

# **THE ESTIMATED ECONOMIC IMPACT OF A CHICAGO BIG BOX LIVING WAGE ORDINANCE**

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## Executive Summary

This study analyses the local economic impact of an ordinance that would require all retail stores in the City of Chicago with 75,000 or more square feet of sales space to pay a minimal wage of \$10.00/hr and at least \$3.00/hr of health benefits.

We draw the following conclusions from our analysis.

Because of their increased marketing efficiency very large “big box” retail employers tend to generate a very high volume of sales per employee compared to their smaller competitors. This has two important consequences.

*First, such “big box” stores will eliminate more jobs than they create.* In an inner-city context, the lost jobs will generally also be in the city. Big box stores will therefore generally reduce, rather than increase, employment opportunity.<sup>1</sup>

*Second, though wages in the retail sector are among the lowest of all major industrial sectors, there is no objective economic reason why this should be the case for big box retail employers.*<sup>2</sup> In this study we show that if Chicago big box retail employers were required to provide a 15.3% wage increase and comprehensive health benefits coverage, and they passed the entire cost of this on to consumers, their prices would go up by about 2.1%. Moreover, this is a likely *overestimate* of this price increase as it is based on a (probably underestimated) sales/employee ratio that includes smaller stores with only 100 or more employees, as apposed to our assumed “big box” cutoff of 250 or more employees.

In high unemployment and low-wage communities, jobs, wages, and benefits, are the key economic development priority. As the *only* possible benefit of big box development lies in improved job *quality*, it makes sense to make such development contingent on sharing more of the efficiency benefits with workers. These workers will then spend their increased earnings thereby further stimulating the local economy.

*Third, the ordinance will directly benefit “big-box” workers and their families, and indirectly increase local employment, income, and tax revenue growth. The ordinance will also reduce the substantial costs that low-wage employers impose on the public sector.* Though \$10/hr is still not adequate to provide a full “self sufficiency living wage” of \$12.45/hr in 2003 dollars, it will provide immediate substantial direct benefits to workers.<sup>3</sup> Increased spending by these workers will

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<sup>1</sup> See “The Economic Impact of Wal-Mart – An Assessment of the Wal-Mart Store Proposed for Chicago’s West Side” at: <http://www.uic.edu/cuppa/uicued/npublications/recent/nwal-martreport.pdf>.

<sup>2</sup> See p. 13, “Raising and Maintaining the Value of the State Minimum Wage: An Economic Impact Study of Illinois” at: <http://www.uic.edu/cuppa/uicued/Publications/RECENT/MinimumWageStudy.pdf>.

<sup>3</sup> See “A Self Sufficiency Living Wage for Chicago” at: <http://www.uic.edu/cuppa/uicued/npublications/recent/lwchicagohirdrpt.pdf>.

generate 141 new jobs and \$6.1 million in additional income for City of Chicago residents and this increased income will significantly reduce state and local costs for public assistance.<sup>4</sup>

The impact estimates that form the basis for our conclusions are as follows.

Based on the assumption that such stores employ 250 or more workers, we estimate that in 2003 such a mandate would have affected about 35 “big box” stores, of which 22 (61.2%) would have been “General merchandise stores”. We estimate that these 35 stores employed about 16,250, or about one-fifth, of total 2003 retail employment of 84,940 in the City of Chicago, and that these stores had a total payroll (before-tax wages and benefits) of about \$367.6 million.

Based on 2004 occupational wage data for Cook County, such an ordinance would result in \$37.0 million in additional wages and \$31.4 million in added benefits for Chicago big box employees. This translates into an average per big box employee wage increase of about \$1.41/hr and benefits increase of about \$1.20/hr. Based on the national average of 31 hours of work per week for retail workers and assuming year-around employment, an average “big box” retail worker would see an annual increase in wages of \$2,277 and benefits of \$1,932. This would be a 15.3% wage increase for the average Chicago big box retail worker.

This \$37.0 million “injection” of additional spending (from wage increases) into the Chicago economy will generate 167 new jobs, \$9.8 million in additional income, and about \$1.1 million in new state and local property taxes, for the City of Chicago.

