Dēmos

AN EQUAL SAY AND AN EQUAL CHANCE FOR ALL

A Higher Wage is Possible

How Walmart Can Invest in Its Workforce Without Costing Customers a Dime

By Catherine Ruetschlin & Amy Traub

American workers are working harder for less, with productivity rising but living standards stagnant or declining.[1] At the same time, stock market wealth and incomes for the highest-paid Americans have risen.[2] Against this backdrop, the pay practices of the nation's largest private employer have come under increased scrutiny. Walmart, with 1.3 million U.S. employees and $17 billion in annual profits, sets standards for all other retailers and across the supply chain of one of the nation's fastest growing industries.[3] Walmart's practices impact the public sector and taxpayers as well when employees earn too little to meet their needs and require public assistance.[4] Finally, Walmart is a leader in promoting an employment model in which workers earn too little to generate the consumer demand that supports hiring and would lead to economic recovery. In the last year, Walmart employees themselves have been increasingly vocal in protesting their low pay. Since the last holiday season, Walmart employees in stores throughout the country have repeatedly spoken out in pur-

KEY POINTS

- Walmart workers and a growing number of community supporters are taking a stand this holiday season, calling for wage increases and sufficient hours on the job to earn the modest income of $25,000 a year. This brief explores one way to pay for raises.
- Walmart spent $7.6 billion last year to buy back shares of its own stock. The buybacks did nothing to boost Walmart's productivity or bottom line. If these funds were redirected to Walmart's low-wage workers, they would each see a raise of $5.83 an hour.
- Curtailing share buybacks would not damage the company's competitiveness or raise prices for consumers.
- If Walmart redirected its current spending to invest in its workforce, the benefits would extend to all stakeholders in the company—customers, stockholders, taxpayers, employees and their families—and the economy as a whole.

"Many managements have become so infatuated with how buybacks increase earnings per share that these distributions are crowding out sound business investments that create more value over time."

suit of a modest wage goal: the equivalent of $25,000 a year in wages for a full-time employee.

Now as another holiday season approaches, this research brief considers one way Walmart could meet the wage target its employees are calling for—without raising prices. We find that if Walmart redirected the $7.6 billion it spends annually on repurchases of its own company stock, these funds could be used to give Walmart's low-paid workers a raise of $5.83 an hour, more than enough to ensure that all Walmart workers are paid a wage equivalent to at least $25,000 a year for full-time work.[5] Curtailing share buybacks would not harm the company's retail competitiveness or raise prices for consumers. In fact, some retail analysts have argued that by providing a substantial investment in the company's front-line workforce, higher pay could be expected to improve employee productivity and morale while reducing Walmart's expenses related to employee turnover.[6] With more money in their wallets, Walmart employees would likely spend a portion of the cash at Walmart itself, boosting the company's sales. Sales might also increase as customers benefit from an improved shopping environment.[7]

In Dēmos' prior study, "Retail's Hidden Potential: How Raising Wages Would Benefit Workers, the Industry and the Overall Economy," we found that increasing pay for low-wage workers at America's largest retailers would also have benefits for the economy as a whole, reducing poverty, boosting economic growth, and creating over 100,000 jobs. While the impact of raising wages at a single company—even one as large and central as Walmart—would have a much smaller impact, similar benefits could be expected from a wage increase: the economy would gain from the addition of economy-supporting jobs, taxpayers would pay less to subsidize Walmart's low-wage business model, and the company would no longer be the leading example of inequality in an economy being rapidly undermined by the shrinking middle class and lack of purchasing power. Significantly, these gains could be attained without any impact on Walmart's low prices.

Share buybacks– $7.6 billion in 2012

Companies like Walmart that make enormous profits can use them to invest in the future of the business or to reward their investors. While using profits to invest in the retail workforce could lift up firms and the industry, Walmart directs a substantial share of its earnings toward share buybacks which benefit an increasingly narrow group of investors and do not provide the productivity benefits achieved by investing in workers. These buybacks occur when a company repurchases public shares of its own stock, which reduces the number of shares traded on the market so that the same level of earnings are distributed over fewer owners, making each remaining share worth more. Those owners who keep their stake in the company see the value of their holdings increase even if the company's performance does not change. Walmart's share buybacks further consolidated ownership of the company in the hands of the heirs to company founder Sam Walton, increasing the Walton family stake in the corporation to above 50 percent. In addition, the buybacks increased the value of ownership among the Wal-

