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RESPONSE TO
PROFESSOR DAVID MERRIMAN'S JANUARY 23, 2011 EMAIL
CONCERNING WALMART

To: Professor David Merriman
From: Mari Gallagher
Date: February 2, 2011
CC: All those also copied on the Merriman email: Alderwoman Mitts, Professor Joseph Persky, and Professor Phillip Nyden

Thank you for your email (ATTACHMENT A) and corresponding statement (ATTACHMENT B) on your study relative to a recent letter written by Alderwoman Mitts concerning Walmart. It is always nice to hear from you, but I have to say that the content of your email is a bit baffling.

First, we will address your issues concerning peer review.

You stated in ATTACHMENT A “In the future, I believe that we would have a more productive dialogue if you communicated privately regarding our study’s strengths and limitations prior to making public statements that might sometimes be incorrect or misleading.”

You also stated in ATTACHMENT B, “Mari Gallagher & Associates’ Walmart-funded-critique of our study was written (and disseminated) without the consultation that would be typical in a professional peer-review framework.”

I don’t know if you are exclusively addressing the Alderwoman with these criticisms, or both of us, but as you’ll recall, you and I have been in direct and friendly contact about our detailed review of your study as far back as January 2, 2009 when we exchanged emails. I sent you the link to our review and you responded that it would be beneficial to your work.

You stated in ATTACHMENT B, “In general, we validate research findings in the appropriate scientific manner—by submission to the rigorous scrutiny of our peers through the journal review process. Typically, and in this case, this is a prolonged process and our work

(somewhat revised but reaching essentially the same conclusions as the report Alderwoman Mitts discusses) is currently undergoing such scrutiny.”

We are glad that you are undergoing a journal-style peer review. Unfortunately, prior to this review being complete, and despite the study’s shortcomings, you and your colleagues in effect submitted your work, even its early draft version, to the “Journal of Public Opinion” by forcefully and publicly advancing findings without sufficient evidence to back those findings up. And by so doing, your study is open to public debate and scrutiny and is no longer a matter of “private discussions.”

You state in your email that we have been retained by Walmart to review your work. This is true. We are a neutral third party firm hired by many different types of entities, big and small. Others have and will review your study as well, particularly as a result of its constant replay in the media. In fact, in what appears to be a highly unusual step, the *Sun Times* editorial board reviewed your study and deemed it “flawed” and a “cheap shot” at Walmart.

In your recent email to me you stated, “We have been reluctant to get into a public debate.” This is another strange statement, again, belied by your efforts to widely circulate your study and your frequent local and national appearances touting the study’s findings as a means to argue against Walmart.

Second, we will address the technical points raised Attachment B.

Your study purports to measure the net effect of Walmart’s arrival on employment within a four-mile radius of its Chicago West Side location. Your study concludes (p. 11): “Rough comparisons of employment losses associated with WalMart's opening and WalMart's own labor force suggest that WalMart had little or *no net effect* on total employment in the area.” [italics added].

There are problems with your calculation.

Your study measures the net effect on employment, but in only one narrow sense: you calculate total job losses that would likely have occurred in Walmart’s absence and subtract this from the total job losses that actually occurred to generate what you call the “Walmart effect.” The “WalMart effect” is thus net of job losses that would have taken place if Walmart had not entered the market.

To demonstrate how this was done, we created Figure 1 from the data in the tables of your report.

Your regression analysis (Table 5, Column 1 of your most recent version of your report) shows that failures in the immediate vicinity of Walmart (“Distance to Walmart”=0) are 25%, and as distance from Walmart increases, failures decrease by 4.12 percentage points for every mile.

A four-mile boundary from Walmart is the limit of distance in your sample. By your estimate, about 8% of firms four miles from Walmart are predicted to fail each year. You call this the “normal” rate of failures that would occur if Walmart did not enter the market. The difference between total failures (the downward-sloping line) and the “normal” or “baseline” rate of failures (the horizontal line) is your measure of the “Walmart effect at each distance from

Walmart. To convert this into job losses, you calculate the number of firms in your sample located at each distance from Walmart, and multiply the “Walmart effect” on business failures by the average number of employees in each failed business (about 6).

