



Standards for Evaluating the Impact of “Right to Work” Laws

“Right to Work” (RTW) laws – that outlaw contracts between employers and unions that require workers to pay agency fees when their employer has a union contract – have long been contentious in labor relations. Advocates of the laws view them as giving workers who do not want to support unions but work in a workplace with a collective bargaining agreement a way to avoid supporting the union. Opponents of the laws view them as violating the principle that all workers benefiting from a collective contract should pay their fair share of the costs of negotiating and enforcing that contract. Groups that dislike unions support RTW in part because such laws undermine unions’ financial viability and divert union resources to soliciting dues rather than organizing or bargaining contracts. RTW laws are widely viewed as a signal that the states which enact them are inhospitable to workers organizing unions at their workplace. To the extent that they weaken unions they are likely to reduce the wages of both currently unionized workers and those who might otherwise organize, with possible negative spillover effects on the labor market more broadly. RTW advocates claim the laws will induce more businesses to come to the state¹ and RTW opponents claim the laws will reduce wages, increase income inequality, and have no impact on job creation.

To cut through the claims and counterclaims surrounding these laws, analysts use different statistical methodologies and models to try to detect the relation, if any, between RTW laws and economic outcomes. The chief problem that faces every study is that many factors beyond RTW affect the employment and earnings of workers in a state and the state economy more broadly, so that pinning down an RTW effect (beyond its impact on the proportion of persons who are union members in an area) requires care and research judgment. RTW states tend to be lower income states that have been converging toward the US average income. Thus cross-state comparisons will tend to show them with lower wages while comparisons of changes over time will show them having increasing wages. But the real cause of their differing from other states will not

¹ “[U]nionization increases labor costs [and this] makes a given location a less attractive place to invest new capital.” Richard Vedder, et al, *The Economic Impact of a Right-to-Work Law on Wisconsin*, WPRI Report, Volume 28: Number 1, Wisconsin Policy Research Institute, February 2015, p. 7. Likewise, WPRI president Mike Nichols argues that “competition from cheap labor in other parts of the world... makes capital investment in non-right-to-work states less likely.”

<http://www.wpri.org/WPRI/Commentary/Labor-battling-public-sentiment-and-new-economic-era.htm>

be RTW but their initial position. Some RTW studies address these and other issues and give credible results. Some others do not and are not credible.

We identify five standards for a credible RTW study.

1) It measures the outcomes most directly impacted by RTW (i.e., weakening unions and wages/benefits) rather than outcomes that are further away from the laws' potential impact. In measuring economic impact, analyses should focus on effects on wages rather than on a state's total per capita income. Using per capita income – which includes all types of incomes including employee wages, executive compensation, and the interest and dividend income of proprietors, investors and shareholders – as an outcome makes it impossible to tell if RTW helped or harmed employees or affected some other group. Studies of unions show that unions impact employee wages, health insurance and pensions and that some of the union impact comes out of profits. An RTW law that weakens unions should impact wages and benefits negatively but positively impact interest and dividend income, producing an unclear outcome for total income.

2) It covers a time period relevant to the analysis. Data that go back to the 1950s or 1960s are less relevant to assessing the likely impact of a RTW law in 2015 than data for recent years, when globalization and inequality have massively changed the US labor market. Greater weight should be placed on studies that treat more recent data and experiences than on older studies.

3) It selects appropriate and robust statistical design. Because RTW laws are enacted in a highly selected set of states, to isolate the effect of RTW the analysis should control as far as possible for all the other features of states' economies and policies that impact economic growth. Since there is no magic set of control variables, findings should be robust to changes in the particular set of variables employed in an analysis. This is particularly the case when states have distinctive economies, whose impact may not have been included in the controls used for statistical analysis. For instance, if a state's geographic location makes transportation costs higher than neighboring states, this may limit the ability to attract manufacturers. Similarly, if a significant share of a state's employment is built around reserves of natural resources such as coal or oil – which cannot move across state lines – this limits the extent to which a state's economy is dependent on or responsive to labor-cost incentives. These and similar factors must be taken into account in projecting the likely impact of RTW laws in a specific state.

4) It compares with what we know. While every state and time period has its unique attributes that dictate some different modeling than in the past and while it is possible that RTW in one state will have vastly different effects than in another state, it is more likely that different studies will find comparable results. Thus, any new study should consult the major, rigorous studies done by other organizations. While there are

advocates on all sides of this issue, and there is not uniformity of opinion, the summary of studies in the Table provides an overview of what researchers have found and where they have differed. We believe that an important study relevant to West Virginia's analysis is the 2008 study by faculty at the University of Kentucky's Center for Business and Economic Research², a study commissioned at a time when Kentucky was considering a RTW bill. If one reaches different conclusions than earlier studies, the new study should explain why. It is critical that any study make its data and methodology transparent and available to the public so that others can test and confirm the results. Sufficient methodological information must be provided to enable other researchers to replicate the findings.

