THE BUCKEYE INSTITUTE *for* PUBLIC POLICY SOLUTIONS

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How the Economic Freedom of Workers Enhances Prosperity

By RICHARD VEDDER, MATTHEW DENHART, and JONATHAN ROBE

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Why This Report Matters to You

The typical Ohioan today would have a higher income and standard of living if the Buckeye State had matched the nation in its rate of economic growth in recent decades. However, it did not, and one reason is that the labor climate in the state is unattractive both to businesses making strategic investments and workers wishing to work. Arguably the single biggest impediment to an improved labor environment is the lack of a right-to-work law which guarantees workers the freedom to join, or not join, labor unions as they so choose. No worker is coerced to pay union dues, support union political causes, or live under a collective labor agreement if she or he wishes to negotiate individually with the employer. States with right-to-work laws have much higher rates of growth in income, new jobs, wages, capital investment, and in-migration of people. This Buckeye Institute report looks at how a right-to-work law likely would impact Ohio for the good, helping stem the outflow of people and capital that has contributed to the stagnation of the Ohio economy. At a time when resources are limited, this is a state legislative action that does not add to budget woes, and indeed helps provide the resources for future growth of both private and public needs. The bottom line is that freedom is the key to opening the door of prosperity.

Executive Summary

Unlike most southern and western states, Ohio has no right-to-work law. Such laws lower labor costs, increase business investment, and tend to increase income levels. The evidence for Ohio suggests that a majority of Ohio's substandard performance with respect to economic growth since the late 1970s would have been eliminated if a right-to-work law had been adopted several decades ago. Specifically, we estimated that personal income for a family of four, on average, would have been about $12,000 higher annually if the Buckeye State had adopted a right-to-work law in 1977. Ohio's overall growth rate has been abysmal in recent decades, and the passage of right-to-work laws would end monopolistic practices in labor markets that have been an important factor in the state's economic stagnation. Moreover, the cost of doing so would be trivial. The state has had a good deal of discussion of the liberalizing of labor markets for public employees (for instance, Senate Bill 5), and the evidence suggests even greater benefits would be conferred by a generalized right-to-work law that applies to all workers.

Ohio Right-to-Work: How the Economic Freedom of Workers Enhances Prosperity

The most distinguishing characteristic of Ohio's economy in modern times is its slow growth. For example, in the 31 years between 1977 and 2008, inflation-adjusted per capita personal income available to Ohioans grew slightly over 35 percent, compared with a nearly 55 percent growth for the nation as a whole. This relative economic stagnation meant not only lower relative incomes and standards of living for Ohioans, but it also reduced the attractiveness of the Buckeye State, leading to out-migration and limited employment opportunities. This is Ohio's most serious problem.

Economic growth arises mainly from the accumulation of more resources—human and physical capital—as well as new technologies that allow for more outputs for any given amount of those resources. Ohio's sluggish growth, then, reflects rather meager rates of accumulation of human and physical capital, along with perhaps below average adaptation of the state to innovations and technological change.

Many public policies can adversely impact growth. In Ohio, for example, a sharply rising state and local tax burden has unquestionably reduced economic performance. However, an often neglected factor relates to the laws governing labor. Ohio, like 26 other states, allows labor unions to sign collective bargaining agreements that force workers to join the union shortly after becoming employed or at a minimum pay dues to support not only the collective bargaining process but also union political activity. The lack of complete worker freedom to contract individually may be a factor in the out-migration of labor from the state. More importantly, however, this legislation favoring labor unions is perceived, no doubt correctly, to raise labor costs and makes employers less likely to invest. This, in turn, reduces the capital resources available for workers, lowering productivity growth.

Some 23 states, however, have "right-to-work" (RTW) laws that give workers the right to not join unions and prohibit the coercive collection of dues from those not choosing to join. This tends to lower union presence, reduces the adversarial relationship between workers and employers, and makes investment more attractive. One would expect this would have a positive impact on measures of economic performance, such as job creation and, ultimately, the standard of living of the population. This in fact is the case, as is demonstrated in this report.

