Wal-Mart is working to expand beyond its traditional rural and suburban locations to urban sites in Chicago, New York and the District, and its efforts have provoked intense and emotional responses. To some people, Wal-Mart symbolizes corporate exploitation, greed and cultural homogenization. To others, it represents value, convenience and efficiency. While the symbolic importance of our retail choices is undeniable, public policy decisions that facilitate or hinder Wal-Mart’s expansion should be based on rational, evidence-based discussions. What would a new Wal-Mart mean for local businesses? Will it create retail jobs? What impact can it be expected to have on retail sales? One Chicago community’s experience may provide insight as Wal-Mart contemplates opening four stores in Washington.

We worked with researchers from a number of academic institutions to study the impact of Wal-Mart’s first store in a major American city. In the fall of 2006, a new Wal-Mart opened on the northwest side of Chicago. We gathered baseline data before Wal-Mart’s opening and tracked retail activities over the following two years.

In our initial survey, we identified 306 businesses within four miles of Wal-Mart that sold competing goods. Two years later, 82 of those businesses had closed. We found that businesses closer to Wal-Mart were significantly more likely to close than similar businesses farther away. Although we won’t go so far as to blame the closures on Wal-Mart, our evidence suggests that the new store hastened the decline of some of its competitors.

We also asked businesses about the number of employees they had and the wages and benefits they offered, and we collected information such as the residence, gender and race and ethnicity of the owners. We found that many of the retail outlets were small and were owned by women and minorities who lived in Chicago.

Based on the disproportionate number of business closures close to Wal-Mart, we concluded that, after two years, the number of jobs lost by Wal-Mart’s nearby retail competitors essentially offset the number of jobs created at the new Wal-Mart. With this data, we were not able to directly study Wal-Mart’s impact on new businesses, but Wal-Mart may also have influenced new business openings. The affected competitors had offered relatively limited benefits and offered wages only slightly above the minimum wage. Thus, the wages and benefits of the lost jobs were probably quite similar to the wages and benefits at the new Wal-Mart. From the point of view of workers, Wal-Mart’s opening was close to a wash.

We also examined retail sales data assembled by the state of Illinois, which does account for both new and existing businesses. We found that the opening of the Wal-Mart store had no measurable impact on total retail sales in its immediate neighborhood. This suggests that Wal-Mart’s sales simply offset sales from its competitors.
Of course, our study was confined to a single Wal-Mart store in a single Chicago neighborhood at a particular point in time. But the basic results were consistent with economic theory and the findings of many other studies of the retail industry. Retail employment and sales are largely driven by neighborhood population and incomes and are not greatly affected by new retail developments such as Wal-Mart. Of course, a neighborhood’s retail characteristics can influence which competitors lose out when a store opens. The Chicago neighborhood we studied had a dense network of stores before Wal-Mart arrived, and many of these stores appeared to lose sales to Wal-Mart. Job loss might be less concentrated geographically in a place where competition is more sparse, as the proposed D.C. Wal-Mart sites are reported to be.

In considering whether to encourage or oppose Wal-Mart’s entry into the District, our results suggest that job creation should not be an overriding factor. Consumers who shop at Wal-Mart certainly feel they benefit from its availability. However, others may feel that a highly profitable national retailer could adopt more generous labor standards and make a serious effort to preserve neighborhood identity. An open and vigorous debate about these trade-offs is worth having.

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