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What the Research Says about "Right-to-Work" Laws, Employment and Wages

By Anna Baumann

As several Kentucky counties have passed or are considering local "right to work" (RTW) laws, serious research calls the benefits of such laws into question. The best evidence suggests that RTW fails to result in stronger job growth including in manufacturing while resulting in lower wages and benefits for workers in RTW states.

RTW laws prohibit unions and employers from including a provision in contracts that requires employees who benefit from union representation to pay their fair share toward those costs.[1] In becoming RTW, Kentucky counties including Warren, Todd and Boone are the first local governments in the nation to join the 25 states with RTW laws, including most recently Indiana and Michigan in 2012 and Wisconsin in 2015.

By creating "free-riders," or workers who receive but do not pay toward the better wages, benefits and working conditions that unions bargain for, and therefore by reducing the resources unions have to carry out that work, RTW undermines workers' ability to band together for better treatment.[2] Despite its name, RTW does not increase or enhance access to jobs, nor does it ban forced union membership, as such is already illegal under federal law.[3]

Proponents are making bold claims about the potential of RTW to boost Kentucky's economy, in particular that it will grow manufacturing jobs as existing companies expand and new ones locate here. But studies that use careful statistical techniques to analyze the experience of states do not support claims of the economic benefits of these laws, while pointing out potential harm to workers in terms of job quality.

Good research matters when determining the impact of RTW

The common feature of serious policy analysis is it identifies and isolates, as much as possible, the numerous factors that may be at play in the relationship between the variable of interest (in this case, RTW), and the measured variable (economic growth). Many dynamics affect a state's economy including proximity to markets and suppliers, the condition and reach of its roads, the skills of its workforce, access to natural resources, urban/rural distribution and other economic, social, geographic, demographic and policy factors. Attempting to tease out the impact of any one variable such as RTW requires that researchers "hold everything else (the other variables) equal."

RTW proponents often miss the mark on this important point, using misleading correlations or studies that do not control for other factors to make their arguments.[4] For example, the Heritage Foundation asserts that RTW "means more jobs" because the average unemployment rate for RTW states in 2013 was lower than for non-RTW states.[5] But another superficial comparison shows no clear effect of RTW on job growth: at the end of 2014, five of the ten states with the lowest unemployment rates were RTW, and seven of the ten states with the highest unemployment were RTW.[6]

False relationships are extremely easy to find: in the 2000's, average job growth was nine times higher in states beginning with the letters N-Z compared to those beginning with A-M.[7] Statistical rigor would show that the alphabet has no impact on jobs, or in other words, that correlation and causation are distinct.

RTW does not grow jobs

While casual statistics have been used to cast RTW in different lights, rigorous studies that examine RTW's effect on states' economies find no link between RTW and jobs.[8] In an analysis for the Economic Policy Institute "'Does Right-to-Work Create Jobs? Answers from Oklahoma," economists Gordon Lafer and Sylvia Allegretto find no impact at all of RTW on employment.

To help explain the absence of a jobs effect, the report provides some historical context: since half of states are RTW and most have been for a long time, any state adopting the law today will not gain much of a competitive edge in attracting new jobs. That's because there are a limited number of firms whose primary location concerns are weaker unions and cheaper labor, and they have 25 RTW states to choose from. Furthermore, to the extent that lower union presence and labor standards influenced the industrial migration from northern to southern RTW states in the middle of the twentieth century, that trend has likely played itself out. Today, thanks to the mobility of labor, capital and technology, firms seeking lower labor costs above all else can move to other countries.

Given that context—and because the question for non-RTW states like Kentucky is, "how would RTW impact jobs in our state in *today's* economy?"—EPI's choice to look for a jobs effect in Oklahoma is appropriate: enough time has passed since Oklahoma passed RTW in 2001 for it to have an effect, but not too much time. Indiana (2012), Michigan (2012) and Wisconsin (2015) are the most recent states to have become RTW, while the majority of RTW states passed the law half a century ago in a fundamentally different economy.