Historical Background

In the history of the United States, RTW laws are a recent phenomenon. Prior to the labor movement coinciding with the New Deal era, such laws were not necessary simply because labor unions did not have the strong legal authority to coerce worker support. However, over the twentieth century, the American labor environment saw substantial growth and evolution. Today, 23 states have laws that forbid compulsory union membership, and efforts are alive in several other states to push for adoption of such measures.

Common Law Tradition

Prior to the federal legislation passed during the 1930s, labor unions were largely governed under the same common law principles that apply to ordinary citizens. Under this tradition, there was no need for special labor laws because the Constitution itself guarantees property and contract rights. Any disputes that may have arisen between labor and management were handled through private negotiations or, if necessary, in court. If employees thought they could be better represented by a union, they were free to join one, but unions were not permitted to make membership a requirement for employment. Similarly, employers were also free to decide whether they desired to enter into contractual agreements with unions.[1]

1920s Railroad Regulation

The first major movements undermining America's common law tradition with respect to labor relations began in the railroad industry in the 1920s. In 1920, Congress passed the Transportation Act establishing the Railroad Labor Board (RLB). The RLB soon granted railroad unions the power of exclusive representation in labor disputes. This departed abruptly from the common law tradition, whereby individual employees working for unionized railroad companies were no longer permitted to negotiate on their own behalf.

Although the exclusive representation provisions were ruled unconstitutional by the Supreme Court in 1923, railroad unions saw another victory in 1926 with the passage of the Railway Labor Act (RLA). Although the RLA did not reinstate exclusive representation provisions, it specifically granted workers the right to organize. Furthermore, it replaced a "freedom of contract" for employers with a legal "duty to bargain." In 1951 Congress amended the RLA to permit compulsory unionization to be forced upon workers in the railroad and airline industries (the airline industry by that time had fallen under the legal statues of the RLA).[2] To this day, even in RTW states, the RLA allows compulsory unionization in the railroad and airline industries.

1932 Norris-LaGuardia Act

In 1932 Herbert Hoover signed the Norris-LaGuardia Act, further extending union power in America. Beyond legally nullifying worker agreements to not unionize, the act also exempted unions from potential violations of anti-trust laws and freed unions from private damage suits or injunctions arising from their strikes. As might be perhaps expected, incidents of union violence spiked in the year following the passage of Norris-LaGuardia.[3]

National Labor Relations Act of 1935

In 1935, Congress passed, and President Franklin D. Roosevelt signed, the nation's fundamental labor law, the National Labor Rela-

1 George C. Leef, *Free Choice for Workers: A History of the Right to Work Movement* (Ottawa: Jameson Books, 2005).

2 *Ibid.*, p. 37.

3 *Ibid.*, p. 7.

tions Act (hereafter called the Wagner Act). That legislation provided for elections that would determine whether a group of workers would be represented by a labor union. If a majority of workers voted to allow union representation, the Wagner Act permitted unions to arrange different types of union security provisions. The first, referred to as the "closed shop," requires workers to be a member of the relevant union as a prerequisite for employment. Second, unions could establish "union shop" provisions that allow companies to hire non-union members, but force workers to join the union within a predetermined amount of time following their hiring. Finally, "agency shop" agreements could also be enacted, allowing unions to collect due payments from all workers, but not making union membership itself compulsory.

The Wagner Act was a monumental move that greatly increased the power of labor unions to coerce workers into supporting them, regardless of whether a worker desired the union's services. This monopoly power represented a break from the American tradition of individual liberty and did (and still does) alarm many Americans. Opponents of big labor will of course find fault with provisions that forbid individual workers from entering contracts that they believe are in their own best interest. Yet, even union sympathizers might well fear monopoly power because it undermines the incentive for unions to remain accountable to the workers they supposedly represent. Without union security provisions, unions must provide something that workers believe is worth the union dues they pay. Compulsory unionism removes this market mechanism that assures accountability, and allows labor unions to pursue their own interests at the expense of both workers and management.

The Taft-Hartley Act of 1947

In 1947, in response to growing public disillusionment with labor union power and perceived abuses, Congress amended the Wagner Act by passing the Taft-Hartley Act. President Harry S. Truman vetoed the bill, but a Republican-dominated Congress mustered the necessary two-thirds vote in both houses to make the bill law. Under Taft-Hartley, the closed shop was outlawed, but union and agency shop arrangements were still permitted.