Based on sales to employee ratios derived from the (most recent) 1997 retail census of manufactures for retail establishments with more than 100 employees (the largest category of establishments in the Census), the 16,250 Chicago big box retail employees generate about \$3.2 billion in sales. If these large retailers passed on *all* of the cost of the ordinance to customers, prices would go up by about 2.1% (and possibly a few tenths of a percent higher if higher prices resulted in a slightly reduced sales volume.)

In addition, using an IMPLAN input-output model, we estimate that the ordinance would produce 141 additional jobs and \$6.2 million in additional income for residents of the City of Chicago. Moreover, rough estimates of the public costs of low-wage retail employment based on a comprehensive study of such costs in California, suggests that the ordinance could reduce public expenditures for Chicago big box retail workers by \$41.7 million, a significant share of which would accrue to local tax payers. The City’s share of these public cost *savings*

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<sup>4</sup> See “A Self Sufficiency Living Wage for Chicago” at:  
<http://www.uic.edu/cuppa/uicued/npublications/recent/lwchicagohirdrpt.pdf>.

must be added to its' share of an estimated \$1.1 million *increase* in state and local tax revenue that will be generated by the ordinance.

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## 1. Introduction

In this study we estimate the economic impact of a requirement that retail establishments in the City of Chicago of 75,000 square feet and over pay a “living wage” of \$10.00/hr and health benefits of at least \$3.00 per hour per employee, both to be indexed to annual inflation increases. Our analysis thus combines some of the features of two recent ordinances that have been submitted to the Chicago City Council.

The proposed: “Ordinance to Require Responsible Business Practices by Large Retail Establishments by Insuring Living Wages, Health Benefits, and Free Speech,” introduced by Aldermen Rey Colon, Freddrenna Lyle, Joe Moore, and others, to the Chicago City Council in August, 2004 mandates that this wage floors and benefit level be applied to all *new* (that begin operations after the ordinance comes into effect) *very large* (75,000 sq. ft. and over) retail “Big Box” stores. Another recently proposed more stringent “retail living wage” ordinance submitted by Aldermen Burke, Beavers, and Solis mandates that similar benefits, tied to the current Chicago Living Wage Ordinance, be required of *all* retail stores regardless of size and including current stores. Both Ordinances include other provisions.

In the following we shall refer to our compromise version of the benefits and coverage of these two proposed ordinances as “the ordinance”.

Our estimate of the economic impact of these mandated benefits will address their potential employment, wage, price, public costs, and overall economic impact.

## 2. Establishment Impact

2001 data from the Newspaper Association of America ([www.naa.org/artpage.cfm?AID=1705&SID=33](http://www.naa.org/artpage.cfm?AID=1705&SID=33)) indicates that, based on the median sizes of major store types, the most common affected stores will be “General Merchandise stores” in the two largest development categories of “Super Regional Shopping Centers” (median size of 82,025 square feet) and “Regional Shopping Centers (median size of 59,252).<sup>5</sup>

According to (the most recent) 2001 County Business Pattern (CBP) data on “Number of Establishments by Employment-size class” (<http://censtats.census.gov/cgi-bin/cbpnaic/cbpdetl.pl>) for Cook County, a majority of retail establishments are “General Merchandise Stores” (NAICS 44452) only for establishments with 250 employees or more.<sup>6</sup>

Assuming that “General Merchandise” stores are “arch-typical” large retail stores we therefore equate the 75,000 sq. ft. cutoff for the ordinance with the 250 employee size category in the CBP Data.

Table 1 shows the 2001 industry distribution of Cook County retail establishments with 250 or more employees:

Industry Code	Industry Code Description	'250-499'	'500-999'	'1000 or more'	Total	Percent of Retail Stores
	<b>Total Retail Stores</b>	58	7	2	67	100.0%
441	Motor vehicle & parts dealers	5	0	0	5	7.5%
442	Furniture & home furnishing stores	1	0	0	1	1.5%
443	Electronics & appliance stores	1	1	0	2	3.0%
444	Bldg material & garden equip & supp dealers	7	0	0	7	10.4%
445	Food & beverage stores	5	0	0	5	7.5%
446	Health & personal care stores	0	0	0	0	0.0%
447	Gasoline stations	0	0	0	0	0.0%
448	Clothing & clothing accessories stores	1	2	1	4	6.0%
451	Sporting goods, hobby, book & music stores	0	0	0	0	0.0%
452	General merchandise stores	37	4	1	42	62.7%
453	Miscellaneous store retailers	1	0	0	1	1.5%

Source: U.S. Census Bureau

Of the 67 retail establishments with over 250 employees, 62.7% are “General merchandise stores”.

