New Research Counters Arguments for "Right-To-Work" Laws

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Updated January 2012

The 1947 passage of the Taft-Hartley amendments to the National Labor Relations Act allowed states to make it illegal for employers and unions to bargain agreements stipulating that all employees represented by a union had to pay dues. Without these agreements, unions are required to represent and negotiate on behalf of all the employees they represent, regardless of whether they choose to pay dues or not. Since 1947, twenty-two states have passed "right-to-work" (RTW) laws.

RTW laws don't generate jobs, economic growth

Proponents of RTW laws claim that they enable a more business-friendly environment and lead to economic growth for states and their residents.[1] Yet recent studies rebut claims of economic growth and instead find that laws suppress wages.

In a 2011 report by the Economic Policy Institute, Gordon Lafer of the University of Oregon and Sylvia Allegretto of the University of California, Berkeley, examined changes in employment for states that adopted RTW laws, and found:[2]

- RTW laws have not boosted employment growth for the states that adopted them.
- After Oklahoma passed a RTW law in 2001, manufacturing employment and relocations into the state began to decline after a previous increase.
- Unemployment in Oklahoma has more than doubled since the law was passed, and when compared to rates in Oklahoma's neighboring states, there is no evidence that the RTW law boosted employment.
- Despite predictions by the RTW law's backers that eight to 10 times more companies from out of state would consider relocating to Oklahoma if the law was passed, the rate of new arrivals actually decreased following the passage of the RTW law.
- When either large or small companies are choosing their business locations, the existence of a RTW law does not figure in a typical decision process.
- Economic development officials do not prioritize or emphasize RTW when seeking to attract enterprise into states.
- RTW laws could harm a state's ability to grow by lowering tax revenues and restricting aggregate consumer demand.

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[1] Right to Work Frequently-Asked Questions. (2010). Retrieved August 25, 2010, from National Right to Work Legal Defense Foundation, Inc. website, http://www.nrtw.org/en/b/rtw_faq.htm.
Frequently Asked Questions. (n.d.) Retrieved August 25, 2010, from National Right to Work Committee website, http://www.nrtwc.org/about/frequently-asked-questions/.
Johnson, R. et al. (2008). *Is unionization the ticket to the middle class? The real economic effects of labor unions*. Washington, DC: U.S. Chamber of Commerce.

[2] Lafer, Gordon and Sylvia Allegretto. (2011). "Does Right-to-Work Create Jobs? Answers from Oklahoma," Washington, DC: Economic Policy Institute.

From their analysis, Lafer and Allegretto concluded, “As states look to attract and retain employers, and particularly to expand the opportunities for state residents to land middle-class jobs, the hard statistical evidence suggests that ‘right to work’ laws have no role to play in this revival.” The authors also concluded that RTW laws are largely incompatible with many states’ strategies of supporting “high-road” employers who are less susceptible to offshoring; these employers are “the least likely to be influenced by laws aimed at undermining union bargaining power.”

The study also debunks the new claim of the National Right to Work Committee that employment in RTW states, on average, grew twice as fast as non-RTW states. Lafer and Allegretto found that by the end of 2010, both the highest and lowest unemployment rates were found in RTW states. They note that with such dramatic variation in job growth between states, a RTW law “accounts for little if anything in these trends.”

As multiple reports note, jobs connected to manufacturing are leaving the country due to trade policies, not going to certain states based on their RTW status. In fact, since the enactment of the North American Free Trade Agreement, the RTW states of North Carolina and Mississippi have lost a higher percentage of manufacturing-related jobs than Michigan, a non-RTW state.[3]

Lonnie Stevans, Professor of Information Technology and Quantitative Methods at Hofstra University, has tested this claim by comparing the business formation and economic growth of RTW states with non-RTW states using recent data from the U.S. Small Business Administration.[4] Stevans controlled for variables like education levels, population changes, and type of employment in the states to accurately measure the relationship between right-to-work laws and economic growth.

Stevans found that a state’s RTW law:

- Has no impact on economic growth
- Has no influence on employment
- Has no influence on business capital formation (the ratio of firm ‘births’ to the number of firms)
- Is correlated with a decrease in wages

Stevans also found that the average real state GDP growth rate of RTW states is not significantly different than non-RTW states. Based on his analysis, he observed, “…From a state’s economic standpoint, **being right-to-work yields little or no gain in employment and real economic growth.”**

Scholars from the Higgins Labor Studies Program at the University of Notre Dame conducted a similar study, which debunked claims made by Ohio University economist Richard Vedder in a previous report issued by the Indiana Chamber of Commerce.

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[3] Lafer, Gordon. (2011). ‘Right to Work’: The Wrong Answer for Michigan’s Economy. Washington, DC: Economic Policy Institute; Vincent, Jeff. (2006). The 2006 Indiana Right to Work Campaign. Bloomington, IN: The Indiana University, Division of Labor Studies.

