

# Low Wages, No Bargain

RETAIL JOBS IN NEW YORK CITY

DECEMBER 2008





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# Acknowledgements

*Low Wages, No Bargain* is a Fiscal Policy Institute study of working conditions in the New York City retail industry. Previous FPI labor market studies have looked at the construction trades, film and television production, computer services, social services, and apparel industries, among others.

*Low Wages, No Bargain* was written under the direction of James Parrott, chief economist and deputy director, and David Dyssegaard Kallick, senior fellow. Michele Mattingly, research associate, performed the data analysis and drafted the body of the report, and Kallick wrote the case studies. Jo Brill, communications director, edited the report.

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# Executive Summary

The financial market meltdown and the resulting economic downturn are leading New Yorkers to raise fundamental questions about the foundations of the New York economy and its future direction. How do we make it through a painful recession? Once we make it through the current turmoil, what will New York's economy look like? What should it look like?

In the short run, the outlook for this holiday shopping season is one of the bleakest in recent memory. Yet, in the long run, it is clear that retail jobs will continue to be—as they have always been—an important part of the New York economy. As the city struggles to find its way with a smaller finance sector, it will be important to pay closer attention to the non-finance jobs, making sure that they pay decent wages, have good benefits and provide real career opportunities.

More low-wage workers in New York City are employed in retail than in any other single sector of the New York economy. Within the retail sector, three in five workers earn an hourly wage of \$13 or less, and 44 percent earn less than \$10 an hour.

From 2000 to 2007, retail jobs grew seven times faster than total private sector employment growth. Nearly 10 percent of the city's private sector employees work in retail, and the sector has expanded rapidly in recent years. Given the concentration of low-wage jobs in retail and the sector's fast growth, any serious attempt to address the city's dramatic increase in the number of working poor must include higher wages for low-wage retail workers.

New York City's retail workers do not conform to some common stereotypes about those who hold retail jobs. Retail workers are not just teenagers working part time for pocket money. The vast majority—78 percent—are 25 years or older, and half are 35 years or older. Four out of five work fulltime. In many cases, their earnings are vital to their families' well being. In families with children, retail workers' earnings contribute on average 56 percent of the family's earned income, and more than a third of these workers are their family's sole provider. Ninety thousand children in the city have parents employed in retail.

The city's retail workers are disproportionately people of color, and, as is true for the city's workforce overall, nearly half are immigrants. The retail workforce is more educated than one might expect: A quarter of the sector's workers have at least a four-year college degree, and this holds true for one in five retail workers in non-managerial/non-professional occupations.

Once we make it through the current turmoil, what will New York's economy look like? What should it look like?

Improving the wages and working conditions of retail workers is not an impractical abstraction.

Jobs in retail tend to pay less than in other sectors of the economy. Among all those who are neither managers nor professionals, the typical (median) worker in retail makes just 87 percent of the wage of the typical worker in other industries. The median is even lower in department and discount stores and in clothing stores, which altogether employ a third of New York City's non-managerial/non-professional retail workers.

But low wages are only part of the story. Retail workers face other obstacles in supporting themselves and their families—such as lack of health insurance, high employee premiums where employer-sponsored coverage is available, and no paid sick leave. These conditions help explain the heavy use of public assistance by New York State retail workers. Making matters worse, labor violations in the city's retail sector are also widespread, including failure to pay the minimum wage and overtime pay, discrimination against women, underpayment of undocumented immigrants, and misclassification of employees as independent contractors to avoid social insurance costs and other employer obligations.

New York City government already plays a big role in shaping the city's retail environment. It provides retailers and retail developers with tax subsidies and subsidized loans, and it sets land use policies that encourage retail developments. If the political will exists, these public resources and tools can be used to raise the standard of the city's retail landscape, ensuring that public resources benefit businesses that provide good, family-supporting jobs.

Even in an economic downturn, improving the wages and working conditions of retail workers is not an impractical abstraction. And, as the economy recovers, retail jobs are likely to be a bigger portion of the New York City economy. The case studies that conclude this report—drawn from the city, the nation, and abroad—provide concrete examples that challenge our ideas about retail jobs. Working conditions for a low-paid, diverse, heavily immigrant workforce can be improved. A mass-market retailer can make high-road labor practices part of a successful business strategy. And decent wages and advancement opportunities can be the norm, not the notable exception.



# Preface

The financial market meltdown and the resulting economic downturn are leading New Yorkers to raise fundamental questions about the foundations of the New York economy and its future direction. How do we make it through a painful recession? Once we make it through the current turmoil, what will New York's economy look like? What should it look like?

Much of Wall Street, long the driving force in the city's economy, has self-destructed. New York City has benefited from the jobs, large incomes and high tax revenues generated on Wall Street. But the city has also been strained by the extreme volatility and income polarization associated with over-reliance on Wall Street. A comparative handful have reaped riches once known only to royalty while hundreds of thousands of workers have endured unsustainably low wages in jobs lacking decent health and pension benefits.

In the short run, the outlook for this holiday shopping season is one of the bleakest in recent memory. Since mid-2007, inflation-adjusted wages have fallen sharply. With rising unemployment and failing consumer confidence, retail sales are the weakest in nearly two decades. Yet, in the long run, it is clear that retail jobs will continue to be—as they have always been—an important part of the New York economy. As the city struggles to find its way with a smaller finance sector, it will be important to pay closer attention to the non-finance jobs, making sure that they pay decent wages, have good benefits and provide real career opportunities.

Retail is the largest employer of low-wage workers in New York City. If our economy is to move to a more sustainable foundation, wages at the bottom should rise and a new industrial paradigm in retail will be needed.



# Introduction

More low-wage workers in New York City are employed in retail than in any other sector of the New York economy. Of the almost 1.3 million New York City residents earning \$13 per hour or less,<sup>1</sup> 176,000 of them—close to one in seven—work in retail, far more than in any other single sector. Sixty-one percent of all retail workers earn \$13 per hour or less. Among non-managerial and non-professional retail workers, nearly two thirds (65 percent) earn low wages of \$13 or less, while 85,000 earn very low wages of \$10 or less per hour, and fully 43,000 scrape by on just \$8 per hour or less.

And these numbers only begin to paint the picture of low-wage work in the retail sector. Many stores give workers too few hours to make ends meet, fire employees as they are just on the verge of qualifying for benefits or unemployment insurance, or even illegally pay workers less than the minimum wage. Employer-provided health benefits are relatively rare for retail employers, and retirement benefits are even rarer.

Given the overwhelming prevalence of low-wage workers in this sector, raising wages and improving the job quality for retail workers has to be a part of any serious attempt to address concerns about poverty and rising inequality within the city.

Of the 1.3 million New York City residents earning \$13 per hour or less, 176,000 of them—close to one in seven—work in retail.

## Low-Wage New York City Workers

Industry	Count	Share of Low-Wage NYC Workers
All industries	1,264,875	100%
Retail	175,704	13.9%

Source: FPI analysis of 2000-2006 Current Population Survey data.

The situation of New York City's retail workers needs to be considered within a larger context. Although the city has lost a large share of its manufacturing and other middle-income jobs, it has seen an increase in low-wage jobs, including in retail. This shift goes a long way toward explaining the tremendous growth in the number of working poor and near-poor families in the city. From 1989-1990 to 2004-2005, there was a 72 percent increase in working families with incomes at or below the federal poverty line.<sup>2</sup> The number of working families in the city at 200 percent or less of the poverty line grew by 61 percent during this time.<sup>3</sup>

<sup>1</sup> FPI analysis of 2000-2006 Current Population Survey data. Thirteen dollars per hour corresponds broadly to several frequently used measures of low wages. Eligibility for funding under the Workforce Investment Act (WIA) is 70 percent of the Lower Living Standard Income Level for a family of four. The hourly wage needed to achieve this standard in the NY/NJ/Long Island Metropolitan Statistical Area in 2007 was \$13.32 for a person working 52 weeks a year and 40 hours a week. Also, the wage needed to sustain a family of three at 150 percent of the federal poverty level was \$12.38. For a family of four it was \$14.89.

<sup>2</sup> FPI analysis of Current Population Survey Annual Social and Economic Supplement (ASEC) data.

<sup>3</sup> There were 1.7 million people living in working families in the city at 200 percent or less of the Federal Poverty Line in 2004-05. This represented one-third of the total of people living in working families. This number was considerably higher than the 1.1 million in 1989-90, which represented 25.4 percent of the total.