<sup>5</sup> The next largest store types are: “General Merchandise” and “Food” stores in “Community Shopping Centers” (30,142 sq. ft., and 27,715 sq. ft., respectively), and “Food” stores in “Neighborhood Shopping Centers” (26,176 sq. ft.). All other retail store types have median sizes of less than 11,153 sq. ft.

<sup>6</sup> The next highest share of “General merchandise stores” in Cook County is among establishments with 100-249 employees. But in this category only 109 of 308 retail store establishments are General merchandise stores.

In order to estimate Big Box employment in the City of Chicago in 2003 we need to make two adjustments to these data.

First, using (the most recent) 2003 Illinois Department of Employment Security (IDES) data for the Chicago PMSA (which includes Cook, De Kalb, Du Page, Kane, Kendall, Lake, McHenry, and Will Counties – data for Cook County or the City of Chicago is not available) we adjust each of the three digit NAICS retail categories in Table 1 for decline or growth in employment from 2001 to 2003.

Second, using the City of Chicago to Cook County population ratio (according to the 2000 Census the City of Chicago had a population of 2,896,016 and Cook County 5,376,741) we adjust these figures and then round them to whole numbers to arrive at Big Box 2003 estimates for the City of Chicago in Table 2.

**Table 2: Estimated Number of Establishments by Employment-size class  
2003, City of Chicago, IL**

Industry Code	Industry Code Description	'250-499'	'500-999'	'1000 or more'	Total	Percent of Retail Stores
	<b>Total Retail Stores</b>	31	4	1	35	100.0%
441	Motor vehicle & parts dealers	3	0	0	3	7.5%
442	Furniture & home furnishing stores	1	0	0	1	1.6%
443	Electronics & appliance stores	0	0	0	1	2.8%
444	Bldg material & garden equip & supp dealers	4	0	0	4	11.6%
445	Food & beverage stores	3	0	0	3	7.5%
446	Health & personal care stores	0	0	0	0	0.0%
447	Gasoline stations	0	0	0	0	0.0%
448	Clothing & clothing accessories stores	1	1	1	2	6.3%
451	Sporting goods, hobby, book & music stores	0	0	0	0	0.0%
452	General merchandise stores	19	2	1	22	61.2%
453	Miscellaneous store retailers	1	0	0	1	1.5%

Source: U.S. Census Bureau



### 3. Employment Impact

In order to estimate the number of employees who will be directly affected by the ordinance we multiply the (rounded) number of establishments in each cell in Table 2 by the mid-point of the number of employees for that column. We use 1000 for the ‘1000 or more’ column. Table 3 below displays the result of this estimate.

Industry Code	Industry Code Description	'250-499'	'500-999'	'1000 or more'	Total	Percent of Retail Stores
	<b>Total Retail Stores</b>	12000	2250	2000	16250	100.0%
441	Motor vehicle & parts dealers	1125	0	0	1125	6.9%
442	Furniture & home furnishing stores	375	0	0	375	2.3%
443	Electronics & appliance stores	0	0	0	0	0.0%
444	Bldg material & garden equip & supp dealers	1500	0	0	1500	9.2%
445	Food & beverage stores	1125	0	0	1125	6.9%
446	Health & personal care stores	0	0	0	0	0.0%
447	Gasoline stations	0	0	0	0	0.0%
448	Clothing & clothing accessories stores	375	750	1000	2125	13.1%
451	Sporting goods, hobby, book & music stores	0	0	0	0	0.0%
452	General merchandise stores	7125	1500	1000	9625	59.2%
453	Miscellaneous store retailers	375	0	0	375	2.3%

Source: U.S. Census Bureau

To put this in perspective, the most recent (March 2003) data from IDES indicates that total private sector retail trade (NAICS 44 and 45) employment in the City of Chicago was 84,940 (Table 2: UI Covered Private Sector Employment in Cook County by Geographic Area, March 2003p).

