spend close to 100 percent of their income just to meet their basic needs, so when they receive an extra dollar in pay, they spend it on goods or services that were out of reach before. This ongoing unmet need makes low-income households more likely to spend new earnings immediately – channeling any addition to their income right back into the economy, creating growth and jobs. This “multiplier effect” means that a higher wage standard for retail workers will also generate new jobs. Our estimates of the job creation effect are derived from widely accepted multipliers on consumer spending.<sup>4</sup> It includes the benefits of a raise on disposable income and accounts for the impact of any additional costs to the firm and the potential for businesses to pass-through the cost of decent wages onto their customers through higher prices. In order to account for uncertainty regarding the firm's willingness to pay for the raise out of profits, we offer both low and high measures of the total impact of the raise. Estimating both low- and high-end estimates, OUR STUDY FINDS THAT:

- A wage standard at large retailers equivalent to \$25,000 per year for full-time, year-round workers would increase GDP between \$11.8 and \$15.2 billion over the next year.
- As a result of the economic growth from a wage increase, employers would create 100,000 to 132,000 additional jobs.

## EFFECTS ON RETAIL SALES

**INCREASED PURCHASING POWER OF LOW-WAGE WORKERS WOULD GENERATE \$4 TO \$5 BILLION IN ADDITIONAL ANNUAL SALES FOR THE SECTOR.** Much of the increased consumer spending by low-wage workers after the raise will return to the very firms that offered the raise. The average American household allocates 20 percent of their total expenditures toward retail goods, but for low-income households that proportion is higher.<sup>5</sup> A raise for workers at large stores would bring billions of dollars in added retail spending back to the sector. OUR STUDY FINDS THAT:

- Assuming that workers do not save money out of their wage income, the additional retail spending by employees and their families generated by the higher wage would result in \$4 to \$5 billion in additional sales across the retail sector in the year following the wage increase.

## EFFECTS ON COMPANIES

**THE ADDITIONAL PAYROLL COSTS WOULD REPRESENT A SMALL FRACTION OF TOTAL SALES.** Our study measures the total cost of the higher wage standard with generous assumptions by accounting for the likely effects of wages on those workers currently earning just above the wage floor. We assume that every worker earning less than \$17.25 will receive additional compensation as firms adjust pay scales in order to preserve their internal wage structures or to reward workers with long tenures or supervisory positions.<sup>6</sup> That assumption probably overstates the indirect cost of raising wages at the bottom, since it extends to workers earning well above the cutoff for spillover effects that have been observed in empirical research.<sup>7</sup> Yet the cost of the increase under these assumptions is just a small percentage of payroll or sales. Our study finds that:

- The cost of the wage increase amounts to \$20.8 billion, or just 1 percent of the \$2.17 trillion in total annual sales by large retailers. Alternatively, it represents 6 percent of payroll for the retail sector overall, or 10 percent for those firms with more than 1000 employees.

**USING PROFITS TO PAY FOR THE WAGE INCREASE WOULD BE A MORE PRODUCTIVE USE THAN THE CURRENT TREND TOWARDS STOCK REPURCHASES.** In the first half of 2012, large retailers earned over \$35 billion in profits and paid out \$12.8 million in dividends.<sup>8</sup> Though unlikely, companies could choose to pay the full cost of a higher wage standard out of profits alone. Our study suggests that this use of profits would be more economically productive than the increasingly common practice of “stock buybacks”: retailers repurchasing public shares of company stock in order to boost earnings per share.<sup>9</sup> Buybacks allow the firm to consolidate earnings; shareholders benefit by receiving higher earnings without

paying taxes on dividends, and where compensation is tied to performance, executives get a hike in their paychecks. But share repurchases do not contribute to the productivity of the industry or add to economic growth, in contrast to a raise that benefits over 5 million workers and the firms where they are employed. In 2011, the top 10 largest retailers alone spent \$24.8 billion on stock repurchases,<sup>10</sup> billions more than the \$20.8 billion all large retailers could have productively invested in their workers.

## EFFECTS ON PRICES

**THE POTENTIAL COST TO CONSUMERS WOULD BE JUST CENTS MORE PER SHOPPING TRIP ON AVERAGE.** If retail firms were to pass the entire cost on to consumers instead of paying for it by redirecting unproductive profits, shoppers would see prices increase by only 1 percent. But productivity gains and new consumer spending associated with the raise make it unlikely that stores will need to generate 100 percent of the cost. More plausibly, prices will increase by less than the total amount of the wage bill, spreading smaller costs across the entire population of consumers. The impact of rising prices on household budgets will be negligible, while the economic benefits of higher wages for low paid retail workers will be significant. Our study finds that:

- If retailers pass half of the costs of a wage raise onto their customers, the average household would pay just 15 cents more per shopping trip—or \$17.73 per year.
- If firms pass on 25 percent of the wage costs onto their customers, shoppers would spend just 7 cents more per shopping trip, or \$8.87 per year.

Higher income households, who spend more, would absorb a larger share of the cost. Per shopping trip, high income households would spend 18 cents more, for a total of \$36.80 per year. Low-income households would spend just 12 additional cents on their shopping list, or \$24.87 per year.

## Conclusion

America's largest retailers play an important role in our nation's economy and in the well-being of millions of their workers' lives. It has become conventional wisdom that retail workers must be paid low wages. Yet our study, adding to a growing body of research, demonstrates that retailers could provide the nation a needed economic boost by paying higher wages, while remaining profitable and continuing to offer low prices.<sup>11</sup> After years of slow economic growth and income stagnation or decline, retail can help put America back on track, creating meaningful gains for household budgets, GDP, employment, and their own outlook for growth.