However, section 14(b) of Taft-Hartley allows individual states to override these provisions as it declares that the act "shall not be construed as authorizing the execution or application of agreements requiring membership in a labor organization as a condition of employment in any State or Territory in which such execution or application is prohibited by State or Territorial law." This clause provides the legal foundation for states to enact RTW legislation, ensuring that workers can decide for themselves whether they wish to support a union, even when collective bargaining agreements are in place.

State Right-to-Work Laws

Florida and Arkansas both adopted RTW provisions in 1944, three years before the passage of the Taft-Hartley Act. Two years later, Arizona, Nebraska, and South Dakota followed suit, as did Georgia, Iowa, North Carolina, Texas, Tennessee, and Virginia in 1947. Union leaders quickly pushed back, challenging the RTW laws of Arizona, Nebraska, and North Carolina in court. The cases ran quickly through the courts and in 1948 the U.S. Supreme Court ruled in favor of the constitutionality of the RTW laws in the case *Lincoln Federal Labor Union v. Northwestern Iron and Metal.*[4]

Today, there are 23 RTW states, geographically concentrated in the southern and western

4 *Ibid.*, p. 29.

portions of the country.[5] Until recently, none of the 14 states comprising the New England, Mid-Atlantic, and East North Central census regions—the industrial North East and Midwest—are RTW states, but a majority of the remaining states (61 percent) have RTW laws on the books. Recently, Indiana became the first of eastern and Midwestern industrial states to adopt a right to work low.

While the number of RTW states has grown only slightly in recent decades, the proportion of the American population living in a RTW environment has steadily grown, jumping from about 29 percent in 1970 to 40 percent by 2008.[6] While part of that growth reflects a modest growth in the geographic area covered by RTW laws and even slightly higher rates of fertility in those states, most of it is the result of a very considerable migration over time of Americans out of non-RTW states like Ohio and into RTW states such as Texas, Georgia, and Nevada.

The Decline of Labor Unions in America

Not surprisingly, RTW states typically have far lower union membership in the labor force than other states. The unweighted percentage of workers belonging to unions in 2007 was over 14 percent in the 28 non-RTW states, compared with less than 7 percent in the 22 states with RTW laws.[7] The ability of workers to opt out of union membership where collective bargaining exists has a significant negative effect on union membership, explaining the virulent opposition to these laws by the union movement.

While the existence of RTW laws no doubt is a contributing factor in the declining relative importance of labor unions in the American workforce since the passage of Taft-Hartley, it is clearly not the leading one.[8] At the time of the passage of the Wagner Act and other pro-union legislation in the 1930s, the proportion of Americans working in large industrial settings was much greater than today. Workers were far less likely to occupy managerial, technical, or professional forms of jobs, women were a much smaller proportion of workers, and educational attainment levels were far lower. Furthermore, both government-provided (e.g., Social Security, workers compensation, unemployment insurance, Food Stamps, etc.) and private forms of income security (e.g., private pension plans, 401 savings accounts, IRAs, etc.) were far less prevalent than they are today. Also, with the passage of time, the proportion of Americans working for very large corporations has actually declined as a percentage of the labor force, probably enhancing direct communications between workers and upper level management.

The rise in globalization, manifested in a huge growth in international trade, makes it difficult for high-cost labor monopolies within a single nation to sustain themselves against the forces of international competition. Thus, the relative decline of many of America's heavy industries (e.g., automobiles and steel) is often attributed to the high costs of labor arising from labor agreements dating back to an era when international competition was far less intense. All of these changes in the labor market environment serve to reduce the attractiveness of unions.

5 The right-to-work states include Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Indiana, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming.

6 Richard Vedder, "Right-to-Work Laws: Liberty, Prosperity and Quality of Life," *Cato Journal*, Vol.30 (Winter 2010), pp. 171–180.

7 *Ibid.*, p. 175. Indiana is treated as a non-right-to-work state in most of the subsequent analysis since their law was only signed in the past few weeks and was not in effect during the period which this study examines.