[4] Stevans, L.K. (2009). The effect of endogenous right-to-work laws on business and economic conditions in the United States: A multivariate approach. *Review of Law & Economics*, 5(1), 595-612.

Vedder claimed that passing RTW laws would raise per capita income of a family of four by over $3,800. However, the Notre Dame study, conducted by Professor Marty Wolfson, former Federal Reserve Board economist and current Director of the Higgins Program, and Associate Director Dan Graff, found that:

- RTW laws have no meaningful positive impact in the growth of income in the states that adopt them.
- Median household income is lower, on average, in RTW states and lower than the median household income of country as a whole.
- 18 of 22 states who have RTW laws have median household incomes below the national median.
- Companies who seek lower wages are more likely to relocate to low-wage countries like India or China than to relocate to Indiana.[5]

Prior research on RTW employment growth was inaccurate

Charlene Kalenkoski and Donald Lacombe, professors in the Department of Economics at Ohio University, recently examined previous research claiming that RTW laws attract manufacturing employment to a state.[6] Though prior studies have tried to measure the impact of RTW on employment, they failed to account for geographic characteristics such as natural or labor resources that also impact employment. When Kalenkoski and Lacombe measured the impact of RTW laws **without accounting for a multitude of geographic factors, their estimates "dramatically overstate the positive relationship between RTW legislation and manufacturing employment."** When they did control for geographic factors, they found RTW legislation is associated with only a slight increase in manufacturing employment, along with a decrease in employment in agriculture, fishing, mining and some service industries. They concluded that "improperly controlling for geographic factors can lead to incorrect inferences and misinform policy."

RTW laws lead to declines in workplace representation and wages

From the above studies, it's clear that passing a RTW law is not a path to saving your state's economy. Yet we know from many studies that RTW laws do lead to declines in union representation.[7] According to one study, one-third of the difference in union representation rates between RTW and non-RTW states is attributable to RTW laws.[8]

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[5] Wolfson, M. (2011). "Right to Work" vs. The Rights of Workers. South Bend, IN: The Higgins Labor Studies Program, University of Notre Dame.

[6] Kalenkoski, Charlene and Donald Lacombe. "Right-to-Work Laws and Manufacturing Employment: The Importance of Spatial Dependence," *Southern Economic Journal*, Vol. 73, No. 2 (Oct., 2006), pp. 402-418.

[7] Hogler, Raymond, Steven Shulman and Stephan Weiler. 2004. "Right-to-Work Laws and Business Environments: An Analysis of State Labor Policy," *Journal of Managerial Issues* 16, No. 3: 289-304; Davis, Joe C., and John W. Huston. 1995. "Right-to-work laws and union density: New evidence from micro data," *Journal of Labor Research* 16:223-9; Garofalo, Gasper A., and Devinder M. Malhotra. 1992. "An integrated model of the economic effects of right-to-work laws," *Journal of Labor Research* 13:293-305; Hirsch, Barry T. 1980. "The determinants of unionization: An analysis of inter-area differences," *Industrial and Labor Relations Review* 33:147-61; Carroll, Thomas M. 1983. "Right-to-work laws do matter," *Southern Economic Journal* 50:494-509.

[8] Garofalo, 1992.

With reduced collective power in the workplace, it's no surprise that RTW legislation leads to lower wages. Lonnie Stevans, as noted above, found that RTW laws are correlated with lower wages. These low wages limit the discretionary income people have to spend in non-manufacturing sectors. For a state like Michigan, that is 85 percent of the economy.[9] Henry Farber, Professor of Economics at Princeton University, found that **after Idaho passed a RTW law in 1985, there was a statistically significant drop in nonunion wages relative to other states**.[10]

Research conducted by Elise Gould and Heidi Shierholtz of the Economic Policy Institute also measured the impact of RTW laws on wages.[11] The authors found that **wages in RTW states are 3.2 percent lower than those in non-RTW states**, even after controlling for both macroeconomic and individual demographic and socioeconomic variables. This is in part due to the diminished function of the "union threat effect," which occurs when non-union employers try to keep wages close to that of nearby union companies.[12] They also found that **the rate of employer-sponsored pensions is 4.8 percentage points lower in RTW states**, again controlling for a full complement of other factors. The authors conclude that, "If workers in non-RTW states were to receive pensions at this lower rate, 3.8 million fewer workers nationally would have pensions."

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[9] Lafer, Gordon. (2011). 'Right to Work': The Wrong Answer for Michigan's Economy. Washington, DC: Economic Policy Institute.

[10] Farber, H.S. 2005. "Nonunion Wage Rates and the Threat of Unionization," *Industrial and Labor Relations Review* 58(3): 335-352.

[11] Gould, Elise, and Heidi Shierholtz. 2011. "The Compensation Penalty of Right-to-Work Laws," Economic Policy Institute <http://www.epi.org/publications/entry/6796/>

[12] Zullo, Roland. (N.D.) What "Right to Work" Would Mean for Michigan. Ann Arbor: Institute for Labor and Industrial Relations.