# INTRODUCTION

**A**t over \$4 trillion in annual revenue and comprising 6 percent of GDP, retail is one of the nation's leading industries. In 2011 the retail sector employed more than 15 million workers, and its output growth over the coming decade is projected to be the highest in the country.<sup>12</sup> With a large and growing workforce, and leverage over workplace standards across the supply chain, the retail sector wields enormous influence on our standard of living. It connects producers and consumers, workers and jobs, and local social and economic development to the larger US economy. Yet despite this partnership with American households, retail remains a low-wage employer. According to the Bureau of Labor Statistics, the typical retail sales person earns just \$21,000 per year. Cashiers earn even less, bringing home an annual income of just \$18,500.<sup>13</sup> These low wages come at a cost to the rest of the US economy as hard-working families have little left over in their paychecks to contribute to consumer spending and economic growth. The conventional reasoning behind this low-wage employment suggests that low prices at retail stores depend on low pay, but that is not the case. This study evaluates the possibilities for the largest employers in the retail sector to lead the industry to a new model of adequate wages that support families, boost sales, and contribute to economic growth. It can be done, and at little expense to the firm and a negligible cost for consumers.

Although households continue to struggle with the aftermath of the Great Recession, the nation's leading retailers are doing well. In the first half of 2012, large retailers earned over \$35 billion in profits and paid out \$12.8 million in dividends.<sup>14</sup> The largest retail firm in the US, Walmart, has seen net sales grow by more than \$70 billion since the onset of the recession at the end of 2007, and earned over \$16 billion in profits last year alone.<sup>15</sup> Firms like Walmart weathered the crisis by restructuring costs and increasing profitability, requiring existing workers to take on more duties as new hiring slowed. While worker productivity in the retail sector increased by an average of 0.8% each year since 2008, compensation on average declined.<sup>16</sup> In this sense employees financed the recovery of retail firms by means of increased workloads and forfeited wages. And while the sales and profit margins of firms have recovered since the financial crisis, the labor market has not. More than 22 million Americans are currently out of work or working part time because they cannot find a full time job. That is nearly one in seven workers who are struggling to get by, searching for opportunities in a labor market that is reluctant to employ and unwilling to adequately compensate workers for their contributions to the recovery.

The fact is, for large retail firms low-wage jobs are not a business necessity but a choice. Our study demonstrates

the implications for businesses, consumers, and families, of a wage floor that amounts to \$25,000 per year for full-time, year-round employees at America's largest retail firms. The analysis focuses on the nation's largest retailers—those employing at least 1,000 workers. The category includes over 1,300 firms that account for more than half of the sector's overall sales and employment.<sup>17</sup> Our study covers 42 percent of all retail workers, including those who are employed at large retailers in year-round positions. The \$25,000 threshold breaks down to an hourly wage of \$12.25 and is half of what the typical US household earned in 2011. For the typical worker earning less than this threshold, the new floor would mean a 27 percent pay raise. While earning \$25,000 per year does not seem like a lot for full-time labor, our study shows that raising the wages of retail's lowest paid employees to this level could have a significant impact on workers and their families as well as the economy, without harming the firms' bottom lines.

Large retail employers can afford to pay wages that match the value that workers bring to the industry, and some do. Employers like Costco and Safeway pay decent wages and still manage to satisfy customers with low-priced goods, and earn a profit. When other companies write poverty-level paychecks, all Americans end up subsidizing those firms with sacrificed buying power in the economy and lowered standards of living. At a time of weak economic growth and declining incomes for most Americans, large retail firms are in the position to raise take-home pay and boost the national economy, all while improving their own outlook for growth.

**FIGURE 1. | 10 LARGEST RETAILERS BY EMPLOYMENT**

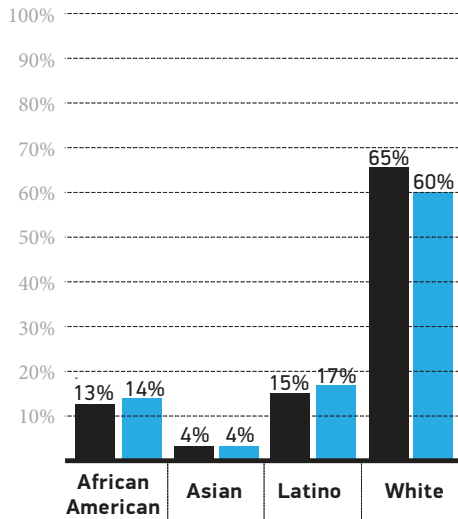
Store Name	Number of Employees
Walmart	2,200,000
Target	365,000
Kroger	339,000
Sears Holdings	293,000
Home Depot	263,145
Walgreens	211,500
Lowe's	204,767
Best Buy	180,000
Safeway	178,000
Macy's	171,000

SOURCE: Fortune 500 biggest companies by employees, <http://money.cnn.com/magazines/fortune/fortune500/2012/performers/companies/biggest/>

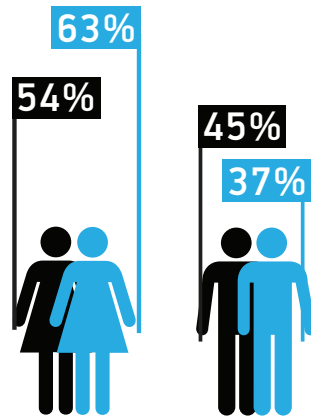
# THE DEMOGRAPHICS OF THE RETAIL WORK FORCE