8 The literature on this point is mixed. For a study arguing that right-to-work laws reduce the incidence of unionization, see T.M. Carroll, "Right-to-Work Laws Do Matter," *Southern Economic Journal*, Vol.50 (1983), pp. 494-509. For a different view, see K. Lumsden and C. Petersen, "The Effect of Right-to-Work Laws on Unionization in the United States," *Journal of Political Economy*, Vol. 75 (1975), pp. 1237–1248, and H.S. Farber, "Right-to-Work Laws and the Extent of Unionization," *Journal of Labor Economics*, Vol. 2 (1984), pp. 319–352.

Ohio and Right-to-Work

The intercollegiate debate topic for the 1957-1958 school year addressed the question of whether the "requirement of membership in a labor organization as a condition of employment should be illegal."[9] With the backdrop of the McClelland Senate hearings investigating the connection between organized labor and organized violence, RTW was a major national issue in the late 1950s. Eighteen states already had RTW provisions on the books, and in 1958 six states, including Ohio, would attempt to join their ranks. However, of these six states—California, Colorado, Idaho, Kansas, Ohio, and Washington—the push for RTW laws was successful only in Kansas.

Under the leadership of executive director Hersh Atkinson, the Ohio Chamber of Commerce (OCC) began organizing RTW supporters in 1957. Their strategy (similar to the strategies of the other five states pushing RTW in 1958) was to put the issue up to public vote by making it a ballot referendum issue in the 1958 election. Early on it appeared adopting RTW would prove successful. Polls showed that OCC members unanimously supported the effort and that three-quarters of members believed Ohio voters would pass the measure.[10] However, history would prove that this initial optimism was off base.

Labor supporters wasted no time in organizing a campaign of their own to block the effort. In late 1957, state-level labor federations began meeting and soon formed United Organized Labor of Ohio (UOLO) to coordinate the anti-RTW message. The labor movement also tapped into national organizations for help. By this time the national AFL-CIO had a unit devoted specifically to offer "research, funding, and campaign assistance to state affiliates" on the RTW issue.[11] Labor supporters employed a grassroots strategy and targeted civic and religious organizations while pushing a message that RTW would diminish the useful role that unions play in ensuring social and economic prosperity for working class people.[12]

In contrast to the unions' well organized public relations campaign, the RTW campaign suffered from internal divisions and the lack of a consistent message. Despite early support for RTW from OCC members and other large businesses (such as American Rolling Mills Company, Timken Roller Bearing, and General Electric), over the year leading up to the ballot vote the movement had several setbacks. First, it never received the full-support of the state's Republican leaders. In fact, both John Bricker and Ray Bliss—respectively U.S. Senator from Ohio and the Ohio GOP chairman—expressed opposition to introducing RTW as a ballot issue in 1958, and never fully endorsed it to the public.[13] Although these men were likely sympathetic to the cause, they feared making it a ballot issue could drive a large voter turnout for the Democrats and lose the election for GOP candidates. The OCC also lost the support of a significant number of major employers including the Cleveland Chamber of Commerce and the Ohio Farm Bureau who both faced serious union pressure.[14] These divisions within RTW's traditional allies certainly helped discredit the movement.

The RTW camp also never settled on a consistent message to use to persuade voters. RTW

9 Michael B. Hissam, "C. William O'Neill and the 1958 Right-to-Work Amendment," thesis, The Ohio State University, 2005, p. 59.

10 Marc Dixon, "Movements, Countermovements and Policy Adoption: The Case of Right-to-Work Activism," *Social Forces*, Vol. 87, No. 1 (September 2008), p. 486.

11 *Ibid.*

12 *Ibid.*, p. 487.

13 John H. Fenton, "The Right-to-Work Vote in Ohio," *Midwest Journal of Political Science*, Vol. 3, No. 3 (August 1959), p. 242.

14 Dixon, "Movements, Countermovements and Policy Adoption," p. 489.

activists did try to make the case that the law would protect individual workers' rights. However, this argument did not take center stage; rather movement leaders mainly stressed the connection unions had with corruption and violence. In fact this became the main mantra of incumbent governor William O'Neill in the closing months of his struggling campaign for re-election. While some of these claims may have been true, they did not sit well with the Ohio population of the time.[15] In 1958, Ohio was a highly unionized state.