One problem with this analysis is that the local market which Walmart entered had bottomed out; the entire radius you draw is not homogenous. We created Figure 2 which shows what happens if we assume that the "normal" (i.e. if Walmart hadn't entered) rate of business failure was higher within a mile of the location that Walmart actually chose (because the market at their chosen location had already bottomed out, as admitted to in your report).

For Figure 2, the "Walmart effect" (business failures attributable to Walmart's arrival – i.e. failures over and above what would have occurred if Walmart hadn't arrived) is the same at distances above 1 mile, but for distances < 1 mile, it's smaller than in Figure 1 (the "Walmart effect" at each distance from Walmart is the difference between the two lines).

FIGURE 1

**Probability of Going
Out of Business**

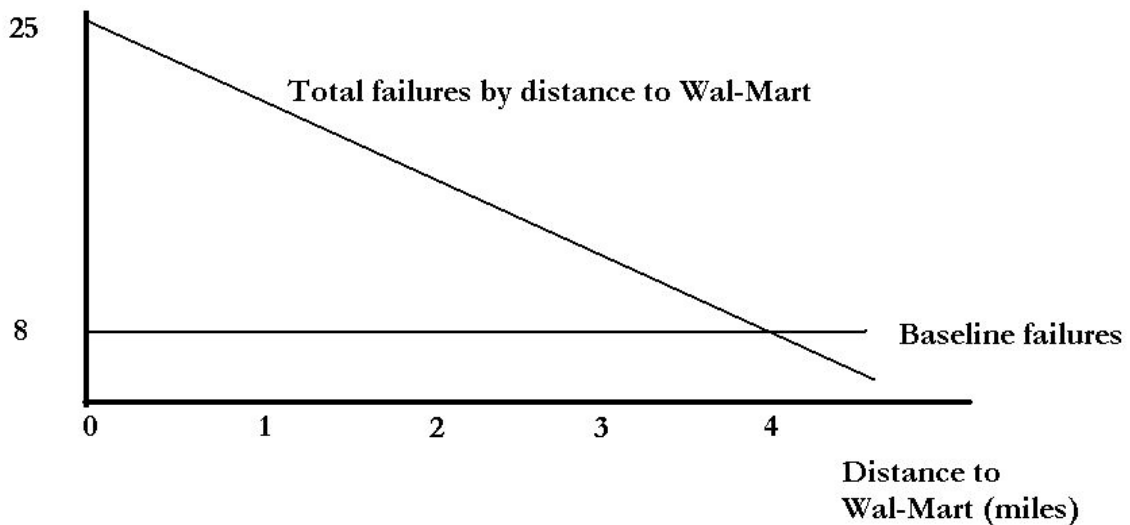
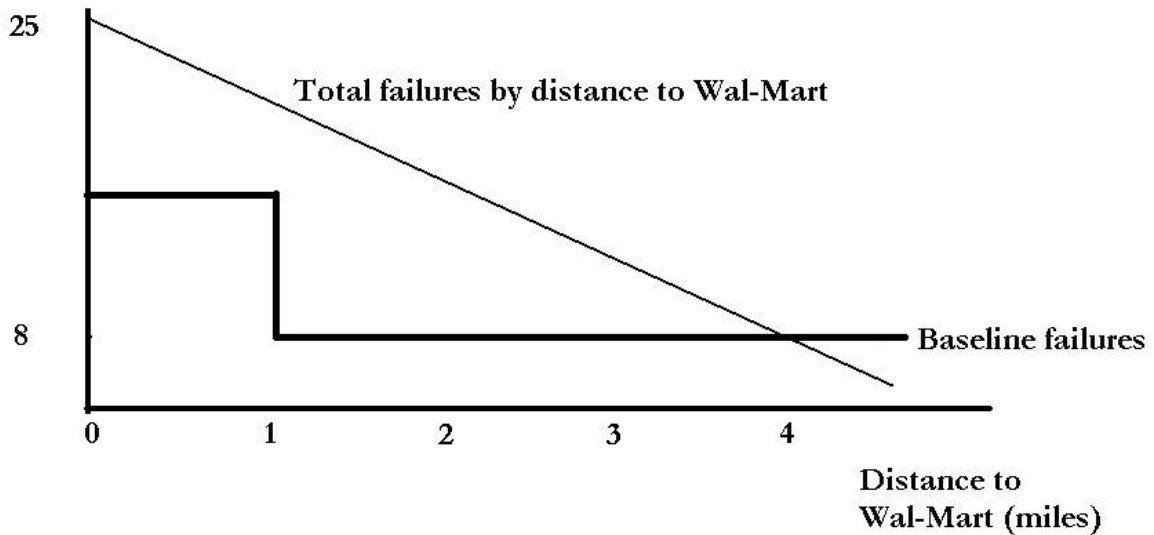