■ ALL RETAIL WORKERS ■ LOW-WAGE RETAIL WORKERS

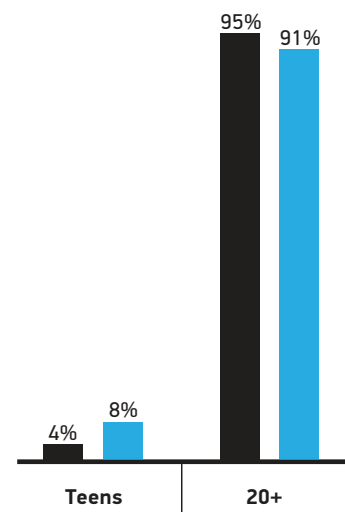
## RACE



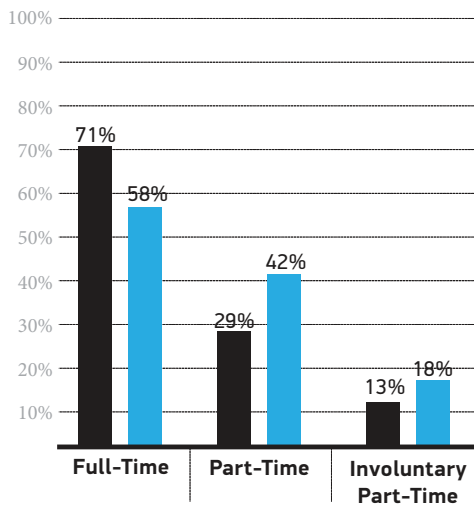
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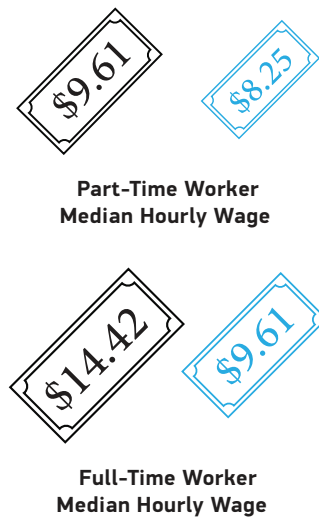
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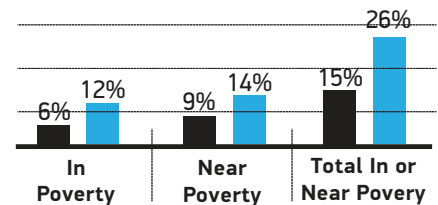
## FULL-TIME | PART-TIME



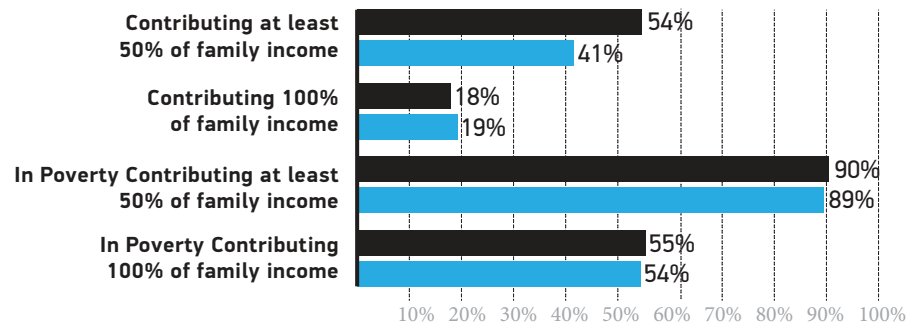
## EARNINGS



## POVERTY



## CONTRIBUTION TO FAMILY INCOME



Year-round retail workers at firms employing 1000 or more employees.

Low-Wage Retail Workers Earn Less Than the Equivalent of \$25,000 Per Year for Full-Time, Year-Round Work.

SOURCE: Author's Analysis of the 2012 March Supplement to the Current Population Survey

# LIFTING FAMILIES OUT OF POVERTY

*If large retailers raised wages to pay the equivalent of \$25,000 per year for full-time, year-round work, more than 700,000 Americans would be able to earn their way out of poverty. Altogether, 1.5 million would make it out of poverty or near-poverty.*

**O**ver the past two years the number of impoverished Americans hit an all-time high.<sup>18</sup> Poverty rates shot up during 2008 and 2009 as the country entered the Great Recession and labor markets contracted, leaving millions of workers to struggle with persistent unemployment or settle for jobs that offer low wages and little security. But as firms regained their footing and entered a period of recovery, poverty did not abate. In fact, from 2010 to 2011 there was no change in the US poverty rate, even though GDP grew at 3 percent.<sup>19</sup> That means that although businesses are returning to their previous profitability, the benefits of the recovery are not reaching those workers and families living at the bottom of the income distribution, where income growth would both improve lives and fuel consumer spending. Today over 46 million people live below the poverty line, including more than 10 million year-round workers. With the potential to impact the poverty status of 1.5 million Americans, the retail sector has a considerable opportunity to spur the change our economy needs.

Nearly half of all year-round employees at large retailers earn wages below \$12.25 per hour, or less than \$25,000 per year for a worker putting in 40 hours a week. For many of them that is not enough to keep their families above the federal poverty line. More than 1 in 4 workers (26.5 percent) who earn below the threshold lives in or near poverty even though they have a job.<sup>20</sup> Among year-round employees at large firms, 70 percent of the part-time workforce and 38 percent of full-time workers fall below this standard, with the typical full-time worker earning \$9.61 per hour. For this typical worker the new wage floor would mean a 27 percent pay raise – enough to make a substantial impact on her quality of life. The benefits of the new minimum would spill over to workers earning above that wage rate as well, as the firm would make changes that preserve the higher wage rates for those with longer tenure or more responsibility. Including both the direct effects of the wage raise and spillover effects, the new wage floor will impact more than 5 million retail workers and their families.

Retail jobs are a crucial source of income for the families of workers in the sector. More than 95 percent of year-round employees at large firms are ages 20 and above, not teens looking to augment a weekly allowance or save up for a new iPhone. On the contrary, retail wages provide for household necessities. More than half (54.2 percent) of workers in this group contribute at least 50 percent of their family's total income. A large number of them—almost 1 in

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though they  
have a job.  
”

5—are the sole earner. The lowest-paid retail workers are actually even more likely to be supporting families. Ninety percent of those working in poverty are contributing at least half of their family's total income and 55 percent provide the household's only paycheck.