Are retail jobs by their nature low-productivity and therefore low-wage? This report presents some well established examples that show another business model is possible, especially if it is required by government regulation, union organization, or community pressure. Increased wages are associated with higher productivity and lower turnover. This report identifies the problems facing many of the city's retail workers, but it also underscores the fact that businesses, communities, labor unions, and policymakers have many opportunities to change retail jobs in New York City for the better.



# Retail in New York City

The entire retail sector employs over 300,000 workers in New York City, 9.5 percent of total private sector employment. Between 2000, the peak of the last business cycle, and 2007, New York City added 20,000 retail jobs.<sup>4</sup> Over this period, private sector jobs overall grew by just one percent, while retail jobs increased by seven percent. This made retail among the fastest growing major sectors in New York City, exceeded only by two major sectors: health, education and social services, and leisure and hospitality.

## New York City Retail Employment Change by Segment, 2000-2007

	2000	2007	2000-2007		2007
	3rd Quarter	3rd Quarter	Change		3rd Quarter
	Employment	Employment	Employment		Share of All Retail
			Absolute Change	Percent Change	
NYC Retail Trade	270,924	290,984	20,060	7.4%	100.0%
<b>Detailed retail trade segment:</b>					
Motor Vehicle and Parts Dealers	11,600	11,702	102	0.9%	4.0%
Furniture and Home Furnishing Stores	12,064	10,989	-1,075	-8.9%	3.8%
Electronics and Appliance Stores	12,306	13,549	1,243	10.1%	4.7%
Building Material and Garden Stores	11,391	14,016	2,625	23.0%	4.8%
Food and Beverage Stores	57,630	60,681	3,051	5.3%	20.9%
Health and Personal Care Stores	28,283	35,202	6,919	24.5%	12.1%
Gasoline Stations	3,737	2,826	-911	-24.4%	1.0%
Clothing and Accessories Stores	60,416	69,375	8,959	14.8%	23.8%
Sports, Hobby, Book and Music Stores	15,106	14,290	-816	-5.4%	4.9%
General Merchandise Stores	29,725	30,649	924	3.1%	10.5%
Miscellaneous Store Retailers	18,583	18,868	285	1.5%	6.5%
Nonstore Retailers	10,083	8,837	-1,246	-12.4%	3.0%

Source: FPI analysis of Quarterly Census of Employment and Wages.

<sup>4</sup> New York State Department of Labor Current Employment Statistics. Employment levels seasonally adjusted by Fiscal Policy Institute. New York City's employment level reached a peak in the previous business cycle in December 2000. The figures in this paragraph are for employment as of May 2008.

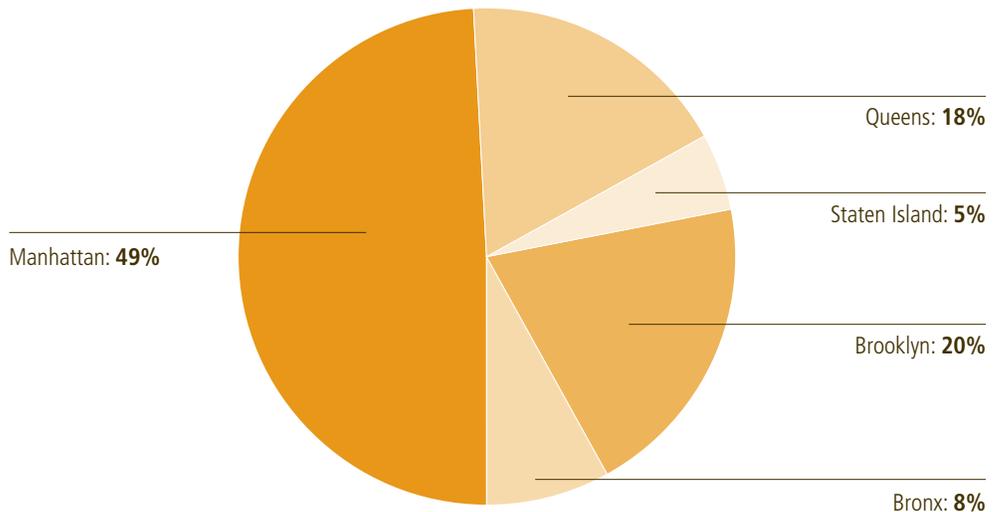
Despite the generally low wages paid in retail in New York City, the industry is productive and profitable.

Among retail segments, the largest employers are clothing and accessory stores and grocery stores. They are followed by health and personal care stores, a category that includes drug stores, and general merchandise stores, a category that includes department stores. Since 2000, drug stores and clothing stores have added the most jobs in New York City, while furniture and home furnishing stores and sports, book and music stores have reduced employment.

Nearly half of the city's retail jobs are located in Manhattan, with Brooklyn accounting for 20 percent and Queens 18 percent. Although only 20 percent of New York residents live in Manhattan, 72 percent of the city's private sector payroll jobs are located in the borough, helping to explain Manhattan's dominance in the retail sector. Manhattan's role as a tourist destination and a regional center for shopping brings added customers to the borough's retailers.

Retail in much of Manhattan has a somewhat different character than in the other boroughs. Stores in Manhattan tend to be larger than those in the outer boroughs. The number of stores in Manhattan with more than 100 employees nearly exceeds those in all the other boroughs combined. The concentration of affluent residents and visitors in Manhattan has also led to the presence of a large number of high-end luxury retailers. In the outer boroughs, retail tends to be more targeted to local residents, with businesses clustered in neighborhood commercial districts.

### Nearly Half of All Retail Jobs Are in Manhattan



Source: Fiscal Policy Institute analysis of 2006 Quarterly Census of Employment and Wages.

For many types of retailing, New York City provides an extremely attractive marketing location. The retail mall under the World Trade Center Towers was reportedly the highest grossing mall per square foot in the United States, and the mall in the new Calatrava transit hub at Ground Zero is expected to regain that status. For the past several years, the Queens Center Mall has been among the highest grossing malls in the country. Notably, the Manhattan locations of some chain operations appear to function as much as advertising vehicles as retail operations. The desirability of locating in Manhattan is further borne out by the high rents paid.

Despite the generally low wages paid in retail in New York City, the industry is productive and profitable. The best available government data indicate that New York retailing, including in New York City, is highly productive compared to the national average, and that it has become more profitable in recent years. While such data are not separately available for New York City, the U.S. Commerce Department reports that the value added per worker in retailing in New York State is 11 percent above the national average, with an average value added of \$49,900 per New York retail worker, compared to \$44,800 for the U.S. overall. The taxable sales per non-food retail worker in the state was nearly \$169,000 in 2005, with virtually no difference between New York City and the rest of the state.<sup>5</sup> Moreover, from 2001 to 2006, the profitability of New York retailing increased twice as fast as the compensation received by retail workers.<sup>6</sup>

In this report the focus is on the non-grocery retail sector. Food and beverage stores, which are mainly supermarkets, greengrocers and bodegas, employ 61,500 workers in New York City, about 20 percent of the entire retail sector. Excluding the broad grocery store category, the retail sector encompasses 242,000 workers in the city.<sup>7</sup> The demographic profile of retail workers and the analysis of retail wages discussed below are for all resident New York City non-grocery retail workers.



5 New York State Department of Taxation and Finance, Taxable Sales data, March 2005-February 2006. Per worker taxable sales calculated using 2005 annual average Quarterly Census of Employment and Wages non-food retail trade employment.

6 U.S. Department of Commerce, Gross Domestic Product by State series. Profitability is indicated by "gross operating surplus" (GOS). For New York state retail, GOS increased by 39.6 percent from 2001 to 2006, while total employee compensation increased by only 19.4 percent.

7 New York State Department of Labor Current Employment Statistics, seasonally adjusted by FPI, May 2008.

# Profile of New York City Retail Workers

In New York City, the vast majority of retail workers are adults.

The following profile of the city's retail workers draws on the Bureau of Labor Statistics Current Population Survey (CPS), the nation's primary labor force survey. The CPS identifies respondents by place of residence, not place of work. Therefore, workers who are employed in New York City yet reside elsewhere will not be captured by the CPS New York City sample. However, Census Bureau American Community Survey data show that 89 percent of the 195,000 non-food retail workers employed in non-managerial, non-professional occupations within New York City also reside in the city.<sup>8</sup> The CPS data, then, are generally representative of retail workers employed in New York City, the focus of this report.

