Community Economic Development

Right-to-Work and Economic Performance

Today 24 states have Right-to-Work (RTW) laws with most states adopting the law prior to 2000. Indiana and Michigan are the most recent states to adopt RTW, both in 2012. While each state with RTW laws varies slightly, the basic premise is that workers cannot be forced to join a union and pay dues as a condition of employment.

On a philosophical level proponents of RTW laws claim that they will increase personal freedom and employer flexibility. Opponents of RTW laws emphasize that unions must negotiate on behalf of all workers in the unit, and as such, it is appropriate that all workers pay for that for representation. In other words, some workers can benefit from union negotiations without paying for those benefits, or act as free-riders.

At a more practical level supporters of right-to-work argue that these laws create a more conducive environment for economic growth and development. In essence, adoption of RTW is an economic development strategy. This, however, is the subject of heated debate within both the academic literature as well as policy discussions. Unfortunately, there is little agreement within the literature that has attempted to empirically document the impact of RTW laws. Some studies, such as Holmes (1998) and Hickes (2012), find that there is evidence that manufacturing growth is higher in RTW states than non-RTW states. But in a comprehensive review of the empirical literature Moore (1998) suggests that results hinge on the metric of economic performance and that in the end RTW laws are more symbolic than real.

To provide some simple insights into the impact of RTW laws, consider the how states with RTW laws compare to states that do not. Using annual data for the lower 48 states from 2000 to 2011 we look across income, poverty and unemployment. We also use a simple F test statistic to see if the difference we observe are statistically significant.

For the "typical" right-to-work state the average manufacturing compensation per job is $52,900 while it is $61,900 for non-right-to-work states.

The primary federal legislation that regulates private sector collective bargaining is the National Labor Relations Act (NLRA), enacted in 1935. The NLRA was amended by the Taft-Hartley Act in 1947, individual states have had the option of enacting laws that prohibit union security agreements. These state laws supersede the union security provisions of the NLRA and are known as *right-to-work* (RTW) laws.

Lower 48 states, annual 2000 t0 2011	Right-to-Work States	Not Right-to-Work State	F test	sig.
Manufacturing Compensation per Job	52,900	61,000	112.86	(0.0001)
Unemployment Rate	5.4	5.9	6.75	(0.0096)
Bachelor's Degree or Higher	24.4	28.2	103.72	(0.0001)
Individual Poverty Rate	13.9	12	56.3	(0.0001)
Per Capita Personal Income	33,101	36,976	54.23	(0.0001)

The F test is the statistical test if those observed difference in the means are "significantly different": the larger the F test the more confidence we can place on difference being "real". All of these results are statistically significant. Per capita income is $33,100 in the typical right-to-work state but it's almost $37,000 in non-right-to-work states (again, the difference is statistically significant). The poverty rate is higher in right-to-work states and the share of the population over age 25 with at least a bachelor's degree is lower in right-to-work states. The unemployment rate, however, is lower in right-to-work states, but this is the weakest result from a statistical perspective. ***Bottom line, right-to-work states tend to have lower manufacturing wages and overall income levels, higher poverty rates and lower education levels.*** Clearly such a simple comparison of RTW and non-RTW states masks complex underlying factors such as differences in tax policies, climate, and the structure of the state economy, among many other factors.

In the end, right-to-work policies are more symbolic than an actual economic growth and development policy. In and of itself right-to-work laws really do very little, its really more a signal about how people think about business climate. Historically, business climate is associated with low costs of doing business such as low taxes, inexpensive labor and limited regulation. This view is mostly commonly aligned businesses that maximize profits by driving cost of operations down. This approach is widely referred to a the "low-road" to economic growth. This would help explain why income and education levels tend to be lower in RTW states. Firms that are attracted to RTW states prefer to keep costs as low as possible.

While this view of business climate and policies that promote it is consistent with the promotion of low wage employment, it is generally considered counter productive in promoting high growth and high wage industries. Today a positive business climate is associated with entrepreneurial communities that are willing to experiment with new ideas, learn from their mistakes and "think outside the box." Communities that are willing to make investments today with anticipated outcomes that may take years to be realized are said to have a positive business climate. This can include the willingness to tax themselves to make investments within the community. A long-range view is taken over a short-term outcomes.

A contemporary way to think about business climate centers on how decisions are made within the community. In short, effective decision-making means that the community can separate symptoms and underlying causes of the issues facing the community. Are decisions made by a broad representation of the community or a select few? Entrepreneurial communities are more adapt at effective decision-making. The notion of public-private partnerships that bridge the business community and local government is a move toward being more entrepreneurial and effective in decision-making. Effective decision-making also minimizes the chance of randomness in changing regulations.

Right-to-Work types laws do not move a community toward a more contemporary view of business climate, but rather embraces an older view that promotes lower wage industries.

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Michael J. Hicks. (2012). "Right-to-Work Legislation and the Manufacturing Sector." Center for Business and Economics, Ball State University, Muncie, IN.

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