This study found that a wage floor at large retailers equivalent to \$25,000 per year would lift hundreds of thousands of workers and their family members out of poverty, and hundreds of thousands more would emerge from near-poverty (defined as within 150 percent of the poverty line). More than 650,000 workers will see their poverty status change once their wages increase to the new minimum. Family members, too, will benefit from the raise. In all, 734,000 workers and family members will leave the ranks of the impoverished. Another 769,000 will rise above the near poverty cutoff. That is a total of 1.5 million Americans who will see a considerable difference in their standard of living with an increase in the minimum retail wage. As workers and their families rise above the poverty or near poverty line they can better provide for their household needs and plan for their futures. That is of benefit to both families and the economy overall. With such an expansive impact on quality of life and consumer spending, retailers' choice to raise wages would be an investment in the workforce, future workers, and sustained economic growth.



# A RAISE TO BOOST THE ECONOMY

*If large retailers raised wages to pay the equivalent of \$25,000 per year for full-time, year-round work, GDP would increase by \$11.8 to \$15.2 billion and employers would create 100,000 to 132,000 new jobs.*

**L**arge retail employers have an opportunity to jump-start our economy by fueling consumer spending with a raise for their lowest-paid workers. Despite the popular misconception that higher wages lead firms to cut back employment, there is no evidence that a raise will necessarily result in job losses.<sup>21</sup> Rather, in our current economy a raise for workers at the bottom could bolster weak consumer demand and induce employment growth. US corporations are cash-flush, but hesitant to make investments on products they are not sure will sell.<sup>22</sup> As a result, their gloomy outlook becomes a self-fulfilling prophesy: firms do not expand production, keeping the job market slack, pocketbooks closed, and investments unappealing. But a boom in consumer spending could interrupt that cycle by providing a return to business investment and giving companies an incentive to grow. This study finds that a new wage floor equivalent to \$25,000 per year for full-time, year-round work will create more than 100,000 new jobs and add at least \$11.8 billion of new income to the economy. Large retailers are in a position to drive new economic growth by providing a wage increase for their most underpaid workers.

## LOW-INCOME WORKERS AS JOB CREATORS

Families living in or near poverty spend close to 100 percent of their income just to meet their basic needs, so when they receive an extra dollar in pay, they spend it on goods or services that were out of reach before. This ongoing need makes low-income households more likely to spend new earnings immediately – channeling any addition to their income right back into the economy. High-income households, in contrast, put a larger portion of their money into long-term investments such as retirement savings that do not factor into consumer demand.<sup>23</sup> Because spending patterns differ widely across income groups, investments that enhance the budgets of low-income households have a greater impact on the economy than money given to those at the top. For example, the economic stimulus payments of 2008 increased spending among low-income households far more than higher earners, with a substantial portion of the new purchases going toward durable and non-durable retail goods.<sup>24</sup> Increasing the purchasing power of low-income households is good economic policy during a period of flagging demand. By raising the floor of large chain retail wages, these businesses can provide a private sector stimulus without depending on the government to enact the change.

The amount of economic activity generated by a wage raise is determined by what economists refer to as the multiplier. The multiplier indicates how many times a new dollar

will circulate in the economy before its amplifying effects fade away. When a worker receives a raise, she will have additional money to spend – that spending becomes someone else's new income, either the business owner where she makes a purchase or the worker at the store who gets more hours or more money when business is good. Multipliers differ depending on where the dollar appears in the economy; if low-income households have an extra dollar to spend the multiplier is higher than if that dollar goes to high income savers. So a transfer of purchasing power to low-wage workers will boost economic activity to the degree that the multiplier forecasts ripple effects across consumer spending.

In order to predict how a raise for employees at large retail firms will impact the economy, we incorporate both the positive effect of the multiplier on household spending and the potentially negative effect on the balance sheet of employers. Firms can either pay for the wage raise out of profits, pass on the cost of the additional wage bill to consumers through higher prices, or combine both tactics to cover the cost. The extent to which retail employers will place the burden of higher wages on their customers is unclear. Research on the relationship between prices and the minimum wage focuses entirely on the fast food industry and presents mixed results.<sup>25</sup> But there is reason to believe that firms will pass-through less than 100 percent of the cost. That is because the new minimum produces gains to the firm that offset part of the cost before either profits or consumer spending have to make up the difference. Employers that invest in their labor force are better able to hang on to their best, most experienced workers, increasing operational efficiency and cutting down on the costs of labor turnover. The differences can be dramatic. One study from the Wharton School of Business found that a \$1 increase in payroll leads to an additional \$4 to \$28 in sales each month, with a 25 percent rise in payroll generating 2.6 percent more in sales.<sup>26</sup> Revenue grows because well-paid, experienced employees are better able to provide the essential services that customers need – with knowledge of inventory, products, brands, and prices – and satisfied customers spend more money in the store.<sup>27</sup> The benefits of the new wage floor appear on the balance sheet as profits, mitigating a part of the wage bill so that customers and firms take on only the remaining part of the cost. A raise for retail wages is an investment in the labor force, increasing productivity and translating to lower costs and higher sales for the firm, and negating a portion of the wage bill before it ever reaches consumers.

Our multiplier is derived from widely accepted multipliers on consumer spending used to predict the effects of an increase of the minimum wage economy-wide.<sup>28</sup> It includes the benefits of a raise on disposable income, the impact of any additional costs to the firm, and the potential for businesses to pass-through the cost of decent wages onto their customers through higher prices. In order to account for un-



## A Leader for Higher Wages?

Walmart is the elephant in the retail living room. Operating 4,500 stores nationwide (including Sam’s Club locations) and employing 1.4 million U.S. workers, Walmart is not only the nation’s largest retail employer; it is America’s largest private employer of any kind, and among its most profitable corporations. With one in every ten American retail employees working at Walmart, the company has an unparalleled capacity to reshape the landscape for retail work.