WALMART PROFITS

From the Poorest Stakeholders to the Wealthiest

The six heirs of Sam Walton, founder of Walmart, are already among the world's wealthiest people, with a combined net worth of $144.7 billion.[12] In 2010, when the family's fortune was worth "just" $89.5 billion, it was already greater than the total financial assets of the least-wealthy 41.5 percent of American families combined.[13] Yet the Waltons' wealth has continued to grow rapidly, even as most American families saw their assets erode during the Great Recession and stagnate during the nation's halting economic recovery. Last year, as many of the employees who make Walmart stores function each day were paid wages that kept their families below the poverty line, the Walton heirs took in an estimated $2.66 billion in dividend payments from their shares of Walmart stock.[14]

The two sides of the "Walmart family" are experiencing sharply divergent fortunes. On the one hand, the Walton heirs have inherited wealth that expands each year. On the other, the workers who contribute to generating this wealth every day must often choose between buying food or keeping the electricity on. This gap within the Walmart family of stakeholders is illustrative of business decisions that drive economic inequality, depress consumer spending, and put the American Dream out of reach for many hardworking families. Walmart is far from the only company fueling this trend, but as the nation's largest private employer, it has unparalleled ability to shift course and make the rest of the nation stand up and take notice. ●

tons and the other remaining shareholders. Yet buybacks did nothing to boost Walmart's productivity or bottom line and had no direct benefit for Walmart's customers or frontline employees. Despite the lack of productive benefit, massive share buybacks at Walmart have become a regular occurrence: according to data compiled by Bloomberg, Walmart has bought back about $36 billion in stock in its four previous fiscal years, while in June 2013 announced a new $15 billion share repurchasing program at its annual shareholder meeting.[8]

Even for investors, the intended beneficiaries of a share buyback, the value of this financial maneuver is often illusory. As a prominent business analyst explained to the *Wall Street Journal* last year, "the evidence overwhelmingly shows that heavy buyback companies usually create less value for shareholders over time… Many managements have become so infatuated with how buybacks increase earnings per share that these distributions are crowding out sound business investments that create more value over time."[9]

As an alternative to unproductive share buybacks, Walmart would benefit from investing instead in its frontline workforce. Assuming the highest recent estimate of the number of Walmart's U.S. employees who are paid less than $25,000 a year—825,000 low-paid workers on the company payroll[10]—$7.6 billion could provide a raise of $5.83 an hour. This would be a genuinely life-changing pay increase for workers barely able to make ends meet. If we assume Walmart's typical hourly worker making below the $25,000 per year threshold earns $9.06 an hour, the industry median for low-wage employees of large retailers, then this would hike pay to $14.89 an hour. At this rate, any worker placed on the schedule for more than 32 hours a week would be able to bring home $25,000 a year —an important accomplishment in an industry where nearly a third of part-time employees say that they would like to work full-time if their employer would allow them.[11] If, as other analysts have conjectured, the number of Walmart workers paid under $25,000 annually is lower than 825,000, then each low-paid employee could see a still larger raise. Walmart's workers and their families would clearly be the biggest beneficiaries of a wage increase, but greater investment in the workforce would benefit the company as well.

Higher pay at Walmart would benefit Walmart shoppers and the company's bottom line

Despite Walmart's size and retail clout, the company's recent performance has disappointed financial analysts.[15] In its August earnings call, Walmart posted two quarters of declining same-store sales and reduced revenue and earnings expectations for the coming fiscal year—including the holiday shopping season.[16] In the last year, Walmart has come under criticism from business analysts for a range of problems related to underinvestment in the company's frontline workforce. According to media reports, U.S. consumers have avoided Walmart's stores because they are disorganized and shoppers cannot not find the items they seek on Walmart's shelves.[17] There were too few employees in the stores—or the workers who were present were too inexperienced—to keep items in stock and on the shelves. In February, leaked internal emails from Walmart's corporate offices lamented that "sales are a total disaster," and wondered, "Where are all the customers?

And where's their money?"[18]

In addition to bolstering its in-store workforce numbers, higher pay would provide an additional boost to customer experience, increasing worker productivity and encouraging employees to stay on the job long enough to become more experienced and helpful to customers. Nearly 500,000 Walmart employees leave the company every year,[19] a level of turnover that imposes direct costs to Walmart in terms of recruitment and training. Research from Harvard Business School suggests that both profit margins and customer service are harmed by employee turnover, and that the damage can only be partially mitigated by management techniques.[20] "When… ongoing operational issues are handled by low-paid employees at understaffed stores, the consequences for operational execution can be severe," notes MIT business professor Zeynep Ton.[21]

If Walmart were to invest the billions currently flowing to unproductive share buybacks in increased pay for frontline employees, the benefits of reduced turnover, higher employee productivity, better operating stores and improved customer satisfaction could be attained at no additional cost to customers or to the company's bottom line.