FIGURE 2

Probability of Going Out of Business



An even more important problem with the analysis, though, is the absence of a necessary but vital step in calculating net employment change: the difference between jobs added and jobs lost. Ideally, both of these components of net change would be net of gains or losses that would have occurred if Walmart had not entered the market. With data on jobs gained over the 2006-08 period within a four-mile radius of Walmart, it would be possible using a regression analysis like that your Table 5 to estimate the total jobs gained over the period at each distance from Walmart and the jobs that would have been gained at a distance of four miles from Walmart. If we take the jobs gained at four miles as “normal job gains,” we could estimate the “Walmart effect” on jobs gained by subtracting total “normal” gains from total gains.

We could then calculate the net employment change attributable to Walmart’s arrival as:

$$E_{net} = J_{gained} - J_{lost}$$

J_{gained} is job gains attributable to Walmart and J_{lost} is job losses attributable to Walmart.

You state that there is no database of new businesses that opened in the Walmart vicinity and that the procedure outlined in our Figure 1 is your attempt to overcome the inevitable problem of the selectivity of any such count of new businesses. You stated: “As we have previously explained there is no database that measures new business openings in Walmart’s neighborhood and any count of new businesses is sure to be selective. To avoid the problems of a selective count of new businesses our methodology attributes job losses to

Walmart only if they are greater than losses projected by our statistical model in Walmart's absence." (Your response to Alderwoman Mitts' critique, ATTACHMENT B, paragraph 4).

Key points concerning your statement:

First, the lack of an existing and easy database of business closings does not mean you cannot create one. We are constantly creating databases of small businesses that either enter or exit the market. This involves driving and videotaping commercial districts, walking the districts, using smart phones for documentation and linking pictures of stores with geocoordinates, searching online sources, calling the stores in question, calling nearby stores and other entities for verification of the store's operation, visiting the stores, and so on. We are working on such a database now. Over this last week alone, I personally made 200 such phone inquiries. It is tedious and unglamorous work but it is often the price we must pay if we wish to state findings with conviction. You could have created a database of new business openings but for some reason chose not to do so. Though such a database might well be "selective," the relevant question is not its selectivity in isolation but whether it is more or less selective than the database of business closings that you did choose to create.

Second, you state that your methodology "avoid[s] the problem of a selective count of new business." We would argue instead that it simply ignores these new businesses. Your methodology provides nothing more than an estimate of job losses net of the effect of normal job losses and therefore attributable to Walmart's arrival. It says nothing about jobs gained through the entry of new businesses. This would be fine if your study simply owned up to its shortcomings in these respects by saying, "We measure only gross job losses and make no serious attempt to measure net employment change except in the narrow sense that our gross job loss measure adjusts for job losses attributable to normal business failures in Walmart's absence." Unfortunately your presentation of findings are not quite so modest: after deriving your measure of job losses attributable to Walmart's arrival, you proceed to estimate net employment change by comparing an estimate of gross job losses driven by Walmart's arrival to gross job gains from Walmart's arrival (p. 10). In doing so, you implicitly acknowledge that there are two sides to the ledger that must be examined here. However you do not examine both sides. Instead, you vastly underestimate job gains by including only Walmart's own new employees, entirely ignoring jobs gained through the entry of new businesses.