In the 1958 fall election, the proposed RTW amendment, ballot issue Number 2, was easily defeated. In total, 2,001,512 Ohio voters opposed the measure against only 1,106,324 in support.[16] This set a record for the worst loss of any ballot issue to date in the state of Ohio. Ohio Republicans also suffered greatly at the polls. O'Neill was defeated in his re-election campaign by the largest margin of any Ohio incumbent governor. Democrats also swept all statewide executive branch offices except for the position of Secretary of State and took over both houses in the legislature.[17]

The 1958 experience was a serious setback to the RTW movement. However, the Buckeye State today is a different place than it was back in the late 1950s. As much manufacturing and big industry has left the state, unions have had a decreasingly important role. Today only about 14 percent of Ohioans belong to a labor union—50 years ago that figure was greater than 35 percent. With a staggering economy and high unemployment, Ohio is in desperate need of change and new economic opportunities. As we will show, adopting a RTW law could have substantially positive benefits for citizens of the Buckeye State. The recent adoption of a RTW law by neighboring Indiana increases the adverse consequences of not having such legislation today, because of the ease of moving in some cases only a few miles across the Ohio border into a RTW jurisdiction.

Right-to-Work Laws and Economic Growth: Basic Economic Principles

The effect of RTW laws on other economic indicators has been a subject of intense study since the laws were first introduced in the 1940s. A wealth of research suggests that RTW laws are a significant factor in explaining state variations, industry location, human migration, and economic growth. Below, we analyze how an Ohio RTW law may benefit the state.

Theory behind Right-to-Work's Contribution to Economic Growth

It is the goal (or at least is supposed to be the goal) of labor unions to increase wages and benefits for their members. A union that does not raise wages for workers above what exists in a non-union environment is usually perceived as unsuccessful by its membership—particularly since workers have to pay dues to maintain the paid union leadership and negotiate and administer labor contracts. Historically, there is some evidence that the short-run effect of unionization is to raise wages, perhaps by 10 percent or more from what would otherwise exist.[18]

15 Dixon, "Movements, Countermovements and Policy Adoption," p. 487.

16 Fenton, "The Right-to-Work Vote in Ohio," p. 241.

17 Hissam, "C. William O'Neill and the 1958 Right-to-Work Amendment," pp. 82-83.

18 For the pioneering work, see H. Gregg Lewis, *Unionism and Relative Wages in the United States* (Chicago, IL: University of Chicago Press, 1963). For a review of the literature confirming, for the most part, confirms Lewis's observation, see C.J. Parsley, "Labor Union Effects on Wage Gains: A Survey of Recent Literature, *Journal of Economic Literature*, Vol. 18 (March 1980), pp. 1–31. There is a big distinction, that Lewis himself emphasizes, from the micro effects that unions have on newly organized workers and the broader economic or "macro" effects. See, for example, Lewis's "Union Relative Wage Effects: A Survey of Macro Estimates," *Journal of Labor Economics*, Vol.1 (January 1983), pp. 1–27.

To the extent that unionization increases labor costs, it makes a given location a less attractive place to invest new capital resources. Suppose a firm is contemplating locating its operation in southern Ohio, where there is no RTW law, or perhaps 50 miles away in Indiana, a state possessing such legislation. Suppose general labor market conditions are similar in both areas, with wages for most unskilled workers being about $10 an hour. Suppose, however, the firm considers the possibility of unionization to be high in Ohio, but low in Indiana, and that unionization will add at least 10 percent to labor costs. Since labor costs are perhaps 50 percent of total costs—or even more—this means the firm considers it a real possibility that total per unit costs of producing output could be at least five percent higher in Ohio, largely erasing profits that would still be available in Indiana.

Thus, other things equal, capital will tend to migrate away from, rather than into, non-RTW states where the perceived costs of unionization are relatively high. Over time, this works to lower the ratio of capital to labor in non-RTW states relative to ones with RTW laws. Since labor productivity is closely tied to the capital resources (machines and tools) that workers have available, labor productivity will tend to grow more in the RTW states, stimulating economic growth, including the growth in wages and employment.