Our estimate therefore suggests that about 16,250, or one-fifth (19%) of total 84,940 retail employment in 2003 in the City of Chicago is in “Big Box” stores.<sup>7</sup> It is hard to say whether this is likely to be an over- or under-estimate. Though large malls are likely to be more prevalent outside of the city, there will be a greater prevalence of large multi-story department stores in the center city. Our estimate is also critically dependent on the assumption that stores of 75,000 or more sq. ft. will have 250 or more employees.

<sup>7</sup> This is not quite an “apples to apples” comparison as NAICS industry code 45 also includes “Nonstore retailers” (454) which we have subtracted out of the figures in our Tables. Our estimate would be 17,750 instead of 16,250 if Nonstore retailers were included. This (truly comparable) figure is 21% of 84,940.

#### 4. Wage and Payroll Impact

To get an estimate of current payroll (before-tax wages and benefits) for “Big Box” stores we multiply the employment numbers in Table 3 by NAICS three digit industry average “payroll/employee” figures from the 2001 Cook County CBP data. This estimate is displayed in Table 4 below.

**Table 4: Estimated Total Payroll by Establishment Employment-size class  
2003, City of Chicago, IL (\$1,000,000)**

Industry Code	Industry Code Description	'250-499'	'500-999'	'1000 or more'	Total	Percent of Retail Stores
	<b>Total Retail Stores</b>	271.5	50.9	45.2	367.6	100.0%
441	Motor vehicle & parts dealers	46.2	0.0	0.0	46.2	12.6%
442	Furniture & home furnishing stores	9.8	0.0	0.0	9.8	2.7%
443	Electronics & appliance stores	0.0	0.0	0.0	0.0	0.0%
444	Bldg material & garden equip & supp dealers	45.1	0.0	0.0	45.1	12.3%
445	Food & beverage stores	20.3	0.0	0.0	20.3	5.5%
446	Health & personal care stores	0.0	0.0	0.0	0.0	0.0%
447	Gasoline stations	0.0	0.0	0.0	0.0	0.0%
448	Clothing & clothing accessories stores	6.0	12.0	16.0	33.9	9.2%
451	Sporting goods, hobby, book & music stores	0.0	0.0	0.0	0.0	0.0%
452	General merchandise stores	121.9	25.7	17.1	164.7	44.8%
453	Miscellaneous store retailers	6.4	0.0	0.0	6.4	1.7%

Source: U.S. Census Bureau

The ordinance stipulates that Big Box stores must pay an hourly wage of at least \$10.00/hr. However, the ordinance also specifies that employers should pay no less than an additional \$3.00/hr for benefits so the total hourly minimum “payroll” (before-tax wages and benefits) specified by the ordinance is \$13.00/hr.

IDES data indicates that the median wage for “retail sales persons” in Cook County in 2004 is \$9.23/hr (State of Illinois, IDES, EI&A, Occupational Wages, LWA 7,8,9). The corresponding “Entry Wage” is \$6.90/hr and “Experienced Wage” is \$13.40/hr. The ordinance would thus stipulate a wage floor that is 8.3% above the median retail wage for retail sales persons in Cook County.

Assuming that wages rise uniformly from a minimum of \$6.90/hr to the median of \$9.23/hr, and then rise uniformly again to a maximum of \$13.40/hr, the estimated *mandated* increase in wages for all 16,250 “Big Box” workers will be \$16,299/hr. 9625 big box workers (59.2% of all 16,250 big box workers) would receive mandated increases.<sup>8</sup>

BLS data indicates that in 2004 retail workers worked an average of 31 hours per week (Table B-2, [www.bls.gov.nes.release/empsit.t15/htm](http://www.bls.gov.nes.release/empsit.t15/htm)). Assuming year

<sup>8</sup> Under these assumptions, as \$10.00 - \$9.23 = \$0.77 and \$13.40 - \$9.23 = \$4.17, so that about  $(0.77/4.17) * 8,125 = 1,500$  workers making more than the median wage of \$9.23/r will be making less than \$10.00/hr and thus will get a mandated increase in wages. Thus the total number of workers that will get mandated increases is  $8,125 + 1,500 = 9,625$ .

around employment of 52 weeks per year, \$16,299/hr translates into an annual mandated additional *wage* cost for “Big Box” retailers of \$26.3 million.<sup>9</sup>

However, this estimate needs to be increased because it does not take into account the health benefits mandate stipulated in the ordinance and because of probable “spill over” wage increases to higher paid employees.

