Recruiting Big-Box Retailers as an Economic Development Strategy

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Changes in retail and local option sales taxes combined with standard economic development strategies affects communities.
Changes

- Wal-Mart has become the largest grocer in a very short time
- Local communities are relying more on the sales tax and less on property tax (some states more than others)
  - May be changing how they view retail
States with local option sales taxes

- In 2002 35 states had authorized at least one local option sales tax
  - For 2 or 3 it is very limited
- Alaska, Delaware, Montana, New Hampshire, and Oregon do not have a general sales tax
  - Alaska has a local option
Local government taxes: 1992, 1997 and 2002

Percentage

Property
Sales and gross receipts
Other taxes

All states
MO

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Revenues of Missouri Local Governments: 2002

Source: US Census Bureau, "Census of Governments 2002"
Retail evolution

- The general store in small towns from the mid 1800s to mid 1900s
- Sears and Roebuck and Montgomery Wards catalogs
- Department stores in cities
- Supermarkets and drug stores
Retail evolution

- Discount stores
- Regional shopping malls
- Big Box Stores
- Super Centers combine the discount store and the supermarket
Retail as economic development

- Retail a given—will follow people and income
- Changes in retail—regional malls and Big Boxes
  - New sales versus re-distributing retail sales between stores within the community
  - New sales versus re-distributing between communities
    - Regional shopping malls that attract shoppers from outside the community and away from retail in those communities
    - Attract back consumers who were shopping elsewhere
Dallas retail cannibalization

- 34% of sales cannibalized from within 15 miles of city center
- 66% distributed between
  - New sales
  - Sales cannibalized from beyond 15 miles
  - Sales cannibalized from within the city center

(Ingraham, Singer and Thibodeau)
Incentives can provide local benefits

1) If public infrastructure is underutilized,

2) If market failures impede the use of local resources (unemployment), or

3) If the project overcomes barriers to the use of brownfields

(Bartik)
Incentives can

- Place existing local businesses at a competitive disadvantage if they re-distribute retail sales within the community
- Harm the existing businesses of one community in favor of another community (re-distribution between communities)

(Stallmann and Ball)
Local benefits of incentives will be reduced if:

1) there is low unemployment,
2) the new jobs are low wage,
3) few local workers are hired for the new jobs or
4) there are significant infrastructure or environmental cost

(Bartik)
Local resources--labor

- Employ local workers
  - We cannot find studies. Based on wages it is unlikely that people will commute long distances or migrate into the community

- Managerial positions do not come from within the community when store opens.

- Alabama study—reduces unemployment of blacks relative to whites
Local resources--labor

- Wal-Mart jobs are lower-income and benefit jobs than other Big Boxes in urban areas
  - Costs to the public sector
- They are relatively good jobs for retail in rural areas
- The distribution centers are good jobs for many rural areas
Local resources--labor

- Employees in new stores take jobs because these are their best option
- Reduces wages in grocery and general merchandise sectors
  - In rural reduces grocery wages
  - But not general merchandise wage
- Reduces local retail employment
  - What types of jobs do these workers find?
Local benefits

- Wal-Mart offers low prices
- Supercenters reduce grocery prices
  - 3% overall
  - Up to 13% on some items
Re-distribution versus new sales

? In rural areas capture 17% of grocery business in 2 years

? In urban areas capture 4% in first year

☑ Complimentary businesses may grow
Public Infrastructure

Tend to locate on edges of city

- Areas require new infrastructure
- May hook into some existing infrastructure with excess capacity
- Barnstable, MA: net cost to community of $468/10,000 sq. ft.
- Generally do not locate in areas with brownfields
Local incentives to give incentives

- Local option sales tax increases local revenue dependence on retail sales
- If another town gets the store they may lose existing retail sales and employment
- Intra-regional elasticities for location and job growth are higher than inter-regional so incentives can influence decisions
- Incentives mean that not just market forces are at work
Conclusions

- Differential impacts on different groups in society
  - Low prices for consumers
  - Low wages for workers
- Urban and rural differences
- Communities may offer incentives as a way to avoid something worse
Future research

- On other Big Box Retailers
- Who gets hired and why do they take the jobs?
- What happens to the displaced retail workers?
- Rural and urban differences
- Re-distribution between communities
Thank-you

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Is the major contributor to this paper