



Recruiting Big-Box Retailers as an Economic Development Strategy

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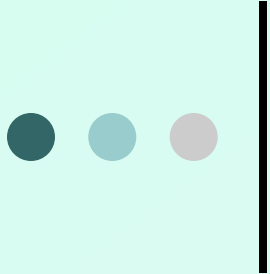
Objective

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



Changes

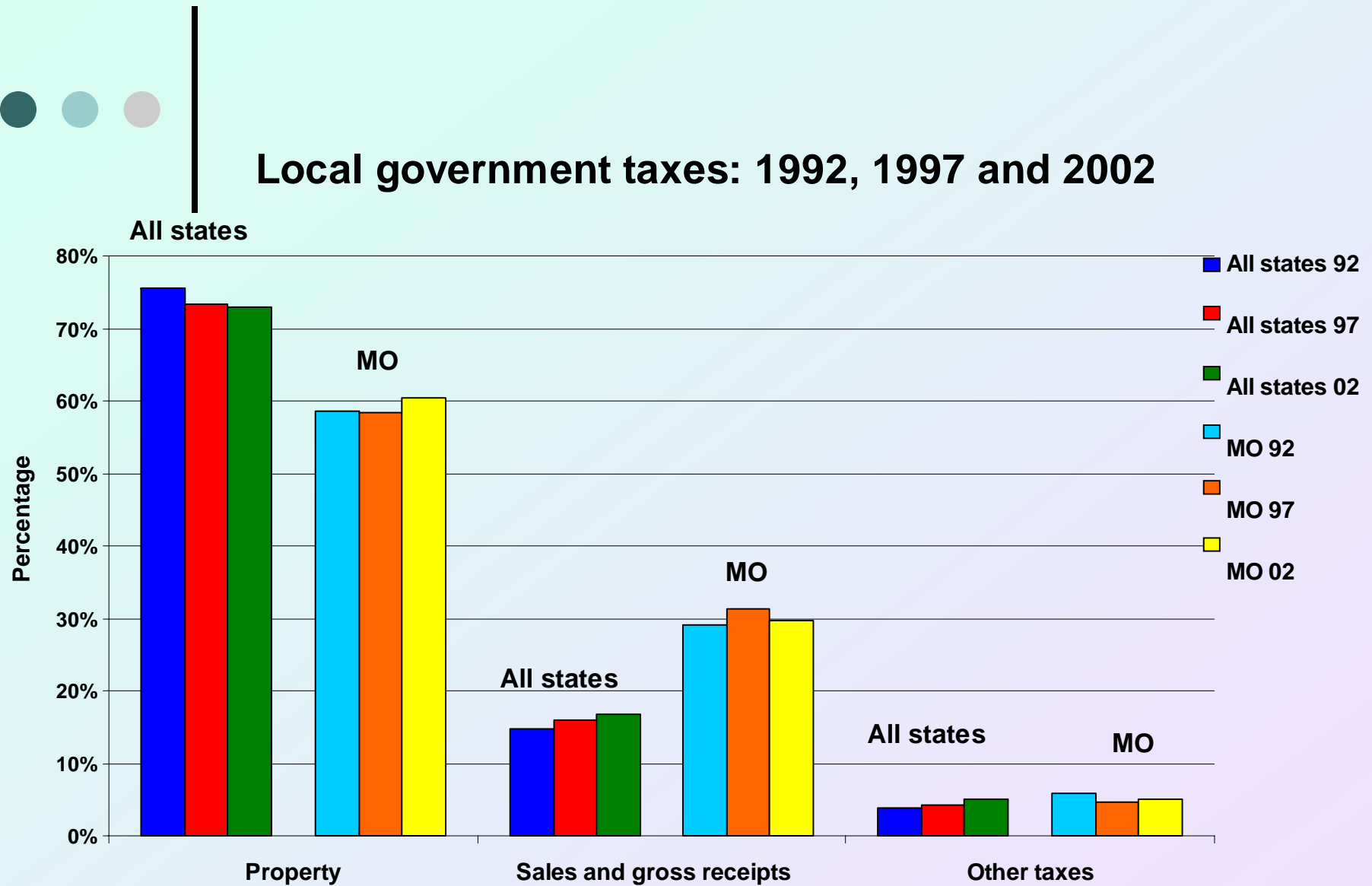
- Wal-Mart has become the largest grocer in a very short time
- Local communities are relying more on the sales tax and less on property tax (some states more than others)
 - May be changing how they view retail