Higher pay at Walmart would benefit America

The actions of the nation's largest private employer have an outsized impact on America's economy. Currently, all Americans pay in multiple ways for the low-wage model: taxpayers pay to subsidize the survival of Walmart workers and their families, the macro economic recovery is stalled as customers earn too little to generate the consumer demand that supports hiring, and growing inequality is corroding our civic and democratic institutions. While Walmart is far from the only large and profitable company to pay low wages,[22] the corporation's tremendous size and status as an industry leader put it in a unique position to perpetuate negative outcomes for our nation—or to change course and lead the country in a new direction.

Walmart doesn't pay many of its employees enough to afford the necessities of life —food, health coverage, housing and transportation—effectively counting on taxpayers to make up the difference with food stamps, Medicaid, rental assistance and more. These subsidies add up quickly: a recent study by staff from the U.S. House of Representatives found that low wages at a single Wal-Mart store cost taxpayers in between $900,000 and $1.74 million every year.[23]

At the same time, when profitable companies like Walmart pay so little that their workers can't afford to make ends meet, it undermines the economy in a more profound way. Even with necessary public assistance, low-paid workers have insufficient resources to buy the basics. As a result, businesses (including Walmart itself) see lower sales. Companies without growing demand for their products or services resist hiring more workers, and unemployment remains high. The economic recovery sputters. As successful business owner Nick Hanauer explained to the U.S. Senate Banking Committee:

> *As an entrepreneur and investor, I have started or helped start, dozens of businesses and initially hired lots of people. But if no one could have afforded to buy what we had to sell, my businesses all would have failed and all those jobs would*

have evaporated. That's why I am so sure that rich business people don't create jobs, nor do businesses, large or small. What does lead to more employment is a… feedback loop between customers and businesses. And only consumers can set in motion this virtuous cycle of increasing demand and hiring. That's why the real job creators in America are middle-class consumers. The more money they have, and the more they can buy, the more people like me have to hire to meet demand.[24]

The reality is that 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. When low-wage workers get a raise they come closer to becoming the middle-class consumers described by Hanauer, supporting increased sales, hiring, and economic recovery.

Conclusion

Explaining its disappointing recent sales, Walmart Stores President and CEO Michael Duke blamed the challenging retail environment. But any retailer could have done that: Walmart alone has the size and industry clout to begin changing the climate, setting the retail industry and other employers on a higher-wage, higher-sales path. Simply reinvesting the funds used for share buybacks from Walmart's richest stakeholders to its poorest would bring low-paid Walmart workers the raise they are calling for, improve worker productivity and sales, and not cost the company or its customers one additional dime. ●

Appendix: Methodology & Sources

As a public company, Walmart is subject to mandatory disclosure rules about company finances. Quarterly and annual expenditures on share repurchases are available for public review through the Securities and Exchange Commission (SEC) form 10-K. The holdings of shareholders who own a 5 percent or greater stake in the company are disclosed to the SEC in the Schedule 14A proxy statement, as are dividend payments per share of ownership. According to these documents, Walmart spent $7.6 billion in share repurchases during the fiscal year ending January 2013. The company's 2013 annual report shows total spending of $36 billion in share repurchases in its four previous fiscal years.

Financial disclosure does not require Walmart to publish information related to employment practices including the wages and hours of its 1.3 million-member workforce. Voluntary statements about employment opportunities within the company are directed broadly, incorporating information across worker populations and impeding analysis of specific worker categories. For example, the company's website identifies an average wage for full time workers of $12.83 per hour, including workers in higher-paid supervisory positions along with those in entry-level jobs but excluding part-time workers from the population counted in the average.[25] In order to evaluate the cost and impact of low-wage labor at the firm, this brief relies on a combination of the company's voluntarily disclosed low-wage labor population and industry-wide average hours and median wages calculated from Bureau of Labor Statistics (BLS) data.

In a September 2013 presentation to Goldman Sachs, Walmart U.S. CEO Bill Simon identified the low-wage labor force as a portion of total employment at the firm, stating that more than 475,000 Walmart U.S. workers earned at least $25,000 in the past year. The presentation specifies that the population "includes every associate working at a U.S. location." With 1.3 million workers employed by Walmart U.S., straightforward arithmetic provides a population count of 825,000 workers earning below the threshold. This population includes the temporary, part-time, and involuntarily part-time workers excluded from the estimated average wage provided on the company website. Although spillover effects from a raise to $25,000 per year may affect a number of workers earning just above the new wage threshold, Walmart's identification of low-wage workers at the $25,000 per year standard precludes estimation of those workers within the affected upper bound. Due to the lack of data on the wage distribution within the firm, the spillover effects of a wage increase are not included in this report.