The ordinance mandates that big box employers offer health benefits of at least \$3.00/hr for all employees who are not currently covered. Based on National data indicating that about 53% of all retail workers and about 66% of workers at large firms currently receive health coverage, we assume that 60% of big box retail employees currently receive health coverage and that these workers are clustered toward the higher end of the pay scale.<sup>10</sup>

A \$3.00/hr benefit to 6500 (40% of the estimated 16,250) workers multiplied by average yearly retail yearly hours of 1612 (31 x 52) results in an added payroll cost of \$31.4 million.

In addition, a \$1.00 “spill over” wage increase to the 6,625 workers (16,250 – 9,625) who do not receive a *mandated* wage raise under the ordinance will add another \$10.7 million (\$6,625 x 1612) to payroll costs.

The total increment in wages and benefits is therefore \$68.4 (\$26.3 + \$31.4 + \$10.7 = \$68.4) million. This translates into an average per-worker hourly increase in total compensation (wages plus benefits) of \$2.61/hr (\$68.4m divided by 31 x 52 x 16,250). This includes a per-worker \$1.41/hr wage (\$26.3 m + \$10.7 m divided by 31 x 52 x 16,250) increase and a \$1.20/hr (\$31.4 m divided by 31 x 52 x 16,250) increase in benefits.

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<sup>9</sup> Under linear distribution assumptions (see previous footnote) total increased wages for the 8,125 workers making less than the median wage will be  $\$3.10 \times 8,125 - \$2.33 \times 8,125/2 = \$15,722/\text{hr}$  (where  $\$3.10 = \$10.00 - \$6.90$  and  $\$2.33 = \$9.23 - \$6.90$ ) and total mandated increased wages for the 1500 workers making more than the median wage will be  $\$0.77 \times 1500/2 = \$578/\text{hr}$  (where  $\$0.77 = \$10.00 - \$9.23$ ). Thus the total mandated hourly increase is  $\$15,722 + \$578 = \$16,299/\text{hr}$  so that the total annual increase is about  $31 \times 52 \times \$16,299 = \$26.3$  million.

<sup>10</sup> From “Wal-Mart: A Destructive Force for Chicago Communities and Companies,” by Dan Bianchi and Dan Sweeny, Center for Labor and Community Research (CLCR), March, 2004, p. 9.

## 5. Price Effects

There may be some price increases to offset these additional payroll costs depending on the payroll share of overall costs and on the competitive position of the affected Big Box stores.

According to (the most recent) 1997 employment size of establishments data, year-round retail establishments with 100 or more employees (the largest establishment size category reported) had \$754 billion of annual sales in 1997 dollars (equal to \$864 billion in 2003 dollars) and 4.3 million employees.<sup>11</sup> This gives an average annual retail sales to employee ratio of \$199,287 in 2003 dollars.

By this measure Chicago big box stores sell about \$3.2 billion ( $\$199,287 \times 16,250$ ) worth of goods, *so that if all of the \$68.4 million in additional wage and benefit costs were passed on to consumers*, average prices would increase by about 2.1%. This could increase by a few more tenths of a percentage if consumer demand was reduced a bit because of higher prices.<sup>12</sup>

However, it is unlikely that all of the increased costs will be passed on to consumers as many big box retailers need to compete in local markets with non-big box retailers who will not be affected by the ordinance.

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<sup>11</sup> Table 2, "Employment Size of Establishments: 1997, NAICS code 44-45, U.S. Census Bureau, Oct. 13, 2000.