The Oklahoma study builds on previous research which assumes that counties on the border between RTW and non-RTW states are likely to be similar in economic, geographic, social and demographic characteristics, thus reducing variation in associated factors and allowing a clearer look at the impact of RTW. Holding additional factors equal including population and unemployment rate to further isolate RTW, the authors write: "we tested for this impact in nearly every way imaginable…[but] no matter how we analyzed the data, the result was always the same: the adoption of right-to-work in Oklahoma had no significant positive impact whatsoever on employment."[9] In fact, they found that employment in Oklahoma improved compared to its neighbors in the years preceding its passage of RTW (2001), and got relatively worse in the years following.

RTW is wrong strategy for growing Kentucky's manufacturing sector

Manufacturing is the sector most commonly identified as a target of RTW: advocates propose that because manufacturing is mobile, states and localities can make themselves more attractive to manufacturers and can thus grow jobs by passing RTW. The Oklahoma study included testing for a relationship between RTW and growth in manufacturing but found none.

Furthermore, Kentucky's manufacturing sector is not falling behind other states: Manufacturing as a share of total employment in Kentucky (12.4 percent) is the eighth highest among states and 3.6 percentage points higher than the national average. As a share of Kentucky's Gross Domestic Product, manufacturing is 18.3 percent, seventh highest in the nation.[10] Compared to RTW neighbor states, manufacturing as a share of total jobs in Kentucky is larger than in Tennessee and Virginia (see table). It is smaller than in Indiana, but that state only became RTW in 2012.

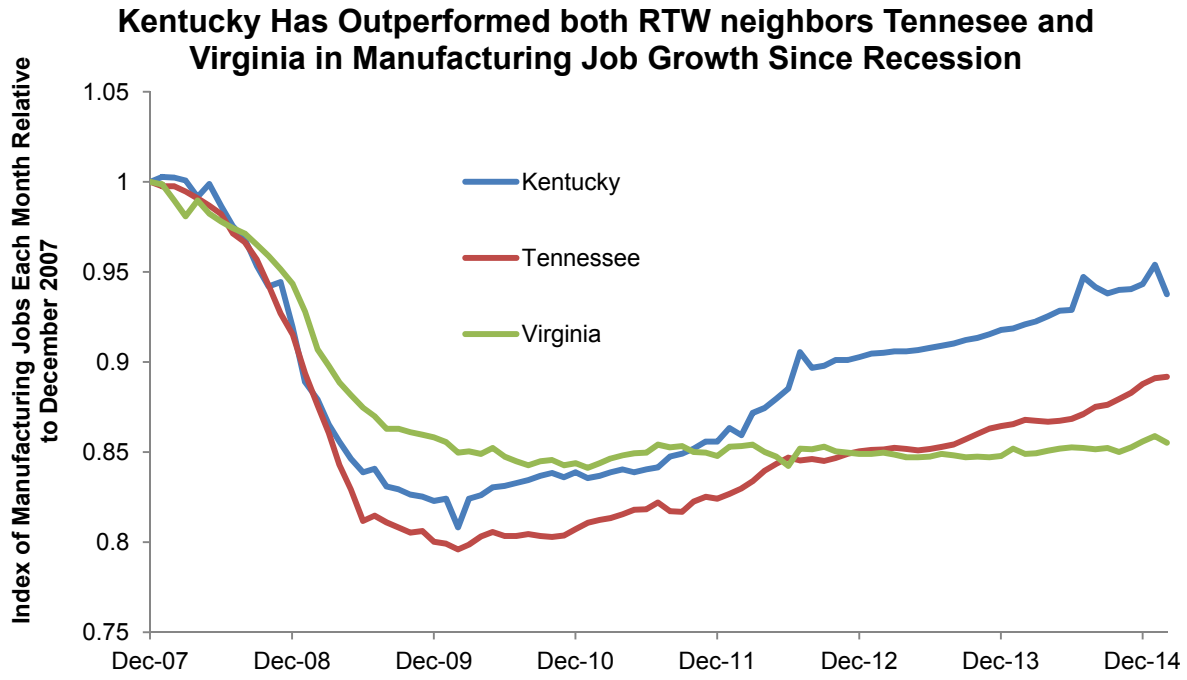
Since 1998, all but three states have lost manufacturing jobs as companies have relocated to low-wage countries, trade deficits have grown, two recessions have hit the U.S. economy hard and technologies have changed. While the table below does not imply causation, it does show that Kentucky's manufacturing sector is doing just as well or better than its RTW neighbors by this count, both in terms of the number of manufacturing jobs lost and their share of total employment.