In lieu of estimated median earnings for the low-wage population, this brief applies industry standards calculated from the Current Population Survey conducted by the BLS. Among all retailers with more than 1,000 employees (the largest firm-size category in the survey), the median year-round low-wage employee earns $9.06 per hour worked.[26] The average work week industry-wide is 31.6 hours.[27] Walmart's wage bill for a population of 825,000 workers earning below $25,000 per year is based on these estimates of median wages, average hours, and 50 weeks of work per year.

Endnotes

1. Lawrence Mishel, "The wedges between productivity and median compensation growth," Economic Policy Institute, April 26, 2012, http://www.epi.org/publication/ib330-productivity-vs-compensation/
2. Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2012 preliminary estimates)," UC Berkeley, September 3, 2013, http://elsa.berkeley.edu/~saez/saez-UStopincomes-2012.pdf
3. Ken Jacobs, David Graham-Squire and Stephanie Luce, "Living Wage Policies and Big Box Retail," University at California Berkeley, Center for Labor Research and Education, April 2011. http://laborcenter.berkeley.edu/retail/bigbox_livingwage_policies11.pdf
4. "The Low-Wage Drag on Our Economy: Walmart's Low Wages and Their Effect on Taxpayers and Economic Growth," Democratic Staff of the U.S. House Committee on Education and Workforce, May 2013. http://democrats.edworkforce.house.gov/sites/democrats.edworkforce.house.gov/files/documents/WalMartReport-May2013.pdf
5. While this brief focuses on workers directly employed by Walmart in the United States, the company's inadequate workforce investment is also evident in other aspects of corporate operations, including pay for employees working in warehouses controlled by Walmart and employees of Walmart suppliers in the United States and abroad. A recent spate of workplace disasters at clothing factories in Bangladesh offers an egregious example: after a factory building collapse that killed 1,129 workers in April 2013 and a series of deadly factory fires, many large clothing retailers signed a global safety pact to improve Bangladeshi manufacturing standards. Walmart, which sells merchandise manufactured at hundreds of Bangladeshi factories, refused to sign, opting to set up a different agreement that would limit the company's financial responsibility. In 2012, *the New York Times* reported that, "Walmart… played the lead role in blocking an effort to have global retailers pay more for apparel to help Bangladesh factories improve their electrical and fire safety." Steven Greenhouse, "Documents Indicate Walmart Blocked Safety Push in Bangladesh," *The New York Times*, December 5, 2012. http://www.nytimes.com/2012/12/06/world/asia/3-walmart-suppliers-made-goods-in-bangladeshi-factory-where-112-died-in-fire.html.
6. See for example: Wayne F. Cascio "Decency Means More than 'Always Low Prices': A Comparison of Costco to Wal-Mart's Sam's Club," *Academy of Management Perspectives,* August 2006; Zeynap Ton, "Why 'Good Jobs' Are Good for Retailers," *Harvard Business Review*, January/February 2013. http://hbr.org/2012/01/why-good-jobs-are-good-for-retailers
7. On how Walmart's poor shopping environment has harmed sales, see: Renee Dudley, "Customers Flee Wal-Mart Empty Shelves for Target, Costco," Bloomberg, March 26, 2013. http://www.bloomberg.com/news/2013-03-26/customers-flee-wal-mart-empty-shelves-for-target-costco.html
8. Renee Dudley, "Wal-Mart Approves New $15 Billion Share-Buyback Program," Bloomberg, June 7, 2013. http://www.bloomberg.com/news/2013-06-07/wal-mart-approves-new-15-billion-share-buyback-program.html
9. Maxwell Murphy, "The Pros and Cons of Stock Buybacks," *The Wall Street Journal*, February 27, 2013. http://online.wsj.com/news/articles/SB10001424052970203824904577213891035614390
10. Calculation based on CEO Bill Simon's statement that 475,000 of the company's hourly in-store employees earn more than $25,000 a year. Bill Simon, "Goldman Sachs 2013 Annual Global Retailing Conference," Walmart presentation, September 11, 2013. http://az204679.vo.msecnd.net/media/documents/bill-simon-goldman-sachs-2013-presentation_130233858314846907.pdf Walmart has subsequently suggested that fewer employees earn less than $25,000 a year but has not provided a solid number that includes the part-time and temporary employees that make up a large share of its workforce. See the appendix on methodology for further discussion.
11. Dēmos calculations based on Bureau of Labor Statistics data.
12. "Forbes 400: The Richest People in America," *Forbes*, September 16, 2013. http://www.forbes.com/forbes-400/list/
13. Josh Bivens, "Inequality, exhibit A: Walmart and the wealth of American families," Economic Policy Institute, July 17, 2012. http://www.epi.org/blog/inequality-exhibit-wal-mart-wealth-american/
14. "Notice of 2013 Annual Shareholders' Meeting and Proxy Statement," Walmart Proxy Statement, July 7, 2013. http://az204679.vo.msecnd.net/media/documents/2013-proxy-statement-for-walmart-stores-inc_130221025125760317.pdf
15. See, for example: Andria Cheng, "Wal-Mart Cuts Outlook as 2Q Sales Disappoint," MarketWatch, August 15, 2013. http://www.marketwatch.com/story/wal-mart-cuts-outlook-as-2q-sales-disappoint-2013-08-15;
    Alison Southwick, "Wal-Mart Earnings Disappoint — Who's to Blame?" Motley Fool, August 15, 2013. http://www.fool.com/investing/general/2013/08/15/wal-mart-earnings-disappoint-whos-to-blame.aspx