<sup>12</sup> Note that as our (1997 census derived) "big box" sales to employee ratio probably underestimates this ratio for highly efficient big box stores such as Wal-Mart in 2004, this 2.1% price increment is probably an *overestimate* of the price impact of a full consumer pass-through of the cost of the ordinance for these kinds of big-box stores (even with demand dampening).

## 6. Multiplier Effects on Overall Chicago Economy

Using an IMPLAN 2001 Cook County input out put model we were able to estimate the indirect effect of an additional \$37.0 million increase in wages for big box workers on the overall Chicago economy.

We assume that the \$37.0 million in additional payroll produces about \$31.45 million ( $\$37.0 \times .85$ ) of disposable income. In addition we factor the indirect and induced effects by about half to estimate City of Chicago effects from the Cook County IMPLAN model.

Based on these assumptions this \$31.45 million of spending results in a multiplied increase in output of \$45.6 million, resulting in 326 new jobs, \$12.8 million in additional labor and proprietor income, and \$6.2 million in additional property income, all of this translating into about \$2.1 million in additional state and local indirect business and direct and indirect personal tax receipts (exclusive of taxes going to school districts) for Cook County.<sup>13</sup>

Factoring these by 0.54 to estimate City of Chicago impacts gives City of Chicago impacts of \$24.6 million in added gross output, 176 new jobs, \$6.9 million in additional labor and proprietor income, \$3.3 million in additional property income, and \$1.1 million in additional taxes.

There should be negligible effects on employment growth as there is no incentive for retail stores to move away from their markets because of labor cost increases, especially as their major competitors are facing the same cost increase –see research on affects of minimum wage increase in Illinois at:  
<http://www.uic.edu/cuppa/uicued/Publications/RECENT/MinimumWageStudy.pdf>

In fact because big box stores generate more sales per employee they tend to *reduce net* retail employment demand. Thus any slight decline in big box investment resulting from the ordinance is likely to *increase* total retail employment because of reduced job losses at smaller retail stores - see: “The Economic Impact of Wal-Mart: An Assessment of the Wal-Mart Store Proposed for Chicago’s West Side,” available at:  
<http://www.uic.edu/cuppa/uicued/npublications/recent/nwal-martreport.pdf>

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<sup>13</sup> These estimates rely on IMPLAN estimates of spending patterns for low-income households making \$25 - \$35K in 2001 dollars. IMPLAN estimates that average compensation for retail workers in Cook County in 2001 was \$20,087.

## 7. The Public Costs of Low Wage Retail Employment

A study completed in May 2004 by researchers at UC Berkeley, *The Hidden Public Costs of Low-Wage Jobs in California*<sup>14</sup>, examined the amount of public assistance paid to low-wage workers in California and estimated the savings that would be achieved as a result of a mandated \$10/hr minimum wage and employer-provided health benefits.

Of the \$10.1 billion in aid given to working families in California, 75 percent went to workers earning under \$10 per hour. Retail workers received a disproportionate share, comprising 21 percent of beneficiaries but only 15 percent of total employees in the state<sup>15</sup>. As a result of the wage and health benefit mandate, the study estimated a reduction of 56 percent in public dollars needed for working families, shrinking from \$10.1 billion to \$4.4 billion.

The tools of the California analysis can be applied to roughly estimate the reduction in public spending that would be associated with a similar mandate for big box retail workers in Chicago. To calculate the total savings resulting from the wage increase, we must find the average savings per worker and multiply by the 2003 estimate of 9,625 big box workers in Chicago who made less than \$10.00/hr. In California, the impact of the wage increase reduced public spending by \$3.81 billion<sup>16</sup>. We also see that 1.3 million families were earning under \$10/hr and receiving public assistance<sup>17</sup>; they are no longer in need of the program. The total savings divided by the number of families taken off the program yields the average savings per family attributed to the wage increase: \$2,930. Assuming average spending per family approaches a similar level in Illinois, the savings to the public treasury due to the increased wages of 9,625 big box workers would reach over \$28.2 million.