Retail work sometimes gets less than the full attention it deserves because of a misperception that retail work predominantly involves teenagers working after school for pocket money. The reality is that the vast majority of retail workers in New York City are adults working hard to make ends meet for their families.

In New York City, the vast majority of retail workers are adults: 78 percent of all retail workers in New York City are 25 and older, and half of all retail workers are 35 or older. The share of people under 25 working in retail is 22 percent, while workers under 25 make up 11 percent of the overall resident workforce. And, 81 percent of all resident retail workers are employed full time (defined as usually working 35 hours or more per week), only slightly less than the 87 percent of all workers who work full time. Retail workers may not always get the number of hours they want—which holds down pay and can restrict other benefits—but the vast majority are full-time workers, not kids or adults just working part time to pick up some pocket change.<sup>9</sup>

Retail workers' earnings contribute significantly to their families' incomes. On average, retail workers in New York City contribute 60 percent of their families' earned income. For families with children, the average contribution is 56 percent. Over one third (36 percent) of retail workers are their family's sole provider, and the figure is nearly as high (32 percent) in families with children. More than 90,000 children in the city have parents who are employed in retail.



<sup>8</sup> FPI analysis of 2006 American Community Survey (ACS) data. The ACS data also show that 88 percent of New York City resident non-food retail workers employed in non-managerial, non-professional occupations also work in New York City.

<sup>9</sup> FPI analysis of 2000-2006 Current Population Survey data for retail workers excluding those employed in grocery, food, and beverage stores. Unless otherwise stated, all cited statistics regarding demographic characteristics of New York City resident retail workers come from this analysis.

### New York City Retail Workers Support Their Families

Average share of family's earned income contributed by retail workers	60%
Percentage of retail workers who are family's sole provider	36%
Number of New York City children whose parents are retail workers	90,000

Source: FPI analysis of 2000-2006 Current Population Survey data.

Retail workers in the city are disproportionately people of color. Retail has a slightly higher share of black and Hispanic New Yorkers—and significantly more Asians—than the workforce as a whole. White New York City residents, on the other hand, make up a considerably smaller share of retail workers (31 percent) and an even smaller share of those in retail's non-managerial/non-professional occupations (27 percent) than their share of the overall workforce (38 percent).

Race/Ethnicity	Retail	Retail, Non-Managerial and Non-Professional Occupations	All Industries
White Non-Hispanic	31%	27%	38%
Black Non-Hispanic	26%	26%	24%
Hispanic	26%	28%	25%
Asians and Other	18%	18%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: FPI analysis of 2000-2006 Current Population Survey data. Figures may not sum due to rounding.

Although jobs in many low-wage industries nationally are disproportionately held by women, it is interesting to note that men and women are about equally likely to work in retail in New York City. Men make up 52 percent of retail workers and women 48 percent—closely comparable to their shares in the workforce overall.

Gender	Retail	Retail, Non-Managerial and Non-Professional Occupations	All Industries
Female	48%	47%	49%
Male	52%	53%	51%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: FPI analysis of 2000-2006 Current Population Survey data.

Immigrants play an important role in the retail sector, as they do in the New York City economy as a whole. Forty-nine percent of workers in retail were born in another country, comparable to the 48 percent share of workers in all of the city's industries.

It is striking that 25 percent of retail workers aged 24 and older have at least a college degree, and a total of 46 percent have at least some college.

Nativity	Retail	Retail, Non-Managerial and Non-Professional Occupations	All Industries
Female	51%	50%	52%
Male	49%	50%	48%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: FPI analysis of 2000-2006 Current Population Survey data.

Even within the context of New York City's comparatively large number of college graduates, it is striking that 25 percent of retail workers aged 24 and older have at least a college degree, and a total of 46 percent have at least some college. By comparison, for all industries nationwide, 33 percent of employed adults between the ages of 25 and 64 have at least a college degree, and 61 percent have at least some college.<sup>10</sup> Retail workers in New York City are more likely to have terminated their formal education after graduating from high school than are workers in the city overall. Yet the percentages who did not finish high school or who have some college or vocational school experience are comparable to those of city workers as a whole.

New York City has a highly educated workforce. Thirty-eight percent of workers aged 25 or older have at least a four-year college degree, while nationally the comparable percentage is a third. Within the city's retail sector, the share of workers with four-year college or advanced degrees is lower than the overall city average. However, even within the non-managerial and non-professional occupations in retail, about one in five workers has at least a four-year college degree. Another fifth within this occupational group have some college experience, which may include a vocational or academic associate's degree. Over two fifths of the remaining workers within these occupations have completed high school.

Highest Level of Educational Attainment	Retail	Retail, Non-Managerial and Non-Professional Occupations	All Industries
Less than High School	14.4%	16.1%	14.9%
High School Diploma	40.1%	44.4%	28.6%
Some Collee, Including Vocational School or Associate's Degree	20.1%	19.6%	19.0%
Four-Year College Degree of Higher	25.4%	19.9%	37.5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: FPI analysis of 2000-2006 Current Population Survey data.

<sup>10</sup> U. S. Census, Educational Attainment in the United States: 2006. <http://www.census.gov/population/www/socdemo/education/cps2006.html>.

# The Underside of Retail Employment

The city's retail workers face many obstacles in trying to support themselves and their families: low wages, low rates of unionization, many instances of labor violations, and health insurance that is costly, hard to get, or simply unavailable through an employer.

As noted in the introduction, New York City's retail sector is heavily comprised of low-wage work, and almost one in seven of the city's low-wage workers is employed in the sector. Comparing wages of the city's non-managerial/non-professional workers, retail workers' average wages are consistently lower than those of workers across all industries. The hourly wage of retail workers at the 25<sup>th</sup> percentile of the wage distribution was 91 percent of that of all comparable workers at the 25<sup>th</sup> percentile. At the median, retail workers' hourly wages were 87 percent of the all-industry average.

## How do wages in retail compare with those in other New York City industries?

Nativity	Retail 2000-2006	All Industries 2000-2006
25th Percentile Wage	\$8.09	\$8.87
Median Wage	\$10.78	\$12.45
75th Percentile Wage	\$16.74	\$18.16

Source: FPI analysis of 2000-2006 Current Population Survey data. All wages in 2006 constant dollars. Sample restricted to non-managerial and non-professional occupations.

While the median wage for non-managerial/non-professional retail workers is \$10.78, substantial numbers of workers earn much less. Over 40,000 New Yorkers employed in retail report hourly pay of \$8.00 or lower.

## Almost a quarter of New York City retail workers earn \$8 or less.

	Count	Share of NYC Retail Workers
Retail excluding managerial and professional occupations and earning \$13 an hour or less	170,533	62.2%
Retail excluding managerial and professional occupations and earning \$10 an hour or less	81,453	44.1%
Retail excluding managerial and professional occupations and earnings \$8 an hour or less	42,638	23.1%

Source: FPI analysis of 2000-2006 Current Population Survey data.



Looking at employment by type of store, the largest group of the city's retail workers is found in department and discount stores, followed closely by those working in clothing stores. Together, these groups represent a third of New York City's non-managerial and non-professional retail workers. Both groups have median wages that are less than 90 percent of the overall retail median for comparable occupations.

**The two types of stores with the largest share of retail employment both have median wages below \$10.**

	Median Wage	Count	Share of NYC Retail Workers
Department and discount stores	\$9.43	31,787	17.2%
Clothing stores	\$9.70	30,119	16.3%

Source: FPI analysis of 2000-2006 Current Population Survey data. All wages in 2006 constant dollars. Sample restricted to non-managerial and non-professional occupations.

On average, wages in retail are low—but they do vary by geography, type of store, and occupation. The average annual wage in Manhattan is almost \$45,000, but in the outer boroughs the average ranges between \$23,000 and \$28,000.<sup>11</sup> There is also variation in average wages between types of retailers. Across all boroughs, the average annual wage for workers in automotive stores and non-store retailers (e.g., internet retailers and mail-order houses) is at least \$10,000 more than the average retail wage in the borough. Outside Manhattan, certain types of stores—clothing and clothing accessories, sporting goods/hobby/book/music stores, general merchandise, and miscellaneous retailers—consistently have average annual wages below the borough retail average. With the exception of Staten Island, average annual wages for workers in health and personal care stores are above the corresponding borough retail average. The high wages of pharmacists, though, push up the average, while a pharmacy aide may earn only \$24,000 and a cashier in the same store as little as \$16,500.