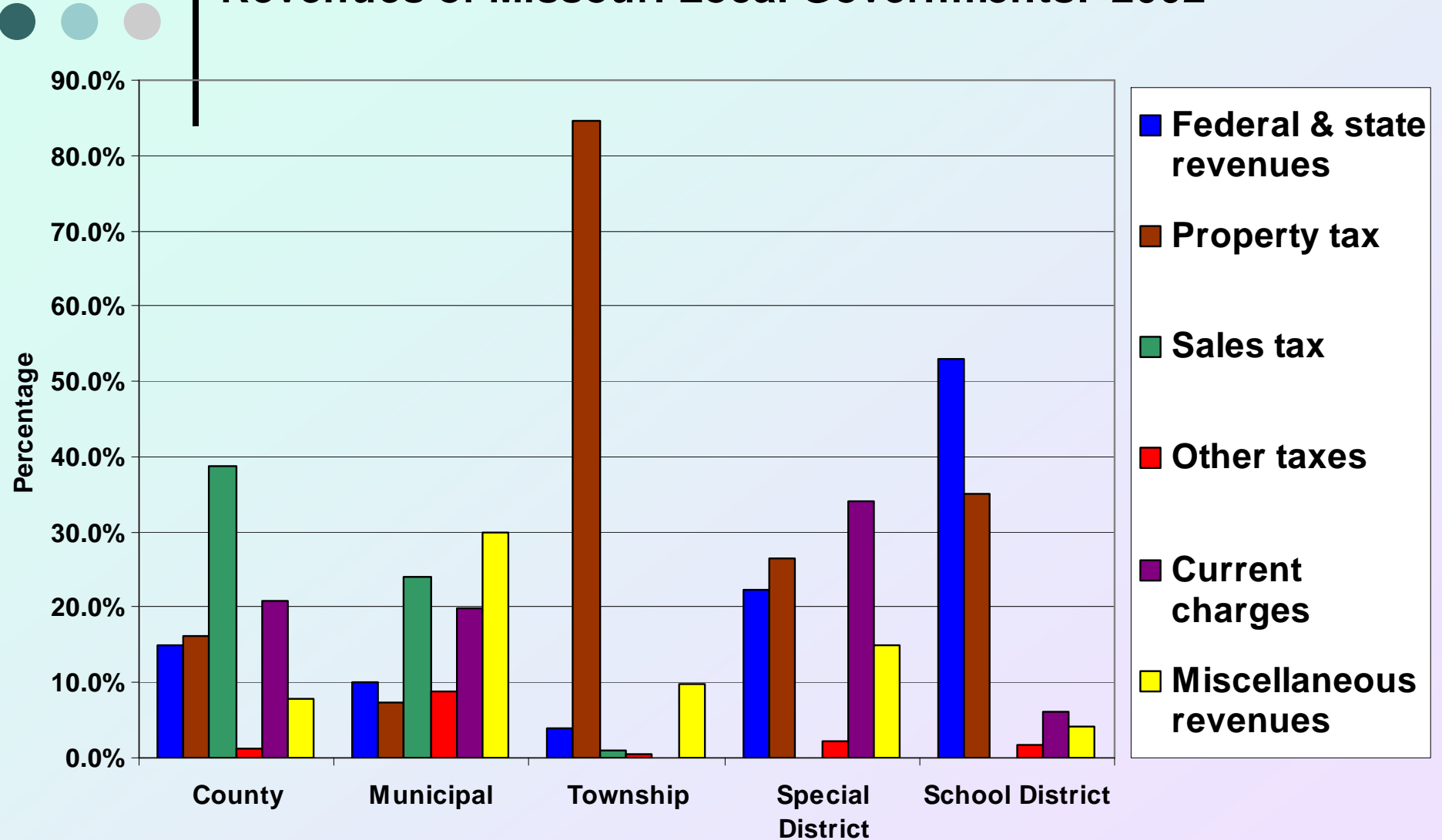
States with local option sales taxes

- 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



Revenues of Missouri Local Governments: 2002



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



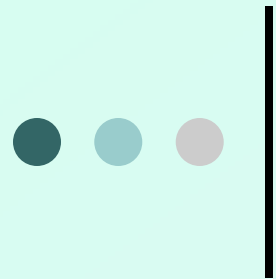
Retail evolution

- 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

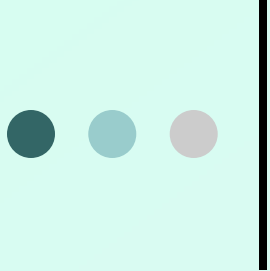
(Bartik)



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

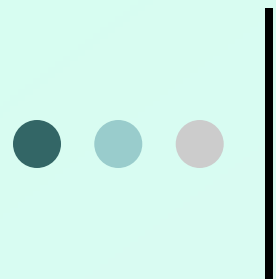
- ? In rural areas capture 17% of grocery business in 2 years
- ? In urban areas capture 4% in first year
- Complimentary businesses may grow



Public Infrastructure

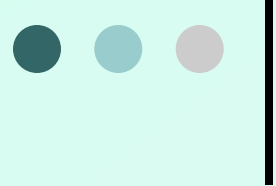
Tend to locate on edges of city

- ☒ 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