Another problem is your exclusive focus on competing businesses.

You reject our claim that "the Loyola calculation includes all competing jobs lost but excludes all competing jobs gained." Again, this rejection is baffling. The calculation of job losses you undertake does indeed begin with all competing businesses and examines only firms that remained in business or closed, so our statement is correct as it stands. You perhaps construe our statement to mean that your bottom line number on job losses included all competing businesses; clearly it does not, as you have factored out the normal losses from business closings unrelated to Walmart, but the starting point for the calculation nonetheless includes all competing business job losses and excludes all competing business job gains. Perhaps you have misinterpreted our comment.

You cannot deny that your job loss calculation (p. 10 of your study) applies only to "competing jobs" (i.e. job in businesses that compete with Walmart) as your study itself

describes the sample used for this calculation as containing only “businesses in the major retail categories that compete with WalMart” (p. 6 of your study).

You also cannot deny that your calculation excludes competing jobs gained.

You admit (in your response to Alderwoman Mitts’ critique, ATTACHMENT B, paragraph 4) that there is no existing database of new firms and state that, as such, your study does not have the capacity to measure gross job gains (though, again, we would disagree with the second half of that statement). You state that your methodology takes care of this shortfall, but it clearly does not; see above. You can only quibble with the use of the word “all.” What you actually measure is *competing* jobs lost over and above those that would have been lost even if Walmart had not entered. If the phrase “all competing jobs lost” in the statement is amended to “all competing jobs lost over and above those that would have been lost in Walmart’s absence” and the phrase “all competing jobs gained” is amended to “all competing jobs gained over and above those that would have been lost in Walmart’s absence then our statement is again correct and emphasizes the imbalance in your study, which claims to measure net employment change but fails to account for any new jobs gained except those in Walmart itself.

Your comment on this point raises another issue. In your job loss calculations, you focus only on firms that compete with Walmart. But firms in lines of business that do not compete with Walmart can experience an impact from Walmart’s arrival as well. Suppose a bank or currency exchange is located next door to a toy store. Some of the traffic enjoyed by the bank or currency exchange will be driven by customers going to the toy store.

The toy store’s exit from the market at Walmart’s arrival might result in reduced traffic for the bank or currency exchange, and, in the extreme, its exit from the market, too. Of course, this process can also work in the opposite way: the arrival of Walmart generates additional retail traffic in the area, some of which will generate business for firms that do not compete with Walmart, so businesses will enter the market to take advantage of Walmart’s ability to draw customers to this area. The arrival of a Chase bank branch is an example of this spillover effect working to increase employment and activity in Walmart’s vicinity.

These considerations suggest that a comprehensive estimate of Walmart’s impact on employment should include not just jobs gained (caused by Walmart’s arrival) from competing businesses entering the market and jobs lost (caused by Walmart’s arrival) from competing firms exiting the market, but also the net effect of Walmart on the employment of firms throughout the retail market in the vicinity of Walmart. The “net job change” equation identified above should therefore be amended to:

$$E_{\text{net}} = (J^{\text{c}}_{\text{gained}} - J^{\text{c}}_{\text{lost}}) + (J^{\text{n}}_{\text{gained}} - J^{\text{n}}_{\text{lost}})$$

