

The Real Reason Walmart U-Turned on Wages

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Image: Walmart workers picket for higher pay.

Retail powerhouse Walmart prides itself on providing customers with “everyday low prices.” But labor experts believe the retail giant scored itself a public relations bargain with a much-publicized but less-than-generous pay increase for some of its workers.

For more than half a century, Walmart has paid its 2 million-plus employees such depressed wages that many full-time workers cannot live on them. So many full-time employees are on state and federal welfare programs.

That’s how Walmart ended up becoming the single largest private-sector beneficiary of public assistance. U.S. taxpayers, according to Barry Ritzholtz of Rithholz Wealth Management, [“have been subsidizing the wages of this publicly traded, private-sector company to the tune of \\$2.66 billion in government largesse a year.”](#)

The world’s largest company by revenue has long pushed back against every labor pressure to increase wages, hours, and benefits. So why is Walmart *really* [raising wages for half a million of its associates](#)?

Turnover in Tightening Labor Market?

Walmart has seen [a 44% annual turnover rate](#) among its hourly employees—a marked difference from the 6% turnover rate at rival Costco. [That’s because Costco pays workers an average of \\$20.89 an hour](#), while Walmart pays \$12.85.

This practice may cost more than it saves. The [Harvard Business Review](#) estimates that for “skilled and semi-skilled jobs, the fully loaded cost of replacing a worker who leaves (excluding lost productivity) is typically 1.5 to 2.5 times the worker’s annual salary.”

Joel Naroff, chief economist at Naroff Economic Advisors, [believes](#) that “Wal-Mart’s move to raise their employee pay base is a sign that the labor market has already tightened.” Moreover, Walmart may just be trying to [stop its workforce from leaving for better opportunities](#) as the economy improves.

These explanations are largely consistent with Walmart’s messaging. “In recent years we’ve had tough economic environments, a rapidly growing company, and fundamental shifts in how customers are shopping,” Walmart CEO Doug McMillon [wrote in a letter to workers announcing the pay hike](#).

Other retailers, including Trader Joe's, have long paid even rookie workers above minimum wage. This year, [Starbucks](#) raised pay for its baristas and shift supervisors, and last year, The [Gap](#) announced its minimum hourly rate would increase to \$10.

Evading the Union Threat

Another explanation for the hikes is that Walmart's wage raise may help stave off the union threat posed by insider protest groups such as the Organization United for Respect at Walmart (OUR Walmart).

People unionize when their needs are not being met. They think of unions when— for instance— wages are so low they need [food stamps](#) to buy from the place where they work, or when there is a [food drive](#) for them. If Walmart were to change this situation and provide them with what they need, what motivation would there be to unionize?

To date, unions have not found success at Walmart. Unions cost employers money in the short term and Walmart expends substantial effort to fend them off: it went so far as to create an [anti-unionization guide](#).

But over the last four years, *OUR Walmart* publicly criticized Walmart's labor policies via rallies held at peak shopping times such as Christmas. The goal: achieving a \$13.00 minimum wage and stable work schedules.

OUR Walmart member Debi Smith, a 13-year employee from Branson West, Missouri, who earns \$8.32 an hour, said the rallies helped force Walmart's hand.

But that success may have an unintended effect, she said. "They want to show people that they care, but now I'm afraid we'll see our hours cut. If you get a raise and you don't get the hours, that balances out to zero. Associates see this as just the same story, but a different page," she told *WhoWhatWhy*.

As of now, Walmart has not agreed to provide its employees full-time work with regular hours.

A Raise That Isn't Such a Raise

Notably, Walmart's promised salary increases aren't even close to the minimum wage *OUR Walmart* wants. According to the retailer's [announced changes](#), over the next year, new associates will receive \$9.00 an hour during training and at least \$10.00 after.

The \$10 rate is a healthy 12 percent increase from an [average](#) of \$8.81.

Now compare that with what old-timers receive. They are in line to receive just a 1% increase for their full-time work: a mere 15-cent raise to \$13.00 an hour.

So why does Walmart get a win? Because they can say they met the \$13-an-hour demand, even though it's only partially true.. for some. Meanwhile, Smith's group is battling for a \$13-an-hour *minimum* wage for everyone. For that to happen, new associates would have to be given that rate as well.

Even if Walmart keeps workers' hours intact, will an increase of 1% really enable its full-time workforce to live without relying on government subsidies funded by taxpayers?

The Real Reason?

Some labor experts simply dismiss all of the above as factors in Walmart giving its workers a small raise. They see a much simpler purpose.

Robert Reich, Secretary of Labor in the Clinton Administration and now senior fellow at the Blum Center for Developing Economies, told *WhoWhatWhy*:

"Don't believe what you hear about a tight labor market forcing their hand. At the lower end of the income ladder, the labor market is very loose—very high unemployment and many who have left the jobs market altogether."

The bottom line, Reich believes: "They did it mainly for PR purposes. They were beginning to feel the heat from all the bad press."

Outsized publicity for a 1% pay raise for full-time staff—now that's bang for the buck.

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