The impact of employer-provided health care benefits also proves significant. In California, 97.7 percent of workers enrolled in health care assistance were in the state's Medicaid program<sup>18</sup> at an average cost of \$1,722 per beneficiary<sup>19</sup>. The remaining 2.3 percent of enrollees gained benefits through the state's Healthy Families program. Healthy Families, with an average cost of \$1,095 per beneficiary<sup>20</sup>, provided insurance for residents ineligible for Medicaid but with income under 250% of the poverty level. We assume Chicago's 6,500 big box workers in need of health benefits are enrolled in Illinois' comparable programs in the same proportion. We assume that average cost is comparable as well. Accordingly, we estimate that 6,350 workers are enrolled in Medicaid at a cost of

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<sup>14</sup> "The Hidden Public Costs of Low-Wage Jobs in California," by Carol Zabin, Arindrajit Dube, and Ken Jacobs, Center for Labor Research and Education, UC Berkeley, May, 2004.

<sup>15</sup> Ibid p25

<sup>16</sup> Ibid p32

<sup>17</sup> Ibid p28

<sup>18</sup> Ibid p17

<sup>19</sup> Ibid p15

<sup>20</sup> Ibid p15

\$10.9 million while 150 workers are enrolled in Illinois' KidCare at a cost of \$0.2 million. The combined estimates suggest a savings of \$11.1 million. Added to the \$30.6 million saved due to the \$10/hr wage, total resultant public savings equal roughly \$41.7 million, a significant portion of which would be saved by Chicago tax payers.

## 8. Conclusions

Because of their increased marketing efficiency very large “big box” retail employers tend to generate a very high volume of sales per employee compared to their smaller competitors. This has two important consequences.

First, as we have shown in an earlier study, such “big box” stores will eliminate more jobs than they create. In an inner-city context, the lost jobs will generally also be in the city. Big box stores will therefore generally reduce, rather than increase, employment opportunity.<sup>21</sup>

Second, though wages in the retail sector are among the lowest of all major industrial sectors, there does not seem to be any objective economic reason why this should be the case for big box retail employers.<sup>22</sup> In this study we show that if Chicago big box retail employers were required to provide a 15.3% wage increase and comprehensive health benefits coverage, and they passed the entire cost of this on to consumers, their prices would go up by at most a little over 2.1%. However, it is highly unlikely that all of the costs of such a mandate would be passed on to consumers as these stores would continue to face competition from smaller stores who would not be covered by these mandates.

In high unemployment and low-wage communities, jobs, wages, and benefits, are the key economic development priority. As the only possible benefit of big box development lies in improved job quality (as the number of net retail jobs will decline), it makes sense to make such development contingent on sharing more of the benefits of greater retail efficiency with local workers who will spend their increased earnings and thereby further stimulate the local economy.

Third, in addition to providing immediate substantial direct benefits to workers (though still not adequate to provide a full “self sufficiency living wage” of \$12.45 in 2003 dollars ), such an ordinance will stimulate local employment and income growth and reduce the costs of public subsidies, as low-wage employers impose substantial social costs on the public sector.<sup>23</sup> We estimate that the ordinance would produce 176 jobs that would generate \$10.4 million in additional labor and property income in the City of Chicago, and about \$1.1 million in additional (non-education) local tax revenue. Even if we assume that only 80% of these jobs and 60% of the income generated will go to Chicago residents (as a greater proportion of higher income managerial jobs will likely go to suburbanites), this still translates into 141 additional jobs and \$6.2 million in additional income for residents of the City of Chicago. Moreover, the City will

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<sup>21</sup> See – “The Economic Impact of Wal-Mart – An Assessment of the Wal-Mart Store Proposed for Chicago’s West Side” at: <http://www.uic.edu/cuppa/uicued/npublications/recent/nwal-martreport.pdf>.

<sup>22</sup> See p. 13 of “Raising and Maintaining the Value of the State Minimum Wage: An Economic Impact Study of Illinois” at: <http://www.uic.edu/cuppa/uicued/Publications/RECENT/MinimumWageStudy.pdf>.

<sup>23</sup> See “A Self Sufficiency Living Wage for Chicago” at: <http://www.uic.edu/cuppa/uicued/npublications/recent/lwchicagohirdrpt.pdf>.



receive a significant share of an estimated \$41.7 million in public cost savings that must be added to the City's share of the estimated \$1.1 million in state and local tax revenue benefits