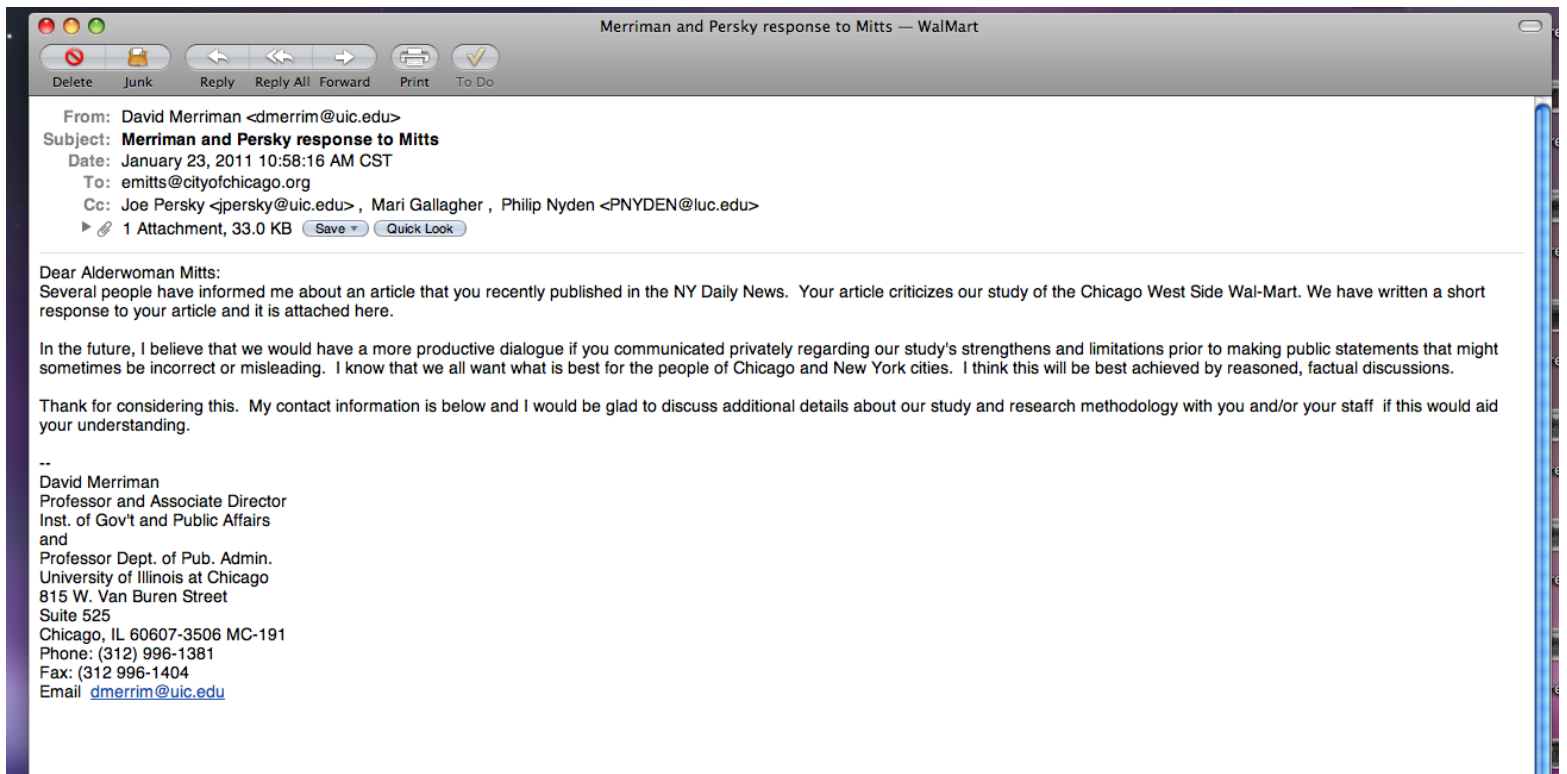
The superscripts “c” and “n” refer to “competing” and “non-competing” businesses. There are four items in this corrected equation. Unfortunately, your study attempts to measure only one: $J^{\text{c}}_{\text{lost}}$.