Plant Location and Employment Growth

Much evidence supports the notion that RTW laws attract industry to a state. In a 1983 econometric analysis of the movement of industry to southern states throughout the 1960s and 1970s, economist Robert Newman concluded that "RTW laws have not only affected movement to the South, but have also influenced movement *within* the South as well."[19] Newman further found that "…the RTW variable in both a South and non-South regression 'carries its own weight' and hence, the widely held notion that RTW laws are a uniquely Southern phenomenon cannot be supported by these data."[20] These conclusions suggest that RTW laws themselves were a significant factor in attracting businesses to the South.

A more recent study examined this issue of business location again. The paper actually tested the broader issue of the effect of business climate on industry plant location, but used the existence (non-existence) of a RTW law as a proxy for a favorable (unfavorable) business climate. In the analysis, economist Thomas Holmes examined how manufacturing activity differs in counties that border each other but are located in different states, one with a favorable business climate and the other with an unfavorable business climate. The assumption is that any two bordering counties will be highly similar in most respects except for the policy environment that faces businesses. Holmes found that "[o]n average, the manufacturing share of total employment in a county increases by about one-third when one crosses the border into the pro-business side."[21] While this is attributed to the overall state policy effects, and not specifically the existence of a RTW law, the finding is still strong that states with business-friendly policies attract new industry.[22]

Another useful analysis is to compare total employment growth in RTW states versus that

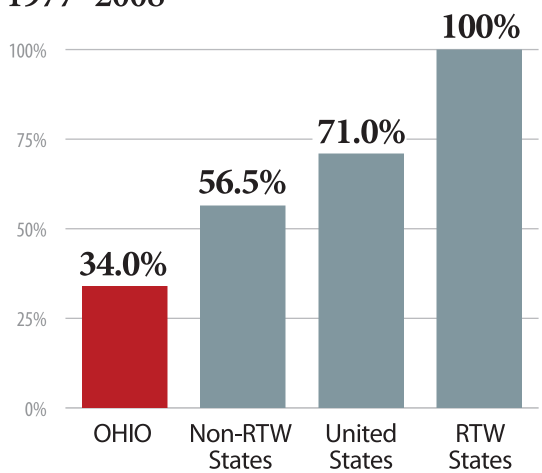
19 Robert J. Newman, "Industry Migration and Growth in the South," *The Review of Economics and Statistics*, Vol. 65, No. 1 (February 1983), pp. 76–86.

20 *Ibid.*, p. 85.

21 Thomas J. Holmes, "The Effect of State Policies on the Location of Manufacturing: Evidence from State Borders," *The Journal of Political Economy*, Vol. 106, No. 4 (August 1998), pp. 667–705.

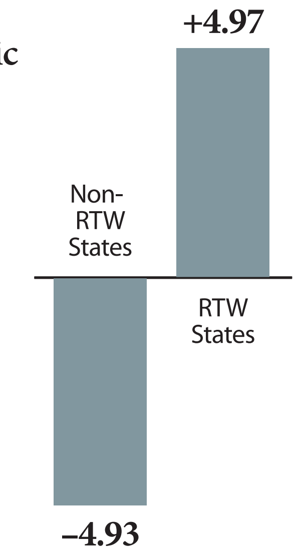
22 *Ibid.*, pp. 702–704.

Chart 1. **Total Employment Growth, 1977–2008**



Sources: Bureau of Economic Analysis and authors' calculations.

Chart 2. **Net Domestic Migration, 2000–2009, in Millions**



Note: Figures do not include the District of Columbia.

Source: U.S. Census Bureau.

growth in non-RTW states. Using data from the U.S. Bureau of Economic Analysis, from 1977 to 2008, total employment grew by 71 percent nationwide, as Chart 1 shows. RTW states significantly outpaced this average, with employment growing 100 percent (that is, total employment in RTW states in 2008 was double the level for 1977) while non-RTW states lagged behind both, with an employment growth of only 56.5 percent. During this same 31-year period, Ohio lagged behind all three averages, as total employment in the Buckeye State grew only 34 percent. While this statistic alone cannot definitively demonstrate that RTW laws cause employment growth, it is another indicator that a significantly positive relationship likely exists between job growth and the existence of a RTW law, even after controlling for other factors.