Manufacturing Jobs, Kentucky and Border States
RTW states in red

	2013 Manufacturing as Share of Total Employment	Number of Jobs Lost, 1998-2013	Jobs Lost (1998-2013) as Share of Total Employment in 1998
West Virginia	6.4%	29,500	4.1%
Kentucky	12.4%	76,700	4.4%
Virginia	6.1%	145,000	4.4%
Missouri	9.2%	125,600	4.7%
Illinois	10.0%	330,500	5.6%
Indiana	16.8%	169,500	5.8%
Ohio	12.6%	368,500	6.8%
Tennessee	11.6%	191,700	7.3%

Source: Economic Policy Institute analysis of Bureau of Labor Statistics data

Similarly, if RTW were an important consideration in manufacturing companies' decisions about where to create or expand jobs, one might expect to see RTW states return more quickly to their pre-recession levels of manufacturing employment as the economy continues to recover. But the graph below shows that Kentucky has outperformed its longtime RTW neighbors Virginia and Tennessee by this measure.



Source: Bureau of Labor Statistics, Current Establishment Survey
Note: Indiana only became RTW in 2012 and since then its relative manufacturing job growth has not outperformed Kentucky's.

A much bigger issue than states' RTW status is the large volume of manufacturing jobs the U.S. has lost as a result of its growing trade deficit with China and other countries. China's use of currency manipulation and other illegal and legal strategies to keep their goods cheap has cost Kentucky an estimated 41,100 jobs since 2001.[11] Addressing currency manipulation at the national level is a crucial first step to rebuilding manufacturing in the U.S.

RTW makes Kentucky's low wage dilemma worse

By reducing the resources unions have to bargain for better wages, RTW would intensify an existing problem for Kentucky workers: wages have been declining or stagnant and are already low compared to other states. In 2013, Kentuckians had the third lowest median wage in the nation ($14.77) behind only Mississippi and Arkansas, both RTW states. Once inflation is accounted for, between 2001 and 2013 Kentucky wages fell by eight percent for workers in the middle of the income distribution and by 12 percent for low-income workers at the 30th percentile.[12]

The evidence supports this concern: research from the now chief economist at the US Department of Labor for the Economic Policy Institute (EPI) examined the impact of RTW on wages and benefits—isolating its effect from more than 40 other state and individual level variables[13]—and found that wages and benefits are lower in RTW states:

- The average worker's hourly wage is 3.2 percentage points lower, for an annualized difference of $1,500.
- Workers are 2.6 percentage points less likely to have employer-sponsored health insurance and 4.8 percentage points less likely to have an employer-sponsored pension.