16. “Wal-Mart Stores, Inc. Second Quarter Fiscal Year 2014 Earnings Call,” Walmart earnings call, August 15, 2013. http://media.corporate-ir.net/media_files/IROL/11/112761/WMT_FY_14_Q2_management_call_as_recorded_final.pdf
17. See for example: Renee Dudley, “Customers Flee Wal-Mart Empty Shelves for Target, Costco,” Bloomberg, March 26, 2013. http://www.bloomberg.com/news/2013-03-26/customers-flee-wal-mart-empty-shelves-for-target-costco.html; Walter Loeb, “Why Are Walmart Stores Such A Mess?” *Forbes*, July 17, 2013. http://www.forbes.com/sites/walterloeb/2013/07/17/why-are-walmart-stores-such-a-mess/
18. “Wal-Mart Shares Tumble On Leaked Memo Citing Sales Weakness,” *The Chicago Tribune*, February 15, 2013. http://articles.chicagotribune.com/2013-02-15/business/chi-walmart-shares-tumble-on-leaked-memo-citing-sales-weakness-20130215_1_wal-mart-shares-wal-mart-executives-david-tovar
19. Based on Walmart’s self-reported turnover rate of 37.26 percent in 2011 in a U.S. workforce of 1.3 million. Jessica Wohl, “Wal-Mart files U.S. labor charge against union,” Reuters, November 16, 2012. http://www.reuters.com/article/2012/11/16/us-walmart-union-idUSBRE8AF1DB20121116
20. Zeynep Ton and Robert S. Huckman, “Managing the Impact of Employee Turnover on Performance: The Role of Process Conformance,” *Organization Science,* February 1, 2008. http://pubsonline.informs.org/doi/abs/10.1287/orsc.1070.0294
21. Zeynap Ton, “Why ‘Good Jobs’ Are Good for Retailers,” *Harvard Business Review*, January/February 2013. http://hbr.org/2012/01/why-good-jobs-are-good-for-retailers
22. For examples see “Big Business, Corporate Profits, and the Minimum Wage,” National Employment Law Project, July 2012. http://nelp.3cdn.net/24befb45b36b626a7a_v2m6iirxb.pdf
23. “The Low-Wage Drag on Our Economy: Walmart’s Low Wages and Their Effect on Taxpayers and Economic Growth,” Democratic Staff of the U.S. House Committee on Education and Workforce, May 2013. http://democrats.edworkforce.house.gov/sites/democrats.edworkforce.house.gov/files/documents/WalMartReport-May2013.pdf
24. Nick Hanauer, Testimony before the Subcommittee on Economic Policy, Senate Committee on Banking, Housing, and Urban Affairs, June 5, 2013. http://www.banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=9f879e02-4691-4fd1-ade1-e198fab0c7c9
25. “Our Story,” Walmart, accessed November 4, 2013, http://corporate.walmart.com/our-story/locations/united-states.
26. Dēmos calculations based on Bureau of Labor Statistics data
27. Bureau of Labor Statistics, series CEU4200000002, “Average Weekly Hours of All Employees, Retail Trade.”

Dēmos

AN EQUAL SAY AND AN
EQUAL CHANCE FOR ALL

Contact
Elektra Gray
egray@demos.org
P: 212.633.1405

Engage
demos.org
@demos_org