<sup>11</sup> FPI analysis of Quarterly Census of Employment and Wages.

Two thirds of New York City's retail workers who earn \$10 an hour or less are employed as salespersons, cashiers, stock clerks, and order fillers.

**More than two thirds of retail workers earning \$10 an hour or less are concentrated in three occupations.**

Occupation	Count	Share
Cashiers	13,440	16.5%
Retail salespersons	38,901	47.8%
Stock clerks and order fillers	5,009	6.1%
Other	24,103	29.6%
Total retail workers earning \$10/hour or less	81,453	100%

Source: FPI analysis of 2000-2006 Current Population Survey data.

The generally low wages of the city's retail workers can be attributed in part to the low rate of unionization within the sector. It is well established in the economics literature that unionization leads to higher wages, along with other benefits. Union representation brings a nearly 12 percent wage premium to the average worker in the U.S. after adjusting for relevant worker characteristics such as gender, race, age or experience, and education.<sup>12</sup> Recent research by the Center for Economic and Policy Research also demonstrates that unionization brings even greater benefits for low-wage workers. In New York State, the average unionized worker has a wage that is 11.9 percent higher than a nonunion worker with the same worker characteristics. The union premium rises to 15.6 percent, however, for workers at the 20<sup>th</sup> percentile in the wage distribution and to 16.3 percent for those at the 10<sup>th</sup> percentile.<sup>13</sup>

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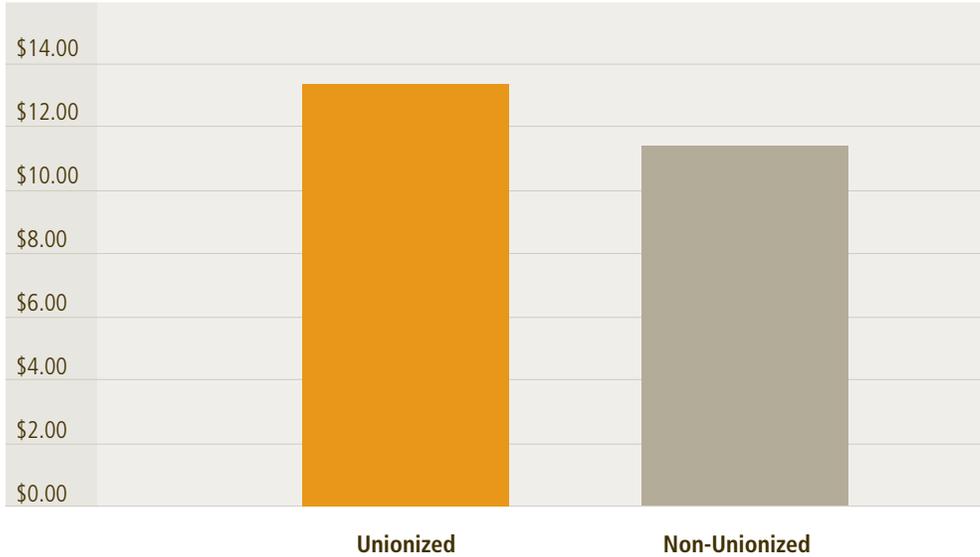
<sup>12</sup> Schmitt, John. *The Union Wage Advantage for Low-Wage Workers*. Center for Economic and Policy Research, May 2008.

<sup>13</sup> Ibid.

A quarter of New York City workers overall are represented by unions, but only 10.7 percent of the city's retail workers are unionized.

A quarter of New York City workers overall are represented by unions, but only 10.7 percent of the city's retail workers are unionized.<sup>14</sup> Where retail workers are unionized, however, their wages are higher. Unionized New York City retail workers have a median hourly wage of \$13.33, a full two dollars more than the non-unionized retail median of \$11.32.<sup>15</sup>

### Median Hourly Wage



Source: Fiscal Policy Institute analysis of 2000-2006 Current Population Survey data.

<sup>14</sup> As with the demographic analysis in the previous section, the unionization rate presented here pertains to the retail industry excluding grocery, food, and beverage stores.

<sup>15</sup> FPI analysis of 2000-2006 Current Population Survey data.

## Health Insurance

Low wages are not the only measure by which retail workers tend to fare poorly. Employer-paid health insurance is an increasingly important component of compensation, and one where retail seems to be lagging. Specific data on employer-paid health insurance for New York City resident retail workers are not readily available, but the evidence points to a strong likelihood that a majority of the city's retail employees do not have employer-sponsored health insurance coverage.<sup>16</sup>

There are several reasons why a worker may not have employer-sponsored health insurance. The employer may not offer health coverage to any employees, or coverage may only be available to employees working a certain number of hours, or to those who have been on the job a required length of time. Even if an employee is eligible, he or she may not choose to enroll in the employer's plan for a variety of reasons. In New York State, the percent of eligible private sector employees enrolled in health insurance through their employers at establishments that offer health insurance declined nearly 5 percent between 1998 and 2003.<sup>17</sup> National data show that an increasing percentage of workers who decline employer-sponsored coverage say they do so because the plan is too costly.<sup>18</sup>

Research also suggests that even those retail workers who do qualify for and enroll in employer-paid health insurance coverage may pay a higher share of the insurance premiums than do other workers and that this problem is not confined to workers employed by small businesses. Analysts examining health care coverage provided by 36 Fortune 500 retailers found that “[n]ot only are many workers in the retail sector less likely to receive coverage, but, on average, they must pay more for it.... [Retail workers] were on average required to pay an extra 11 percent



<sup>16</sup> A forthcoming National Employment Law Project report estimates that 55 percent of New York State year-round retail workers do not receive health insurance through their employer. This figure is likely to be higher within New York City, as a 2008 United Hospital Fund (UHF) report states that New York City residents are more likely than those in the rest of the state to be without employer-sponsored insurance, to have public coverage, or to be uninsured. Annette Bernhardt, "When Work Doesn't Pay: The Public Cost of Low-Wage Jobs in New York State," National Employment Law Project, 2008 (forthcoming). Allison Cook, Danielle Holahan, and Aimee Williams. *Health Insurance Coverage in New York, 2005-2006*, United Hospital Fund, May 2008.

<sup>17</sup> State Health Access Data Assistance Center and Urban Institute. *Shifting Ground: Changes in Employer-Sponsored Health Insurance*. Robert Wood Johnson Foundation, May 2006.

<sup>18</sup> In 2005, nationwide, nearly two-thirds of eligible workers declined employer-sponsored health insurance because of the availability of other coverage through a family member. Yet the second-most common explanation cited was the excessive cost of the plan offered. The share of workers citing this reason increased from 16.9 percent to 22.7 percent between 2001 and 2005. Paul Fronstin, *Employment-Based Health Benefits: Access and Coverage, 1988-2005*. Employer Benefit Research Institute Issue Brief No. 303, May 2007.

of their health care premium [as compared with workers in other sectors in Fortune 500 firms]. This extra cost is an effective deduction from their wages; they are earning less than it appears from a consideration of wages alone.”<sup>19</sup>

Workers’ share of health insurance premiums is especially pertinent in New York State. Between 2000 and 2005, health insurance costs for employees soared, as health insurance costs increased dramatically, and employers shifted a greater part of the burden onto employees. Average private sector employee contributions for family health insurance premiums rose 76.2 percent in real terms between 2000 and 2005 in New York, whereas the cost of premiums increased by 59.1 percent.<sup>20</sup> (Nationally, the disparity was much smaller, with employee contributions increasing 60.2 percent, and the cost of premiums rising 58.4 percent.)<sup>21</sup>

## ■ Paid Leave

Paid sick leave and vacation time allow workers to care for themselves, their families, and to balance their job with the other demands of their lives. In particular, paid sick leave benefits employers and their firm’s employees, since a sick worker is less productive and may infect customers and co-workers. Again, data specific to New York City retail workers are not available, but Community Service Society (CSS) research indicates that many of the city’s full-time low-wage workers do not receive paid sick leave or paid vacation time.<sup>22</sup> Given the large share of city retail workers who earn low wages, one can infer that the CSS findings apply to many retail workers. Recognizing the importance of at least a minimal amount of paid sick leave, legislators in San Francisco and Washington, D.C. have recently enacted paid sick days mandates.<sup>23</sup> Similar policies are under consideration in Milwaukee and 13 states.