Estimated wage, benefit and union coverage differentials are based on all workers: RTW lowers wages for workers in unionized organizations directly, but also spills over into non-union jobs by lowering the bar for all employers competing for workers. In 2013, the median wage for union workers in Kentucky was $17.86 and for non-union workers, $14.04.[14]

Even without RTW, there is already downward pressure on wages in manufacturing, which historically provided livable wages to workers without higher levels of education. Kentucky has gained back slightly over half of the 20 percent of manufacturing jobs it lost between 2007 and 2010, but the new jobs tend to have lower wages, benefits and job security.[15] By weakening worker representation, RTW threatens to harm wages further. And stagnant or declining wages can also mean fewer jobs due to the resulting decline in consumer spending: on average, a $1 million drop in wages amounts to about six fewer jobs in local economies.[16]

Right-to-work may also reduce workplace safety. For instance, one study that controls for other types of variation finds that in non-RTW states, higher union density (defined as the share of construction employees that are trade union members) is associated with fewer fatalities in construction work. In RTW states, on the other hand, "labor unions are less effective at reducing fatalities."[17] The findings support the authors' hypothesis that RTW laws reduce the resources unions have to invest in worker safety programs.

Low "stock of knowledge," not lack of RTW, is a cause of slow economic growth in Kentucky

In 2008, the Center for Business and Economic Research (CBER) at the University of Kentucky published an analytically rigorous study asking why Kentucky lags behind its southern neighbors Alabama, Georgia, North Carolina and Tennessee (all RTW) in terms of economic growth.[18] The authors examined the impact of 18 state-level factors on earnings. These factors are clustered in five areas: stock of knowledge, state infrastructure, size of government, demographic change and business climate (RTW is one of four factors in this last category). They find that:

- A state's stock of knowledge—its amount of innovation (which they measure with the average number of patents per resident), education levels and spending on research and development—are the most predictive of wealth.
- The percent of states' population in an urban area and percent of population that in-migrated also show a clear, positive relationship with higher earnings.
- Business climate variables including RTW have the weakest effect, and RTW itself is slightly negatively related to wealth, but has a statistically insignificant effect.

The authors' conversations with site consultants and economic development officials supported their statistical findings that Kentucky's low "stock of knowledge" is the main reason for its slow growth. Every site consultant referred to lack of workforce training and education, especially in rural areas, as the primary reason Kentucky was not chosen by businesses for location. Similarly, economic development officials in comparison states identified their states' focus on education and workforce development in recent years as the most important factors contributing to economic growth.

Local RTW campaign in Kentucky is misguided

Local leaders maintain that the push to turn Kentucky into a RTW state, county by county, is motivated by the idea that doing so will create jobs, but that idea is not supported by rigorous research. What is clear is that RTW will worsen job quality problems Kentucky already faces, mainly by reducing the resources unions have to bargain for better working conditions. In turn, with fewer resources for unions to invest in worker training, and with less wages for workers to invest in their own or their families' education, RTW may undermine the most important strategy Kentucky has for economic growth.

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[1] These counties are Boone, Butler, Cumberland, Fulton, Hardin, Logan, Monroe, Rockcastle, Simpson, Todd, Warren and Whitley. Kenton and Oldham counties have both tabled the issue.

[2] Data from the US Department of Labor show that in 2014, there were about 1.6 million union free riders across the U.S. http://www.bls.gov/news.release/union2.nr0.htm.

[3] In non-RTW states, federal law authorizes unions to collect fees associated with the administrative costs of representation from workers who object to full union membership. These fees constitute a portion of what unions collect from members "in good standing." In all states, RTW or not, unions are required to provide every benefit of representation to every worker at unionized organizations, whether or not workers pay full dues. "Employer/Union Rights and Obligations," National Labor Relations Board Website, http://www.nlrb.gov/rights-we-protect/employerunion-rights-and-obligations.

[4] In the instance that statistical techniques are employed, the variables used may be incomplete or inappropriate. For instance, rather than measuring for the effect of RTW on wages which captures the impact on working people who depend on wages for income, the pro-RTW Wisconsin Policy Research Institute published a study using per capita income, which includes investment income that goes disproportionately to higher-income people rather than workers. Richard Vedder, et al, "The Economic Impact of a Right-to-Work Law on the Wisconsin Economy, Wisconsin Policy Research Institute, February 2015, http://www.wpri.org/WPRI-Files/Special-Reports/Reports-Documents/rtw225.pdf.