The study’s conclusions regarding net employment change therefore remain unreliable for many reasons.

There are other issues with your study that we pointed out in our previous reviews. In light of your correspondence to which we are now responding, perhaps the most troubling is that – when findings are positive for Walmart – you describe them as counter-intuitive or bury them in your appendix. You seem to go out of your way at every turn to choose methods and data that suggest a negative impact by Walmart rather than to be an impartial examiner detached from the outcome.

SCROLL DOWN FOR ATTACHMENTS

ATTACHMENT A SCREENSHOT: MERRIMAN EMAIL



SCROLL DOWN TO NEXT PAGE...

Response to Alderwoman Emma Mitts' critique of
**The Impact of an Urban Wal-Mart Store on Area Businesses:
An Evaluation of One Chicago Neighborhood's Experience**

By

David Merriman (dmerrim@uic.edu) and Joe Persky (jpersky@uic.edu)

Recently (January 9, 2011) Alderwoman Emma Mitts published a short article attacking our academic study of the impact of a Wal-Mart store located in her district on the West side of Chicago and specifically questioning both the competence and academic integrity of one of the authors. The study to which the Alderwoman refers was the product of more than three years work by a team of six co-authors at well regarded universities. Three of the co-authors have published widely in refereed academic journals; two are tenured professors at a research university. In general, we validate research findings in the appropriate scientific manner—by submission to the rigorous scrutiny of our peers through the journal review process. Typically, and in this case, this is a prolonged process and our work (somewhat revised but reaching essentially the same conclusions as the report Alderwoman Mitts discusses) is currently undergoing such scrutiny.

We have been reluctant to get into a public debate—especially with a widely admired and well known elected official—about the scientific validity of our study. However, we now feel compelled to publicly respond. Alderwoman Mitts levels two main criticisms at our study. In each case we briefly summarize the criticism and give our response.

Criticism: “if you are doing a study on the net loss of jobs in a city, one should add new jobs created and subtract jobs lost.” Mitts cites Mari Gallagher & Associates’ critique which argues that “the Loyola calculation includes all competing jobs lost but excludes all competing jobs gained.”

Response: As we have previously explained there is no database that measures new business openings in Wal-Mart’s neighborhood and any count of new businesses is sure to be selective. To avoid the problems of a selective count of new businesses our methodology attributes job losses to Wal-Mart only if they are greater than losses projected by our statistical model in Wal-Mart’s absence. Mari Gallagher & Associates’ Wal-Mart-funded-critique of our study was written (and disseminated) without the consultation that would be typical in a professional peer-review framework. That critique misstates and misinterprets our work in a number of places. In particular, it is plainly not true that our calculation “includes all competing jobs lost.” As we clearly explained in the report, our job loss estimates are the difference between expected job losses with and without Wal-Mart.

Also, our study did include an analysis of the net change in retail sales in Wal-Mart’s area this calculation captures retail sales of both new and existing business. We found that total retail sales in the area remained essentially unchanged after Wal-Mart opened. This is consistent with our other analyses.

Criticism: the study “contains a disclaimer that the data contained in the report is uncertain”.

Response: We believe the phrase in the report that Alderwoman Mitts is responding to is “Our estimates suggest that Wal-Mart has resulted in the loss of about 300 full-time-equivalent jobs in its own and nearby zip codes. While there is still considerable uncertainty attached to these calculations, they suggest a loss about equal to Wal-Mart’s own employment in the area.” As objective, scientific researchers we acknowledge that there is inherently statistical uncertainty about the net effect of Wal-Mart on total employment in this area. Our conclusions represent our best estimate of Wal-Mart’s impact based on available data. Our conclusions are consistent with economic theory and a large body of empirical literature about Wal-Mart’s impact on employment in a number of other contexts. Our work is neither the first nor the last study of Wal-Mart’s impact. We believe that our work represents the best objective evidence about the impact of the Wal-Mart located in Alderwoman’s Mitts’ district on total employment in the area.