### Percentage of New York City Full-Time Workers Without Benefits, 2006

	Workers at or Below 100% of Federal Poverty Line	Workers Between 101% and 200% of Federal Poverty Line	Workers Above 200% of Federal Poverty Line
<b>Paid Sick Days</b>	56%	36%	26%
<b>Paid Vacation</b>	52%	35%	22%

Source: Community Service Society.

<sup>19</sup> Maxwell, James, Peter Temin, and Saminaz Zaman. *The Benefits Divide: Health Care Purchasing in Retail Versus Other Sectors*. Health Affairs 21, pp. 224-33, September/October 2002).

<sup>20</sup> FPI analysis of Medical Expenditure Panel Surveys (MEPS); Henry J. Kaiser Family Foundation State Health Facts. <http://www.state-healthfacts.org/>.

<sup>21</sup> Ibid.

<sup>22</sup> Community Service Society. *The Unheard Third 2006*. June 2007.

<sup>23</sup> Lifsher, Marc. “Ill feelings on paid sick leave bill.” *Los Angeles Times*, July 5, 2008.

## ■ Public assistance

The burden of low-wage jobs is borne not just by workers but also by taxpayers, who wind up inadvertently subsidizing low-road employers. In a forthcoming report, the National Employment Law Project estimated that families of New York workers in retail (including food stores) received the largest share of public benefits (including Medicaid, food stamps, EITC) relative to all major sectors in the economy, with a value of \$851 million. As a percentage of the total cost of public support, retail tied with health services for the largest share at 16 percent. The heavy use of public assistance by families of workers in low-wage sectors points to the inadequacy of their earnings and benefits. Recognition of the public cost of subsidizing low-wage employers in this fashion has led some states to try to force employers, for instance, to provide health insurance to their firms' workers.<sup>24</sup>

<sup>24</sup> Abelson, Reed. "States and Employers Duel over Health Care." *New York Times*, May 5, 2005.

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Problems for retail workers are multiplied when employers violate labor laws.

## ■ Labor Violations

Problems for retail workers are multiplied when employers violate labor laws. A 2007 report by the Brennan Center for Justice found that failure to pay the minimum wage and overtime pay were the most common violations in the non-union portion of New York’s retail sector, but by no means the only ones.<sup>25</sup> Women and undocumented immigrant workers “consistently [reported] being paid less than men, citizens, and documented immigrants.” Employee misclassification—giving a worker an inappropriate job title or status in order to avoid payroll taxes, social insurance premiums, or overtime pay—is also a problem. It may take the form of a delivery person being deemed an independent contractor or a shop worker with nominal supervisory duties being classified as a manager. Illegal labor practices were most prevalent in low-end discount stores and ethnic retail shops in immigrant areas, but they were also found in non-unionized drug store chains and national retail chains.<sup>26</sup>

Inspections in the Bushwick area of Brooklyn by the State Labor Department in December of 2007 drew attention to the prevalence of labor violations in small businesses, including retail establishments. And in at least two recent instances, the attorney general’s office conducted investigations of retail stores that resulted in allegations of labor law violations. In the case of Yellow Rat Bastard, a clothing store chain, employers paid \$1.4 million to settle claims for back wages owed, and in the case of Footco, the employer paid \$400,000. In both cases, the employer denied the allegations but paid the agreed amount. As is common in pursuing wage and hour violations, community groups and labor unions helped pursue the claims.<sup>27</sup>

25 Bernhardt, Annette, Siobhán McGrath, and James DeFilippis. *Unregulated Work in the Global City*. Brennan Center for Justice at New York University School of Law, 2007.

26 Ibid.

27 New York State Department of Labor. *Labor Department Announces New Proactive Approach to Enforcement*. December 19, 2007. [http://www.labor.state.ny.us/pressreleases/2007/Dec19\\_2007.htm](http://www.labor.state.ny.us/pressreleases/2007/Dec19_2007.htm). New York State Attorney General’s settlement agreements with Yellow Rat Bastard (December 2007) and Footco (April 2006).

# Government Policies

While many of the city's retailers receive indirect subsidies in the form of public assistance to low-wage retail workers, some also enjoy more direct government subsidies, through a range of public policies such as economic development programs and land use actions. Government thus plays a role in shaping the city's retail landscape. However, local authorities have not effectively used the leverage afforded by government involvement and support to improve retail jobs.

A large source of public subsidies for city retail businesses is the Industrial and Commercial Incentive Program (ICIP), the city's largest economic development subsidy program. The ICIP provides "(e)xemption from real estate taxes on increases in assessed value and abatement on pre-existing real estate taxes for eligible industrial buildings that are built, modernized, rehabilitated, expanded or otherwise physically improved."<sup>28</sup> A 2007 analysis by New York City's Economic Development Corporation, Finance Department, and the Mayor's Office of Management and Budget stated that city retailers received about 31 percent of the ICIP's benefits—approximately \$115 million in 2006.<sup>29</sup> The report also concluded that new retail establishments simply displace existing ones, "rather than creating new economic activity."<sup>30</sup> A 2008 analysis by the Manhattan Borough President's Office analysis found that the bulk of subsidies to the city's retailers have gone to chains rather than to independent stores.<sup>31</sup> In fiscal year 2008, chain stores received more than \$7.3 million through the program, while just over \$1 million went to independent retailers. One third of the sum received by chain stores during this period—\$2,444,337—went to one establishment alone, the 110,000-square-foot Toys 'R' Us store in Times Square.<sup>32</sup> Revamping the city's approach to subsidy of retail is clearly in order. In doing so, the city should make sure that government action results in real economic and community benefit, and that if it invests in retail it makes sure the outcome is good, family-supporting jobs.

**Local authorities have not effectively used the leverage afforded by government involvement and support to improve retail jobs.**

28 New York City Economic Development Corporation. Industrial and Commercial Incentive Program. [www.nycedc.com/NR/rdonlyres/A689ED45-7247-4862-AD29-F2A10CBEEA81/0/SummaryICIP\\_Industrial.pdf](http://www.nycedc.com/NR/rdonlyres/A689ED45-7247-4862-AD29-F2A10CBEEA81/0/SummaryICIP_Industrial.pdf).

29 New York City Economic Development Corporation, New York City Department of Finance, and New York City Office of Management and Budget. Industrial and Commercial Incentive Program (ICIP): Analysis and Recommendations. April 24, 2007.

30 Ibid.

31 Manhattan Borough President Scott M. Stringer. Senseless Subsidies: A Report on Tax Benefits under the Industrial and Commercial Incentive Program. May 2008.

32 Legislation establishing the ICIP expired on June 30, 2008. State legislators replaced ICIP with a revised program, the Industrial and Commercial Abatement Program (ICAP). Concerns about the cost and effectiveness of past ICIP subsidies to retailers led legislators to enact some reforms, including imposing new restrictions on subsidies allowable to Midtown Manhattan retail developments under ICAP.

Through its land use authority, city government has tremendous influence over the physical development of New York City. In the first seven years of the Bloomberg administration, nearly one fifth of the area of the city has been re-zoned. City government also plays a central role in large-scale development projects, many of which include a substantial amount of retail development. For example, the city envisions that the Hudson Yards district and the Willets Point redevelopment each will have one million square feet of retail. In a recent agreement with several major labor unions, the city agreed to require the payment of prevailing union wages for building service workers and security guards. The city also agreed to “view favorable development plans that maximize the number of jobs that meet the city’s living wage and health benefit standards (‘living wage jobs’)” and to favor developers who agree to lease retail space only to stores paying at least \$10 an hour.<sup>33</sup> The retail provision, while an important first step, could be strengthened to require payment of better wages and benefits, and this approach could be extended to other major developments and incorporated into the city’s overall economic development planning.

New York City retailers and commercial developers also receive considerable public benefits through subsidized loans, such as those disbursed by the Upper Manhattan Empowerment Zone (UMEZ). The Empowerment Zone, which was established under federal legislation in the early 1990s, awards grants to non-profit cultural organizations and below-market-rate loans to businesses within the zone. Between 1996 and 2006, the UMEZ loaned \$65 million to businesses, with more than \$46 million going to developers of large commercial properties—such as Harlem USA—that house retailers and about \$4 million directed to small local retail stores.<sup>34</sup>

City government also plays a role in 57 commercial retail districts throughout the city by administering the Business Improvement Districts (BIDs) program and granting such entities dedicated use of assessments collected through the local property tax. Most BIDs primarily benefit retail stores and allow special access to the city’s property tax base. Through BIDs, assessment fees are levied on property owners and fund maintenance, development, and promotional activities within a commercial district.<sup>35</sup> Property owners pass the cost of the assessment on to their commercial tenants. Annual assessment fees total \$80 million and should be considered a subsidy to the retail sector.

