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Retailers feel the squeeze in America's poverty economy

By Barney Jopson in Washington

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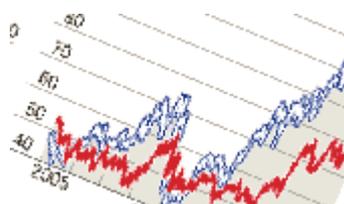


The neediest Americans will be hurt by an \$8.6bn cut to food aid in a bill that was approved by Congress this week and will be signed into law by President Barack Obama on Friday. But another set of welfare beneficiaries will lose out too: big grocery retailers.

The farm bill, which contains both agricultural subsidies and federal food stamps for the working poor and unemployed, is watched closely by big retailers such as Walmart because it affects a substantial number of their shoppers.

A record 47m Americans now use food stamps for their groceries and Walmart has said its sales were hit by a previous cut to the programme late last year.

Poverty economy



The big retailers' dependence on food stamps underlines the ambiguous and sometimes conflicting role they play in America's often lucrative poverty economy at time when inequality is at the centre of political debate.

The retailers' sales suffer along with the finances of the poor because they are the most important source of cheap food for Americans on tight budgets.

But the companies, which employ many of the US's 15m retail workers, are accused of contributing to that hardship – and the wage stagnation that partly explains it – by not paying higher salaries. In last week's State of the Union address Mr Obama praised one outlier, Costco, for its relatively high wages.

At Walmart, which is better known for penny-pinching, analysts estimate that around 20 per cent of shoppers use food stamps. The company said last week that sales at its US stores had fallen in the past quarter partly due to \$11bn of food stamp cuts that began in November and will extend over three years. For a household of four, that reduced monthly payments by \$36 to \$668, according to equity analysts at Cowen & Co.

The cut approved this week, which is spread over a decade, works out at an annual reduction of \$860m. It will shrink benefits for 850,000 households – or about 4 per cent of all recipients – by an average of \$90 a month, according to the Congressional Budget Office.

"Food stamps have become a vital part of retail industry just because of their magnitude," says Thom Blischok, chief retail strategist at Booz & Co, a consultancy.

At Target, 17 per cent of shoppers use food stamps – known as the Supplemental Nutrition Assistance Program – and at Costco the figure is 13 per cent, says Cowen & Co.

When low wages leave Walmart workers unable to afford the necessities of life, taxpayers pick up the tab

- Report by the Democratic staff of a House committee

The latest cuts fell short of the \$40bn some House Republicans had wanted. But they incensed anti-hunger activists such as Joel Berg of the New York City Coalition Against Hunger, who complains that Mr Obama has not defended a programme that his own mother once turned to for support. "The Democratic party has become spineless and soulless," Mr Berg says.

Retailers are reluctant to lobby hard for more food stamps, wary of the accusation that they are trying to boost their own coffers.

But a more sensitive issue is the reliance of some of their own employees on government assistance. Food stamps are intended to be a safety net for the elderly, disabled and unemployed, but also to supplement the wages of low-income workers, according to the Center on Budget and Policy Priorities, a think-tank.

In a report last year, the Democratic staff of a House committee estimated that the 300 employees of a Walmart store in Wisconsin received annual government benefits of between \$3,015 and \$5,815 each, including food stamps worth between \$29 and \$61 a month.

"Low wages not only harm workers and their families – they cost taxpayers," the report said. "When low wages leave Walmart workers unable to afford the necessities of life, taxpayers pick up the tab."

Walmart disputes its stingy image, saying store workers earn on average \$12 an hour and that less than 1 per cent of them make the minimum wage, which is \$7.25 at federal level.

That is not, however, alleviating political pressure. "Do what you can to raise your employees' wages," Mr Obama told business leaders in the State of the Union speech, when he also called on Congress to lift the minimum wage to \$10.10.

Catherine Ruetschlin, policy analyst at Demos, a centre-left think-tank, says lifting wages for retail workers would boost the US economy because people living in or near poverty "go right out and spend" every extra dollar they get.

Retailers say that forking out more would force them to cut jobs – and conservative economists concur. But others say the evidence suggests that is a hollow threat. By championing the success of Costco – where the average hourly wage is \$20 – the president was endorsing the latter view.

In a year when inequality is centre stage, many retailers are likely to find that political goodwill toward them is as limited as their customers' money.

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