So far, Walmart has used this power to lower wages, cut hours, and deny benefits to its workforce, reducing the quality of retail jobs as a whole. The company’s history of using extreme methods to push down the cost of labor stretches back at least to the 1960s, when founder Sam Walton set up shell companies to dodge federal minimum wage laws that would have forced him to pay employees \$1.15 an hour.<sup>30</sup> While Walton was ultimately forced by federal courts to drop the scheme, Walmart’s continued practice of paying poverty-level wages and operating at the limits of the law to discourage unemployment and workers’ compensation claims and deter employees from working overtime has been well documented.<sup>31</sup>

A 2005 study from New York University found that Walmart employees earn 28 percent less, on average, than workers employed by other large retailers.<sup>32</sup> At the same time, Walmart’s sheer size and competitive influence exert a downward pressure on wages at other retailers. A study from the University of California Berkeley finds that Walmart store openings in communities lead to the replacement of better paying jobs with jobs that pay less. As a result of this dynamic, average wages for retail workers were 10 percent lower, and their job-based health coverage rate was 5 percentage points less in an area than it would be if Walmart did not exist. The study concludes that in 2000, retail employees nationwide would have taken home \$4.5 billion more in their total paycheck if Walmart had not been around.<sup>33</sup>

Yet Walmart could easily afford to set a different pattern for the retail sector—and, as the country’s most profitable retailer whose shareholders are among the wealthiest people on Earth, do so without passing any of the costs to customers.<sup>34</sup> The six heirs to the Walmart fortune have more wealth than the bottom 42 percent of American families combined, with holdings of almost \$90 billion. Since last year, they’ve received more than \$1.8 billion in dividend payments from their Walmart shares.<sup>35</sup>

By raising wages and putting more than \$4 billion into the hands of its underpaid workers, Walmart could have a significant impact on retail employment and the overall economy, while taking the lead as a trailblazer for the industry as a whole.

certainty regarding the firm’s willingness to pay for the raise out of profits, we offer both low and high measures of the total impact of the raise. The result is a set of estimates that reveal a substantial benefit to the US economy from a new wage floor that pays wages equivalent to \$25,000 per year for full-time, year-round work.

FIGURE 2. | THE EFFECTS OF A RAISE TO \$25,000 PER YEAR AT LARGE RETAIL EMPLOYERS

	New Spending	New Jobs
Low Estimate	\$11.8 Billion	102,000
High Estimate	\$15.2 Billion	132,000

SOURCE: Author’s analysis of Nielson data using estimates from the March Annual Supplement to the CPS

A wage raise to a rate of \$12.25 per hour directly impacts more than 3.5 million workers and their families, and indirectly affects 1.8 million more. Altogether, the new wage floor impacts more than 5 million workers and their families. Their increased spending ripples throughout the economy, creating income for other families who then go out and spend. Our low estimate, evaluated for prices that rise to accommodate one half of the wage increase, predicts that this new spending will add \$11.8 billion to GDP over the coming year. The high estimate, for prices that rise to absorb just 25 percent of the wage increase, shows \$15.2 billion in new economic activity. With the addition of \$11.8 to \$15.2 billion to our nation’s GDP from an increased minimum pay rate, large retailers can both propagate and benefit from a resurgence of consumer spending. Retail sales will increase and businesses will have an impetus to expand.

As firms reap billions of dollars in additional revenue they will expand production, extend hours, and hire more workers. We can break out the effects of the wage increase on employment across the economy by following the standard expectation that every \$115,000 in new economic activity sparks the creation of one job.<sup>29</sup> With \$11.8 billion in new consumer spending, businesses will hire an additional 102,000 workers over the year. If the increase in GDP reaches \$15.2 billion, firms will need 132,000 new employees. While that’s just a small portion of America’s 22 million unemployed and underemployed workers, each of these newly hired employees experiences a surge in purchasing power that feeds back into the economy and contributes toward a new round of growth.

# LARGE RETAILERS CAN AFFORD IT

*If the nation's biggest retailers raised the floor on wages to the equivalent of \$25,000 per year for full-time, year-round work, the cost would be just 1 percent of total sales and would generate \$4 to \$5 billion of additional retail revenue.*

**T**he cost of increasing the living standards of more than 5 million Americans, adding \$11.8 to \$15.2 billion to GDP, and creating no less than 100,000 jobs amounts to just a small portion of total earnings among the biggest firms. The retail sector takes in more than \$4 trillion annually and firms with 1000 or more employees account for more than half of that. At the same time labor compensation in the sector contributes only 12 percent of the total value of production, making payroll just a fraction of total costs.<sup>36</sup> Large retailers could pay full-time, year-round workers \$25,000 per year and still make a profit – satisfying shareholders while rewarding their workers for the value they bring to the firm. A raise at large retailers adds \$20.8 billion to payroll for the year, or less than 1 percent of total sales in the sector. At the same time it is very likely the firm will experience benefits that offset the cost of the wage increase—in the form of productivity gains and higher sales per employee—making the net cost of the new wage even lower.

## TOTALING UP THE COST TO RETAILERS

If large retailers instituted a wage floor equivalent to \$25,000 per year for full-time, year-round workers, they would incur the sum of new labor costs for the 3.5 million low paid workers earning less than \$12.25 per hour. Additionally, the wage rates for those earning just above this floor would increase as firms adjust pay scales in order to preserve their internal wage structures or to reward workers with long tenures or supervisory positions. But even with generous assumptions about the spillover effects of the wage raise onto higher earners, the combined direct and indirect costs barely make a dent in retail earnings. In order to fully account for the new wage bill we assume that every worker earning less than \$17.25 per hour will receive additional compensation, with the effects tapering off toward those at the higher end of the pay scale. That assumption probably overstates the indirect cost impact of raising wages at the bottom, since it extends to workers earning well above the cutoff for spillover effects that have been observed in empirical research.<sup>37</sup> Yet the cost of the increase under these assumptions is just 6 percent of payroll for the retail sector overall, or 10 percent for those firms with more than 1000 employees. And since labor compensation is only a fraction of total costs, sales would not have to increase significantly in order to make up the difference. In fact, the wage increase amounts to just 0.5 percent of the total sales of the sector, and 1 percent of the total sales of large retailers. Firms can afford to pay wages equivalent to \$25,000 per year.