33 New York City’s living wage is defined by Local Law 38 of 2002 as \$10.00 per hour as of July 1, 2006. Living wage jobs require the employer either to provide health benefits or a supplement to the hourly wage equal to or greater than \$1.50 per hour.

34 Personal communication, UMEZ Chief Operating Officer Hope Knight, June 13, 2008, and UMEZ Annual Reports, 1996-2006. <http://www.umez.org/?itemCategory=26007&siteid=26&priorid=24964&pid=24964>.

35 All information on BIDs from personal communication, BIDs Technical Specialist Michael Melamed, June 13, 2008, and BIDs website. <http://www.nyc.gov/html/sbs/html/neighborhood/bid.shtml>.

## ■ Are higher wages good for business?

Raising retail workers' incomes can benefit workers without hurting employers. Previous FPI research examined the impact of minimum wage increases on small businesses.<sup>36</sup> It showed that both the number of workers and the number of small businesses grew faster between 1998 and 2003 in states with minimum wages exceeding the federal minimum wage than in states mandating only the federal level. Within New York State, FPI looked at job growth in retail and food services—the largest employers of minimum-wage workers—between December 2004 and December 2007, the period including the state's three most recent state minimum wage increases. Data showed that employment growth in these industries surpassed that of total state employment.

There are important benefits to employers that can help offset the increased gross cost of paying a higher wage. Better wages can attract and retain good employees, while improved worker morale may increase productivity. Lower employee turnover translates into cost savings for businesses, since the burden of recruitment, screening, and training costs are reduced. In the case of the minimum wage, mandating a higher wage floor helps level the playing field among employers, rewarding those who already pay better wages and forcing others to compete on the basis of product quality and innovation, not cut-rate labor costs.



Raising retail workers' incomes can benefit workers without hurting employers.

<sup>36</sup> Fiscal Policy Institute. *State Minimum Wages and Employment in Small Businesses*, April 2004. <http://www.fiscalpolicy.org/minimum-wageandsmallbusiness.pdf>. Fiscal Policy Institute. *States with Minimum Wages above the Federal Level Have Had Faster Small Business and Retail Job Growth*, March 2006. <http://www.fiscalpolicy.org/FPISmallBusinessMinWage.pdf>.



## ■ How Training Can Help Both Employers and Employees

A better-qualified workforce is more productive, resulting in better outcomes for both workers and employers. Retail has not traditionally been a field where worker training or clear career ladders are a high priority, but there are some existing programs that the city could build on.

Throughout the country, the National Retail Federation organizes and supports a loose network of 23 Retail Skills Centers that primarily recruit, train, and place individuals in entry-level jobs. The federation finds it easiest to sustain centers in partnership with large shopping mall developers, where having a pool of employees is valuable to retail employers. These programs generally provide some training and entry-level jobs to those seeking employment but do little to provide advancement in long-term retail careers. In New York City, programs such as those at LaGuardia College have extended this model in the New York City Sales and Service Training Partnership, providing ESL training and other ways to help people who might not otherwise qualify for retail jobs to get a foothold in the industry.

The Consortium for Worker Education, in partnership with the Retail, Wholesale, and Department Store Union, offers a program that takes this model a step further, offering retail skills training but also educating workers about employee rights.

# We Can Do Better: Three Case Studies of Lifting Job Quality

Policymakers and advocates concerned with the challenges facing low-wage workers in the New York City economy must quickly come to grips with the problems in the retail sector. Improving job quality in retail would go a long way toward establishing a higher wage floor for New York City residents overall.

Too often, the public has simply assumed that retail jobs will be undesirable jobs.—paying poorly, having no benefits, and entailing substandard working conditions. It doesn't have to be this way.

The government plays a role in setting—and enforcing—minimum standards for wages, overtime, health, and safety. Unions and community groups can press employers to provide higher wages and better working conditions. Employers may resist incurring higher costs, but they also stand to gain through higher worker productivity, lower turnover, greater community support, and more satisfied customers. Indeed, some employers voluntarily provide wages and benefits well above the industry standard, arguing that doing well by workers is just good business.

The following three case studies give a glimpse of how retail stores could continue to thrive in a climate in which retail jobs are better than they are today. The first, which looks at a campaign to improve working conditions among greengrocers, shows that even at the bottom of the labor market significant improvements are possible. The second draws on the widely known contrast between Costco's very reasonable wage and benefit package and Wal-Mart's policy of paying low wages and providing few benefits. The last example looks at Denmark, where the essential elements all fall into place together: a solid wage floor, good opportunities for training and career advancement, and an attractive shopping environment. In all three examples, retail businesses find ways to do well while doing the right thing.

## ■ 1. Raising the Floor for the Lowest-Paid Workers: Greengrocers in New York City

Can wages and working conditions be raised for the lowest-paid retail workers?

The challenges are significant. At the low end of the retail sector, overtime laws are frequently flouted, and even minimum wage laws are not always respected. Health benefits are rare, as are vacation time, sick days, and workers' compensation coverage.<sup>37</sup>

Yet, in the late 1990s, a floor was established for working conditions for some of New York City's lowest-paid workers—the employees in greengrocery stores—through a combination of union and community activism and labor law enforcement.

<sup>37</sup> Bernhardt, Annette, Siobhán McGrath, and James DeFilippis, *Unregulated Work in the Global City*. Brennan Center for Justice at New York University School of Law, 2007.

Too often, the public has simply assumed that retail jobs will be undesirable jobs.

Conditions in greengrocery stores had been egregious. According to a study by Immanuel Ness of Brooklyn College, as of the late 1990s, workers commonly were paid \$250 per week for a 72-hour week, or less than \$3.50 per hour, with no health care coverage. The employers were predominantly Korean. The workforce—mostly Mexican, including significant numbers of undocumented workers—was hired in part because of a presumption that they would work long hours at low pay without complaint.<sup>38</sup>

In 1998, a joint effort to unionize workers was initiated by the Mexican American Workers Association (known as AMAT, for Asociación Mexicano Americano de Trabajadores), the Lower East Side Community Labor Coalition, and UNITE Local 169. Later, the union role was transferred from UNITE to Local 1500 of the United Food and Commercial Workers union.

The campaign was a struggle, with a great deal of energy invested on all sides. Over time, the effort gained widespread community and worker support, despite extremely difficult organizing conditions. It attracted the attention of the state attorney general—resulting in a citywide investigation of labor law violations among greengrocers, which found not a single one of the dozens of employers investigated was in compliance with the law. Workers filed claims for unpaid back wages, and in 2001 the attorney general reached an agreement with owners of a series of stores to pay \$315,000 to 31 workers, a step that put sharp pressure on greengrocery owners to improve conditions.

Ultimately, the campaign succeeded more in enforcing legal standards than in unionizing workers, though a small number of workers were brought into union contracts. But wages and working conditions improved significantly at greengrocers across the city. Wages were brought at least up to the legal minimum—through the combined pressure of a small number of unionized stores, public attention brought to the situation of workers, and the threat of legal action by the attorney general's office. To avoid prosecution for back wages, employers agreed to a Code of Conduct that not only required them to abide by laws governing minimum wage, overtime, meal breaks, and payroll records, but also required greengrocers to give paid vacation and sick leave to longstanding employees.

Unionization would have meant further improvement in working conditions—increasing the likelihood of workers getting better wages, having healthcare or pension benefits, having lower turnover and better opportunities for career advancement. But enforcing basic labor law standards was by no means trivial, and it became increasingly valuable to workers over time, as the New York State minimum was raised from \$5.15 per hour (the federal minimum at the time of the organizing) to \$6.00 in 2005, \$6.75 in 2006, and to the current level of \$7.15 in 2007.

<sup>38</sup> Ness, Immanuel. "Mexican Immigrants in New York's Greengrocery Industry," in *Immigrants, Unions, and the New U.S. Labor Market*. Temple University Press, 2005.