[5] James Sherk and Andrew Kloster, "Local Governments Can Increase Job Growth and Choices by Passing Right-to-Work Laws," The Heritage Foundation, August 26, 2014, http://www.heritage.org/research/reports/2014/08/local-governments-can-increase-job-growth-and-choices-by-passing-right-to-work-laws.

[6] Bureau of Labor Statistics, Local Area Unemployment Statistics, December 2014.

[7] Gordon Lafer, "'Right to Work:' The wrong answer for Michigan's economy," Economic Policy Institute, September 15, 2011, http://www.epi.org/publication/right-to-work-michigan-economy/.

[8] Gordon Lafer and Sylvia Allegretto, "Does 'Right-to-Work' Create Jobs? Answers from Oklahoma," Economic Policy Institute, February 28, 2011, http://www.epi.org/publication/bp300/.

[9] The dependent variables for which EPI tested were: "unemployment rate, the number of manufacturing jobs, relative job growth and unemployment compared to neighboring states, relative growth compared with a statistical control group, the change in employment at the state's borders, the number of firms relocating to the state."

[10] Robert Scott, "The Manufacturing Footprint and the Importance of U.S. Manufacturing Jobs," January 22, 2015, Economic Policy Institute, http://www.epi.org/publication/the-manufacturing-footprint-and-the-importance-of-u-s-manufacturing-jobs/.

[11] Robert Scott, "China Trade, Outsourcing and Jobs," Economic Policy Institute, December 11, 2014, http://www.epi.org/publication/china-trade-outsourcing-and-jobs/.

[12] Jason Bailey, Anna Baumann, Ashley Spalding, "The State of Working Kentucky 2014," Kentucky Center for Economic Policy, August 2014, http://kypolicy.org/dash/wp-content/uploads/2014/08/State-of-Working-KY-2014-final.pdf.

[13] Elise Gould and Heidi Shierholz, "The Compensation Penalty of Right-to-Work Laws, Economic Policy Institute, February 2011, http://s4.epi.org/files/page/-/old/briefingpapers/BriefingPaper299.pdf. The study controls for 42 "comprehensive" individual and state-level variables including education, race/ethnicity, age, gender, urbanicity and other demographic variables; work characteristics like union membership, worker status and industry; and economic variables such as cost-of-living and unemployment.

[14] Jason Bailey, Anna Baumann, Ashley Spalding, "The State of Working Kentucky 2014."

[15] Jason Bailey, "Some Manufacturing Jobs Growing in Kentucky, but Not at Wages of Before," Kentucky Center for Economic Policy, http://kypolicy.org/manufacturing-jobs-growing-kentucky-wages/. In an examination of factors that impact income growth, the University of Kentucky Center for Business and Economic Research CBER finds an "overall positive effect of manufacturing [on income growth] primarily due to a positive relationship between manufacturing employment and income growth in the early part of the period [examined]." However, "in more recent years, having more employment in the manufacturing sector is associated with lower average earnings." Jepsen et al, "Economic Growth in Kentucky: Why Does Kentucky Lag Behind the Rest of the South?"

[16] Gordon Lafer and Sylvia Allegretto, "Does 'right-to-work' Create Jobs? Answers from Oklahoma."

[17] Roland Zullo, "Right-to-Work Law and Fatalities in Construction," Institute for Research on Labor, Employment and the Economy, University of Michigan, March 2011, http://irlee.umich.edu/Publications/Docs/RightToWorkLawsAndFatalitiesInConstruction.pdf.

[18] Christopher Jepsen, Kenneth Sanford, and Kenneth Troske, "Economic Growth in Kentucky: Why Does Kentucky Lag Behind the Rest of the South?" Center for Business and Economic Research, Gatton College of Business and Economics, University of Kentucky, January 2008, http://cber.uky.edu/Downloads/CBER_Econ_Develop_Report_final_Jan2008.pdf.