## HIGHER WAGES LEAD TO HIGHER SALES

But large retail firms won't have to cover the entire wage bill, because a new wage floor has the potential to pay for itself, at least in part. A large body of evidence shows that paying higher wages in the retail sector results in greater productivity and higher sales. Zeynep Ton, an expert on the retail sector at MIT, has shown that businesses that make an investment in their retail workforce find that well-paid, knowledgeable, and experienced employees can be a driver of sales, rather than costs.<sup>38</sup> Paying for high quality workers who can answer customer requests and identify priorities meets the long term goals of the business, as opposed to simply satisfying short-term cost minimization. Ton's findings are supported by other research on the performance of retail firms. Comparing high-wage retail employer Costco with its warehouse club rival, low-wage employer Sam's Club, reveals a substantial payoff to paying fair wages: sales per employee at Costco are nearly double the average sales per employee at Sam's Club.<sup>39</sup> Across the retail sector higher payroll levels are associated with customer satisfaction, which translates to more money in the register.

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Large retailers could pay full-time, year-round workers \$25,000 per year and still make a profit – satisfying shareholders while rewarding their workers for the value they bring to the firm.  
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## WORKER SPENDING AS BOOST TO RETAILERS

Happy customers won't be the only people spending more money. When wages increase, the firm can count on additional revenues as workers see their disposable incomes climb. Since low-wage retail workers tend to live in low-income households with a host of unmet needs, close to 100 percent of the cost of the raise will return to the economy as consumer spending. That means that the cost of higher wages will leave as paychecks but come back in shoppers' wallets. Much of this will return to the very firms that raised workers' wages. The average American household allocates 20 percent of their total expenditures toward retail goods, but for low-income households that proportion is higher.<sup>40</sup> Assuming these low-income households do not save money out of their paychecks, firms across the sector can expect at least 20 cents in new revenues for every added payroll dollar; that spending adds up to between \$4 and \$5 billion over the coming year. To put this in perspective, the retail sector expects 2012 holiday sales to grow by 3.5 percent, or \$14.3 billion, over last year's holiday sales.<sup>41</sup> A raise for workers at large retailers brings billions of dollars back to the industry.

## A MORE PRODUCTIVE USE OF BUSINESS PROFITS

Top retail firms like Walmart, Target, and Walgreens earn billions of dollars in annual profits, which they pay out in dividends to their shareholders and bonuses to executive staff, or direct toward the future performance of the company. Even retail's high-wage employers, like Costco and Safeway, reap enormous profits and remain competitive, landing in the top ten performing retailers by revenues each year. But economic uncertainty and weak demand have made retail firms hesitant to invest in research and development or to expand into new buildings or markets. Instead, they have been using a portion of their profits to repurchase public shares of their own company stock.<sup>42</sup> These buybacks reduce the number of shares in the market and artificially boost earnings per share, increasing the value of the stock for the remaining investors. Buybacks allow the firm to consolidate earnings; shareholders benefit by receiving higher earnings without paying taxes on dividends, and where compensation is tied to performance, executives get a hike in their paychecks. But share repurchases do not contribute to the productivity of the industry or add to economic growth, in contrast to a raise that benefits over 5 million workers and the firms where they are employed. Instead of distributing gains to owners and managers, investing profits in the workforce would have broad effects on the American economy and offer new opportunities for retail's future.

These profits could be better spent. Retail's annual outlays on share buybacks could more than pay for a new wage floor at \$25,000 per year for the sector's low-wage workers. In 2011, the top 10 largest retailers alone spent \$24.8 billion on stock repurchases.<sup>43</sup> With just the amount spent on share buybacks last year, these 10 firms could finance a payroll increase for their own firms and all other large employers in the sector, and still have billions to spare. Instead, companies funnel profits toward stock repurchase plans, reaping gains

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In 2011, the top 10 largest retailers alone spent \$24.8 billion on stock repurchases. With just the amount spent on share buybacks last year, these 10 firms could finance a payroll increase for their own firms and all other large employers in the sector, and still have billions to spare.

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for industry insiders at the expense of their most underpaid workers.

Retail firms can afford to give their workers a raise, and they can expect benefits in return. Through increased productivity, consumer spending, and economic growth, retailers will benefit from every additional payroll dollar they spend. Large retailers could easily make an investment in their workforce with ripple effects that cross the industry and the economy, rather than directing profits to the benefit of a few investors. Instituting a new wage floor equivalent to \$25,000 per year for full-time, year-round workers allows firms to reap the benefits of a rejuvenated economy without sacrificing their own self-interest.

# STILL LOW PRICES

*If large retailers institute a wage floor equivalent to \$25,000 per year for full-time, year-round workers, consumers would pay under just 15 cents more per shopping trip on average*

**T**his study demonstrates that the conventional wisdom suggesting a one-to-one tradeoff between fair wages and low-priced goods just isn't true. The total cost of raising pay at large retailers to the equivalent of \$25,000 for full-time, year-round workers amounts to only 1 percent of their total annual sales. Much of the wage bill will be returned to firms through productivity gains and increased revenues, and the rest could be covered out of profits. Yet firms primarily concerned about profitability and shareholder value may instead pass part of the cost of a wage increase on to consumers by raising prices. After the raise, an average household would spend an additional 7 to 15 cents per shopping trip in order for firms to recuperate the cost of the wage increase.

Businesses can choose to make up for part of or all of the new labor costs by raising prices. If retail firms pass the total cost on to consumers, shoppers will see prices increase by only 1 percent. But productivity gains and new consumer spending associated with the raise make it unlikely that they'll need to generate 100 percent of the cost. More plausibly, prices will increase by less than the total amount of the wage bill, spreading smaller costs across the entire population of consumers. The impact of rising prices on household budgets will be negligible, while the benefits of higher wages for low-income retail workers will be significant.