5) It relies on quantitative evidence, not testimonies or surveys conducted by associations or unions that lobby on this issue, as evidence regarding the importance of RTW to employers' location decisions or its impact on workers. Only the actual experience of states measured over significant time periods, or evidence from impartial sources and surveys of non-political employer representatives (such as the Area Development magazine survey of manufacturers, which is not conducted on a statistically rigorous basis but is a non-political survey), the rankings of the State New Economy Index, or similarly disinterested, non-political surveys, should be drawn on for assessing such claims.

Conclusion:

Adopting a RTW law is a weighty decision. Legislators and the public need to have accurate, rigorous and impartial information regarding likely economic impacts. Any study should consider possible downsides as well as upsides. Cost-benefit analyses should include examination of potential wage and benefit decreases, potential loss of payroll taxes, and potentially negative impact on small business, healthcare, and other sectors of the economy that rely on employees' disposable income or health insurance. The economic logic of RTW, as explained by its proponents, is that RTW will lower labor costs – i.e., wages and benefits – and attract outside firms into a given state. New analyses should assess how such a strategy fits with the state's current economic development strategies and other efforts to grow family-wage jobs. Particularly in states that may already have relatively low labor costs, studies should assess the likelihood that further lowering labor costs will result in significantly increased employment.

Table of Recent RTW Studies Using Sensible Statistics and Methodology

² Christopher Jepsen, Kenneth Roth, and Kenneth Troske, *Economic Growth in Kentucky: Why Does Kentucky Lag Behind the Rest of the South?* Center for Business and Economic Research, University of Kentucky, 2008. www.docstoc.com/docs/53467586/Economic-Growth-in-Kentucky-Why-Does-Kentucky-Lag-Behind.

Name (date)	Methodology	Finding
Shierholz and Gould (2011) ⁱ	Regression Model with controls for labor market features, demographic characteristics, and cost-of-living differences.	RTW associated with lower wages, and lower odds of obtaining health insurance or a pension through one's job – for both union and non-union employees
Eren and Ozbeklik (2015) ⁱⁱ	Synthetic control method with weighted combination of control units	RTW significantly decreased private sector unionization rates
Allegretto and Lafer (2011) ⁱⁱⁱ	Multiple regression analyses	RTW had no positive impact on employment
Stevans (2009) ^{iv}	Controls for broad array of economic and business climate variables	RTW associated with lower wages and higher proprietors' income but has "no influence on employment" and "no effect on economic growth"
Hicks (2012) ^v	Fixed effects model with controls for underlying economic structure and acceptance of unionization	RTW had no discernible effect on manufacturing employment

ⁱ Heidi Shierholz and Elise Gould, *The Compensation Penalty of Right-to-Work Laws*, Economic Policy Institute, 2011. <http://www.epi.org/publication/bp299/>

ⁱⁱ Ozkan Eren and Serkan Ozbeklik, "What Do Right-to-Work Laws Do? A Case Study Analysis Using Synthetic Control Method," *Journal of Policy Analysis and Management*, forthcoming 2015. http://faculty.bus.lsu.edu/oeren/eren_ozbeklik_RTW_revised.pdf

ⁱⁱⁱ Gordon Lafer and Sylvia Allegretto, "Does Right-to-Work Create Jobs? Answers from Oklahoma," Economic Policy Institute, 2011. <http://www.epi.org/publication/bp300/>

^{iv} Lonnie K. Stevans, "The Effect of Endogenous Right-to-Work Laws on Business and Economic Conditions in the United States: A Multivariate Approach," *Review of Law and Economics* 5(1), 595-612, 2009. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1027987

^v Michael J. Hicks, *Right-to-Work Legislation and the Manufacturing Sector*, Center for Business and Economic Research, Ball State University, 2012. <https://cms.bsu.edu/-/media/WWW/DepartmentalContent/MillerCollegeofBusiness/BBR/Publications/RightToWork/RightToWork.pdf>

Paula Voos

Paula B. Voos
Professor and Associate Dean,
School of Management and Labor Relations
Rutgers University

Richard Freeman

Richard Freeman
Herbert Ascherman Chair in Economics
Harvard University