Though the focus of this report is on non-food retail, the example of the greengrocers' campaign is instructive. It shows that a solid floor for wages and working conditions can be constructed even in market segments where each store has only a modest number of employees and where significant numbers of workers are immigrants, including undocumented immigrants. And it shows that stores can adapt to a new business model.

What is unclear, as of 2008, is whether the standards required by the Code of Conduct will continue to be effective over time. The Code of Conduct was a temporary agreement, enforced for several years by the Attorney General's office in the hope that a more permanent union/community/employer relationship would replace the need for ongoing monitoring. A recent set of inquiries by union organizers found that of 15 greengrocers where workers were interviewed, violations were alleged in 14, including several that signed the Code of Conduct.<sup>39</sup>

"I have no doubt that our enforcement efforts and the Code of Conduct has changed behavior in the greengrocer industry and continues to have an impact on working conditions" said former New York State Assistant Attorney General Jennifer Brand. "However, without ongoing monitoring, we do not have a method of measuring the change."

## ■ 2. Can retailers afford to pay higher wages? Costco versus Wal-Mart

Even among retailers that pride themselves on offering the lowest prices, there are very different business models with respect to wages for employees.

Wal-Mart is well known for taking the low road, paying poverty wages, contributing little to health care coverage, and accepting a high rate of turnover as part of the cost of doing business. Clearly, this is one way to keep prices low.

But it's not the only way. And it is certainly not the way for workers to earn a decent living and for communities to thrive. Costco has kept prices just as low—Costco executives say even lower—while paying wages that are considerably higher and providing health insurance to more workers. In 2004, Costco paid an average wage of \$15.97. That year, Sam's Club, the unit of Wal-Mart that is most directly comparable to Costco, paid an average wage of \$11.52, slightly higher than Wal-Mart overall, but substantially lower than Costco.<sup>40</sup>

Even among retailers that pride themselves on offering the lowest prices, there are very different business models with respect to wages for employees.

39 Interviews conducted in 2008 by Manuel Gurrero and Laura Tapia, organizers for the Retail, Wholesale, and Department Store Union.

40 Holmes, Stanley, and Wendy Zellner. "The Costco Way." *Business Week*, April 12, 2004.

**Costco CEO Jim Sinegal says that paying employees fairly is just smart management practice. “This is not altruistic,” he said, “this is good business.”**

Health care is a major factor in today’s compensation picture, and again, Costco outperforms Wal-Mart. Eighty-two percent of Costco employees have employer-provided health insurance, compared with 48 percent of Wal-Mart employees.<sup>41</sup> Costco covers 92 percent of the cost of insurance, compared to 67 percent for Wal-Mart.<sup>42</sup> And, waiting periods are significantly shorter at Costco before employees are eligible for coverage.

An estimated one fifth of Costco workers are unionized, including—in the New York metro area—six out of eight warehouses in Long Island and five out of ten in New Jersey.<sup>43</sup>

### Costco & Wal-Mart: Wages, Benefits and Turnover Rate

	Costco	Sam’s Club
Average full-time hourly wages 2004*	\$15.97	\$11.52
Share unionized (Teamsters)**	about 1/5	none
Employees who leave after 1 year*	6%	21%

	Costco	Wal-Mart
Employees with health insurance 2004†	82%	48%

*Sam’s Club is the division of Wal-Mart that is most directly comparable to Costco.*

\* Stanley Holmes and Wendy Zellner, *Business Week*, April 12, 2004.

\*\* Sharryn Kasmir, *Regional Labor Review*, Spring/Summer 2008.

† Ann Zimmerman, *Wall Street Journal*, March 26, 2004.

How can Costco keep prices low while paying workers 40 percent more?

Part of the story is that in return for higher wages and better benefits, Costco gains employee loyalty and lower turnover. The company saves money in training, which costs Wal-Mart an average of \$2,500 per employee.<sup>44</sup> And, productivity for Costco workers is significantly higher. At Costco, annual operating profit per employee is \$13,647, compared to \$11,039 at Sam’s Club, a difference of 24 percent.<sup>45</sup>

Low wages are not just a concern for employees who get them. They should also be a concern for taxpayers. In the end, the government winds up subsidizing low-road stores like Wal-Mart, paying income supports and health insurance for workers with earnings below the thresholds for means-tested government programs.

41 Zimmerman, Ann. “Costco’s Dilemma: Be Kind to Its Workers, or Wall Street?” *Wall Street Journal*, March 26, 2004.

42 Ibid.

43 Kasmir, Sharryn. “Rival Pay and Benefit Strategies in Mass Market Retail: The ‘Costco Model’ vs. the ‘Wal-Mart Way.’” *Regional Labor Review*, Spring/Summer 2008.

44 Holmes, Stanley, and Wendy Zellner. “Higher Wages Mean Higher Profits. But Try Telling Wall Street.” *Business Week*, April 12, 2004.

45 Ibid.

Costco CEO Jim Sinegal says that paying employees fairly is just smart management practice. “This is not altruistic,” he said, “this is good business.”<sup>46</sup> Sinegal not only resisted pressure from Wall Street to reduce the salaries of Costco employees, but he was also one of the business leaders to lobby in favor of an increase in the minimum wage.<sup>47</sup> That may mean breaking ranks with other companies, but it’s to Costco’s advantage if other stores have to pay fairer wages.

While paying decent wages is clearly part of Costco’s business model, unions have helped make sure that standards are applied evenly and fairly. There is, in fact, some evidence that when the Teamsters try to organize a warehouse, Costco responds by improving conditions. While not ideal for the union, it is clear that union activism helps keep standards at Costco consistent.<sup>48</sup>

Wal-Mart is hardly alone in paying low wages. In New York, the Brennan Center reports that the lowest-paid workers in retail tend to be in smaller discount stores—convenience stores, 99-cent stores, or jewelry, beauty supply, clothing, electronics, or flower shops. And, even among chains there are many low-road employers. Circuit City, for instance, recently fired 3,400 of its most experienced employees and replaced them with new hires simply because longstanding employees earn higher wages. Those who were fired were encouraged to reapply for jobs at lower pay.<sup>49</sup>

Retail in New York City generally pays low wages today. But there’s no reason to assume this has to be the case, nor even that higher wages necessarily mean higher prices. At Zabar’s, for instance, a unionized workforce—represented by Local 338 of the Retail, Wholesale, and Department Store Union—is the foundation of a successful business model. A recent report in *Crain’s* showed why, as owner Saul Zabar put it, “to be socially conscious is to our benefit.” Of 250 employees, 38 percent have worked there for more than a decade, adding both experience and quality of relationships to the sales environment.<sup>50</sup> And, nationally, Costco is a big employer that competes successfully on the basis of low prices while finding ways to keep wages and benefits well above the norm.



**At Zabar’s, for instance, a unionized workforce—represented by Local 338 of the Retail, Wholesale, and Department Store Union—is the foundation of a successful business model.**

46 Greenhouse, Steven. “How Costco Became the Anti-Wal-Mart.” *New York Times*, July 17, 2005.

47 Montgomery, Lori. “Maverick Costco CEO Joins Push to Raise Minimum Wage.” *Washington Post*, January 30, 2007.

48 Kasmir, Sharryn. “Rival Pay and Benefit Strategies in Mass Market Retail: The ‘Costco Model’ vs. the ‘Wal-Mart Way.’” *Regional Labor Review*, Spring/Summer 2008, pp.13-17. The estimate of unionization density at Costco and warehouses represented by the Teamsters is also from this article.

49 Clothier, Mark. “Circuit City to Fire 3,400, Hire Less Costly Workers.” *Bloomberg News* (March 28, 2007).

50 Hess, Diane C. “Grocer Finds Experienced Staff Pays.” *Crain’s New York Business*, July 29, 2008.

### ■ 3. Getting the Whole Picture Right: Retail in a Good Work Environment

In today's global economy, is it possible for retail to consistently pay living wages and have good working conditions?

A few retailers in the U.S. point in this direction. But in Denmark, retail stores get the overall environment right. Danish retail jobs provide fair compensation, opportunities for upward mobility, and satisfying work. And these high standards are the norm across the industry and across the country.