## SHOPPERS CAN AFFORD A RAISE

We gauge the effects of a wage increase on shopping budgets using research from the Nielsen Company documenting American retail spending. Nielsen's analysis of purchasing behavior found that from 2011 to 2012 households spent an average of \$3,694 on consumer packaged goods like those sold by large retailers, including food, apparel, and health and beauty products.<sup>44</sup> This category of merchandise describes the majority of retail products that recur in household budgets, but excludes larger investments. Since the measure does not include all retail spending, households who purchase durable goods like a washing machine or a new car can expect to pay an additional fraction of a percent on their major purchases. However, the Nielsen data does allow us to project the impact of an increase in the retail wage on a household's regular purchases. The result for the typical American household costs less over a year than a single night at the movies.

According to Nielsen, the average household spends \$3,694 on consumer packaged retail goods each year, spread across more than 100 trips to the store. With a new wage floor in the retail sector, this spending will increase by no more than 1 percent, and plausibly by much less. If retailers pass half of the costs of a wage raise on to their customers, the av-

erage household will see just 15 cents added to the cost of its shopping basket on any trip to a large retailer. That amounts to an annual cost of \$17.73. If firms pass less than 50 percent of wage costs on to customers the additional spending will be even less. At a rate of 25 percent of costs passed through to prices, shoppers will spend just 7 cents more per shopping trip, or \$8.87 per year. The range of additional spending – just 7 to 15 cents per shopping trip – amounts to a tiny fraction of the average household's budget and makes raising the wage for retail workers something customers can afford.

The consumers who spend the most on the wage increase will be those who rely on retail workers for assistance with higher value purchases across the year. High income households spend more money per shopping trip, accumulating higher annual spending and incurring a higher portion of the cost of a wage raise. These high earners spend up to \$1200 more than low-income households annually, but the difference in added costs is relatively small. Per shopping trip, high income households would spend 18 cents on the cost of a wage increase, for a total of \$36.80 per year. Low-income households would spend just 12 additional cents on their shopping list, or \$24.87 per year. The distribution of costs toward those who spend more money on retail goods makes the wage floor equivalent to \$25,000 per year a net gain for low-income households, whose benefit from the wage increase will not be undermined when firms raise their prices.

Customers can have both a well-paid retail workforce and low prices. Paying 7 to 15 cents makes a negligible addition to the cost of a shopping basket, but a big difference for workers and the economy.

**FIGURE 3. | COST TO CONSUMERS OF A RETAIL WAGE INCREASE TO \$25,000 PER YEAR FOR FULL-TIME, YEAR-ROUND WORK BY INCOME AND AMOUNT OF WAGE INCREASE PASSED-THROUGH TO CONSUMERS**

	All	Household Incomes Less Than \$30,000	Incomes \$30,000 to \$100,000	Incomes \$100,000 or More
Current Dollars Spent per Year	\$3,694	\$3,091	\$3,830	\$4,272
Trips per Year	121	124	122	116
Current Dollars Spent per Trip	\$30.42	\$24.87	\$31.41	\$36.80
<b>50% OF COSTS PASSED-THROUGH</b>				
Cost Per Year	\$17.73	\$14.84	\$18.38	\$20.51
Cost Per Shopping Trip	\$0.15	\$0.12	\$0.15	\$0.18
<b>25% OF COSTS PASSED-THROUGH</b>				
Cost Per Year	\$8.87	\$7.42	\$9.19	\$10.25
Cost Per Shopping Trip	\$0.07	\$0.06	\$0.08	\$0.09

Source: Author's analysis of Nielsen data using estimates from the March Annual Supplement to the CPS

# CONCLUSION

**L**arge retail firms are in the position to improve the lives of millions of American workers and their families, and to boost the national economy, all while improving their own outlook for growth. This study shows that a new wage floor that pays the equivalent of \$25,000 per year for full time work, or \$12.25 per hour, would raise the living standards of at least 5 million American households and feed back into the economy across sectors. Workers spending higher incomes in the marketplace – on retail goods and other purchases – could lead to the addition of \$11.8 to \$15.2 billion to GDP and between 100,000 and 132,000 new jobs. At the same time, the wage increase would be a productive investment for firms and a negligible cost for consumers. With a host of benefits and a small price tag, large retailers can embrace this opportunity to make a positive change in the economy by paying a wage that supports families, improves productivity, increases sales, and generates new economic activity and jobs.

# APPENDIX A

## LABOR FORCE AND POVERTY ESTIMATES

The study used the 2012 March Annual Supplement to the Current Population Survey to estimate the population of retail workers, low-wage workers, and the working poor. All workforce statistics refer to 2011. Data retrieval relied on IPUMS CPS (<http://cps.ipums.org>).<sup>45</sup> All calculations were performed by the author.

Estimates of the retail workforce include all workers ages 16 and older, who worked at least 40 weeks in 2011, reported being employed in the retail sector, and reported working at firms with at least 1000 employees. The result is a workforce of 7,520,608 year-round workers at large retailers. Firms employing 1000 or more workers employ 53 percent of the retail labor force. The year-round labor force at large firms comprises 42 percent of all retail workers.

Hourly wages were constructed by dividing the reported annual wage and salary income by weeks worked and average hours worked per week. The calculation reveals that 47.12 percent of the year-round worker population at large firms earned less than \$12.25 per hour in 2011. Following the research of Jacobs, Graham-Squire, and Luce, constructed hourly wages that fell below the state or federal minimum were adjusted to the applicable minimum.<sup>46</sup> The direct cost of raising wages to \$12.25 per hour is the difference between \$12.25 and the constructed hourly wage, multiplied by usual hours per week and weeks worked per year. The direct cost of the wage increase is \$18.63 billion.

The measure of indirect wage costs derives from the work of Heidi Shierholz at the Economic Policy Institute.<sup>47</sup> Estimated spillover effects of the wage increase impact all workers earning up to \$17.25 per hour, so that workers who are earning up to \$5 below the new minimum and workers earning up to \$5 above the new minimum are affected by the wage increase. The effects gradually diminish for workers earning farther above the new \$12.25 wage rate. Spillover effects impact the wages of 1,813,966 million workers, yielding an indirect cost of the wage increase of \$2.19 billion. Including the indirect effects of the wage hike, the new \$12.25 minimum will impact 71 percent of year-round workers at large retail firms.

Poverty estimates rely on the IPUMS variables indicating poverty status (POVERTY), family income (FTOTVAL), number of family members (FAMSIZE), and the poverty threshold (CUTOFF). Near poverty is defined as within 150 percent of the federal poverty line or an annual family income of \$26,393 for a family of three. All poverty estimates refer to the official definition of poverty used by the US Census Bureau.

# APPENDIX B

## GDP AND JOB CREATION ESTIMATES

The estimates of GDP and job creation are based on the macroeconomic modeling used by the Economic Policy Institute in three publications: Bivens 2011, Gable and Hall 2012, and Hall and Cooper 2012.<sup>48</sup> This paper constructs a multiplier based on Moody’s chief economist Mark Zandi’s February 2012 Congressional Testimony.<sup>49</sup> The benefits of reallocating money to workers with a high marginal propensity to consume are incorporated using multipliers for stimulus policies that redistribute money toward lower income households. It includes the average of the EITC multiplier and the tax credit for working individuals and families from the recovery act to represent the benefits to households – a value of 1.215. The effects of raising prices and increasing employers’ wage bill are factored into an offsetting multiplier. It includes an average of an across-the-board tax cut (to proxy for the price increase) and a cut in the corporate tax rate (in order to incorporate the effect of higher prices of production), weighted to represent the rate at which the wage increase is passed-through to prices – a value of [-pass-through (0.32+0.98)].

**FIGURE 4. | MULTIPLIER EFFECTS FROM MOODY’S ANALYTICS, 2012**

Earned Income Tax Credit, ARRA Parameters	1.24
Making Work Pay	1.19
Across-the-Board Tax Cut	0.98
Cut in Corporate Tax Rate	0.32

Source: Mark Zandi Congressional Testimony, February 7, 2012

For the case of a 50 percent pass-through the multiplier is:

$$1.215 - [0.5(0.32+0.98)] = 0.565. \$20.8 \text{ billion} * 0.565 = \$11.8 \text{ billion in additional GDP.}$$

For the case of a 25 percent pass-through the multiplier is:

$$1.215 - [(0.32(1-0.25) + 0.98(0.25))] = 0.73. \$20.8 \text{ billion} * 0.73 = \$15.2 \text{ billion in additional GDP.}$$

The estimates of job creation, also based on modeling from the Economic Policy Institute, rely on these multipliers and the cost of the wage increase estimated from CPS labor force data. The resulting increase in GDP is divided by \$115,000, the amount of additional GDP necessary in order to create one full-time equivalent job. For the case of a 50% pass-through, the addition of \$11.8 billion in the economy can create 102,284 additional jobs. For the case of a 25% pass-through, the addition of \$15.2 billion in the economy can create 132,155 jobs.

**FIGURE 5. | MULTIPLE EFFECTS FROM MOODY’S ANALYTICS, 2012**

Level of Price Pass-Through	Multiplier	GDP Created	Jobs Created
100%	$1.215 - [(0.32*0) + (0.98*1)] = \mathbf{0.235}$	\$4,892,465,000	42,543
75%	$1.215 - [(0.32*(1-0.75)) + (0.98*0.75)] = \mathbf{0.4}$	\$8,327,600,000	72,414
50%	$1.215 - [(0.32*(1-0.5)) + (0.98*0.5)] = \mathbf{0.565}$	\$11,762,735,000	102,285
25%	$1.215 - [(0.32*(1-0.25)) + (0.98*0.25)] = \mathbf{0.73}$	\$15,197,870,000	132,155
0%	$1.215 - [(0.32*1) + (0.98*0)] = \mathbf{0.895}$	\$18,633,005,000	162,026

Source: Author’s analysis using estimates from the March Annual Supplement to the CPS



# APPENDIX C

## CONSUMER COST ESTIMATES

The estimates for the impact of a wage increase on consumer costs relied on 2012 consumer spending data from Nielsen.<sup>50</sup> The methodology is derived from previous research on the price effects of a wage increase at big box retailers from the Berkeley Labor Center.<sup>51</sup> All calculations were performed by the author.

**FIGURE 6. | CONSUMER COST ESTIMATES**

	Total	Households Earning Less Than \$30,000 Per Year	Households Earning \$30,000 to \$100,000 Per Year	Households Earning At Least \$100,000 Per Year
Dollars Spent Per Year on Retail Consumer Goods	\$3,694	\$3,091	\$3,830	\$4,272
Trips To Retail Stores Per Year	121	124	122	116
Dollars Spent Per Trip to Retail Stores	\$30.42	\$24.87	\$31.41	\$36.80
<b>100% PASS-THROUGH</b>				
Cost Per Year	\$36.94	\$30.91	\$38.30	\$42.72
Cost Per Shopping Trip	\$0.30	\$0.25	\$0.31	\$0.37
<b>75% PASS-THROUGH</b>				
Cost Per Year	\$26.60	\$22.26	\$27.58	\$30.76
Cost Per Shopping Trip	\$0.22	\$0.18	\$0.23	\$0.26
<b>50% PASS-THROUGH</b>				
Cost Per Year	\$17.73	\$14.84	\$18.38	\$20.51
Cost Per Shopping Trip	\$0.15	\$0.12	\$0.15	\$0.18
<b>25% PASS-THROUGH</b>				
Cost Per Year	\$8.87	\$7.42	\$9.19	\$10.25
Cost Per Shopping Trip	\$0.07	\$0.06	\$0.08	\$0.09

Source: Author's analysis of Nielsen data using estimates from the March Annual Supplement to the CPS

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