In Denmark, the general minimum hourly pay for unskilled retail workers in 2006 was \$15.89, and for workers with training it was \$17.46. Separate rates apply for workers who are under 18 (\$8.30 for unskilled jobs and \$10.04 for skilled), and for apprentices who are learning on the job (from \$9.17 in the first year of apprenticeship to \$11.44 in the fourth year.) These wages are negotiated between unions and employers, with non-union stores generally paying the union rate in order to remain competitive.<sup>51</sup>

What we think of in the U.S. as employer-provided “benefits” are treated very differently in Denmark. All Danes have health care coverage through the government. On top of the Danish equivalent of Social Security, virtually all Danish workers—including retail workers—have a pension system that is funded one third by employees and two thirds by employers. And, all Danish employees—including retail workers—have six weeks of paid vacation and paid maternity/paternity leave.

What's different in Denmark is not that retail is a high-status occupation. The difference is that the labor market floor in Denmark is quite high. Denmark does not have a government-required minimum wage, but an agreement between the country's labor unions and employers means that no member of the employers' federation—representing all major employers—pays below \$15.12 per hour. Union density in Denmark is about 80 percent overall.<sup>52</sup>

51 Esbjerg, Lars, Klaus G. Grunert, Nuka Buck, and Anne-Mette Sonne Andersen, “Working in Danish Retailing: Transitional Workers Going Elsewhere, Core Employees Going Nowhere, and Career-Seekers Striving to Go Somewhere,” in Niels Wettersgaard-Nielsen, *Low-Wage Work in Denmark*, Russell Sage Foundation, 2008. The dollar equivalent of wages are calculated using the 2006 average exchange rate of 1.26 dollars to the Euro, according to the Federal Reserve Statistical Release G.5A.

52 While *Low-Wage Work in Denmark* reports anecdotal evidence that substandard wages are most likely to occur among retail, hotel, and restaurant workers, the detailed case studies in the book did not turn up any firm evidence of employers paying lower than standard wages. (*Low-Wage Work in Denmark*, p. 38.) Union density: *Low-Wage Work in Denmark*, p. 14. Among retail workers, the study shows, “union membership is high, but employees see it mainly as an insurance policy in case they encounter problems. Not all retailers have formal collective bargaining agreements, but they follow them anyway to avoid problems.” (*Low-Wage Work in Denmark*, p. 172.)

“Some prominent American retail chains are strongly anti-union and work actively to prevent employees from joining unions. Such a stance would be unacceptable in a Danish context—even unthinkable given the Danish labor market model and the tradition of cooperation between employees and workers.”

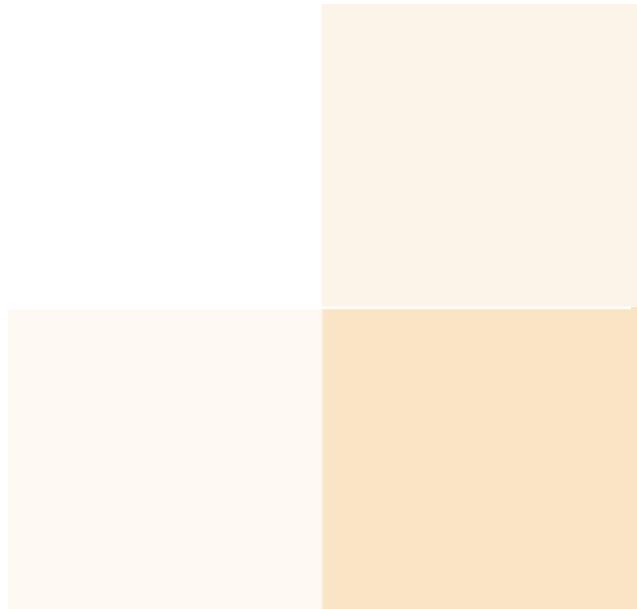


As with virtually all occupations in Denmark, there is an educational program set up for entry into retail work, with the “social partners”—labor unions and employers’ associations—playing collaborative roles in setting the requirements and the government covering the cost of the training. Continuing education opportunities are available for workers to gain expertise in particular areas or to branch off toward different career paths.

As a result of good training, generally satisfied employees, and zoning and planning that favor smaller, local shops and pedestrian shopping streets, the consumer’s experience of shopping in Denmark is very appealing.

The context in New York City, and in the U.S. in general, is a long way from Denmark. In today’s global economy, however, it is worth noting that stores in New York may be owned by companies based in other parts of the world. These stores—like the recently unionized New York branch of H&M—may present less resistance to unions if they work with a unionized labor force in their home countries. And, the experience of Danish retail shows starkly that retailers can survive and thrive while treating employees well.

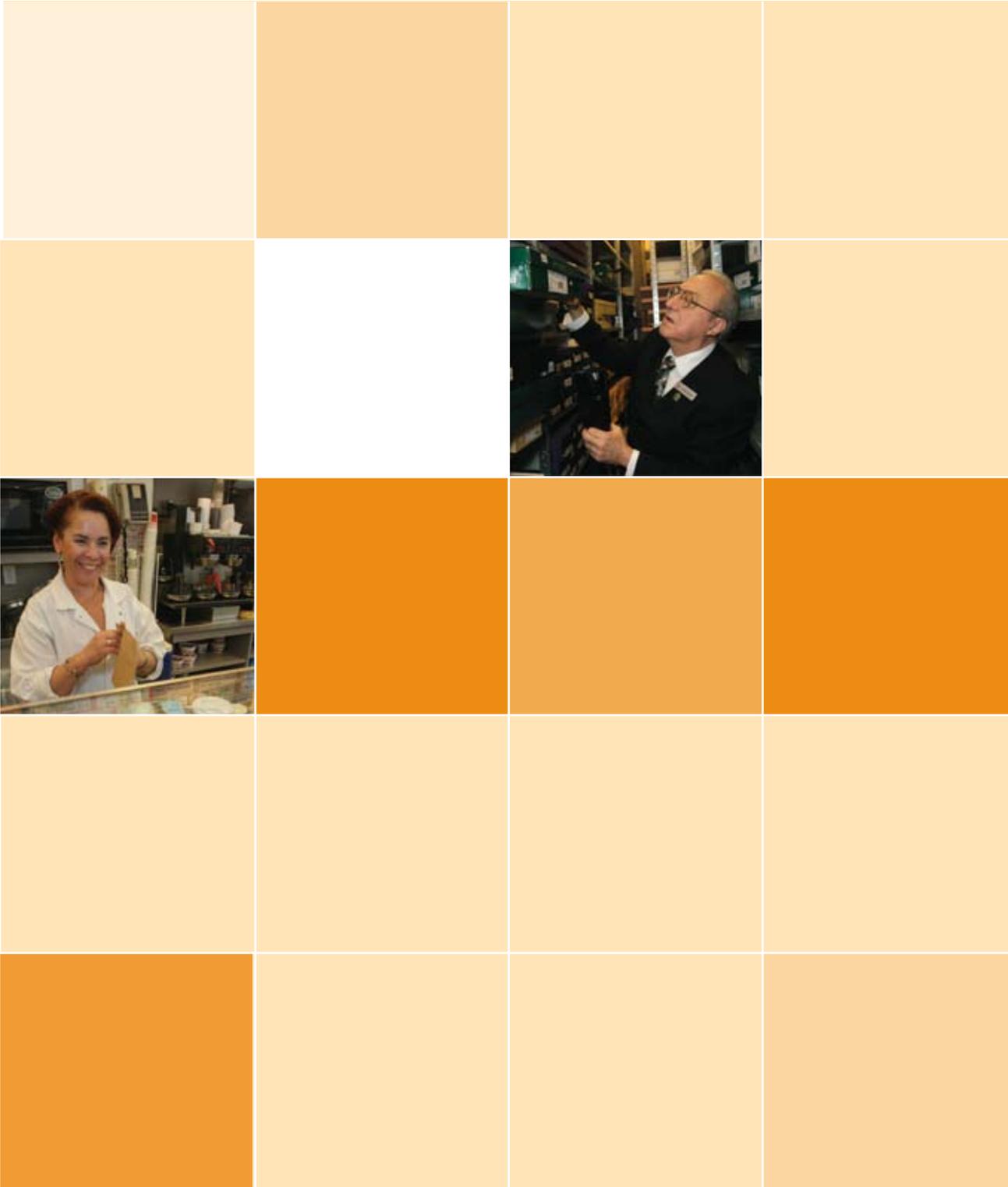
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The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on tax, budget, and economic issues that affect the quality of life and the economic well-being of New York State residents.

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