Migration into Right-to-Work States

To be sure, the rise in the capital-labor ratio associated with the lower perceived labor cost that arises from RTW laws is partially offset by the fact that workers, seeing the greater productivity growth and economic opportunities in the RTW states, tend to migrate to them. Census data show, for example, that from 2000 to 2009 more than 4.9 million native-born Americans moved from non-RTW to RTW states, equating to over 1,450 persons per day.[23]

The migration data are interesting in another respect. The movement of a person from one geographic location to another is reasonably considered to be evidence that the new location to which he or she moves is preferred over the old one—that the act of migration indicates an attempt to improve the quality of life by moving to a new domicile. The massive migration towards RTW states suggests the increased freedom for workers and employers where governmental constraints on individual employment bargaining are removed is considered to be an important human right, or at least that the economic vitality associated to RTW states appeals to many.

23 Vedder, "Right-to-Work Laws," p. 173.

Chart 2 displays net domestic migration (that is, domestic out-migration less domestic net-migration) for the period of 2000 to 2009, comparing RTW and non-RTW states. Over this period, approximately 4.9 million people made the decision to migrate from non-RTW states to states that had a RTW law. Of those 4.9 million leaving non-RTW states, Ohio residents accounted for 368,203 of them (or 109 people per day, including Sundays). Relative to the 2000 population for each state, Ohio had the ninth-highest rate of out-migration, as 32 out of every 1000 persons residing in Ohio in April of 2000 left the Buckeye State by July of 2009. The stark contrast in migration trends for RTW states and non-RTW states suggests that, throughout the first decade of the twenty-first century, Americans were voting with their feet and moving away from non-RTW states and to RTW states. In light of the fact that employment growth was much higher in RTW states than in non-RTW states over the past three decades, it is not surprising that people would prefer to live in those states with stronger job growth.

The Wage Effect

The effect of RTW laws on actual wages for employees has been another topic of significant academic research. However, economists have not come to a consensus on the topic, as some studies conclude there is a negative relationship while others argue the relationship is positive.[24] A recent study by Robert Reed helps clear some of the ambiguity by demonstrating that when one controls for the economic conditions of a state prior to its adoption of a RTW law, the relationship between RTW and wages is positive and statistically significant. Reed estimates that when "holding constant economic conditions in 1945—average wages in 2000 [were] 6.68 percent higher in RTW states than non-RTW states."[25]

One can imagine that controlling for economic conditions in a state prior to the enactment of a RTW law is important. Indeed, a majority of RTW states were poorer historically than those states in the industrial Northeast and Midwestern parts of the country. Thus, without controlling for this, one would expect that wages in RTW states would be lower than wages in other states. Reed's study is an important addition to the literature on this topic and indicates that the passage of RTW laws may boost workers wages.

This may seem to contradict an earlier observation, namely that initially after joining a union, worker wages typically rise a bit. But there is both a short-run and a long-run effect. In the short run, unionization may force wages up for those involved, but in the long run the debilitating impact on capital formation and the movement of human capital (workers) lead to lower growth in per capita income, so the overall long-term effect of unionization is negative, implying a positive effect of RTW laws which reduce union labor market power.

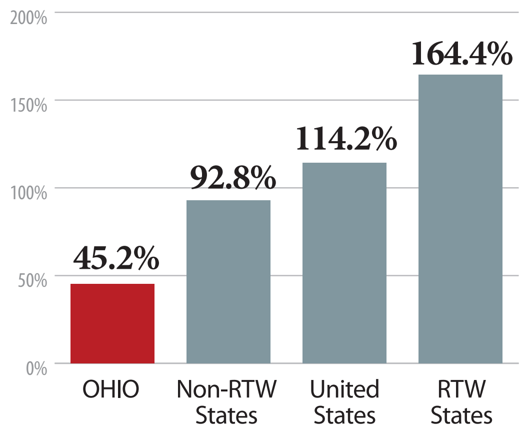
Regression Analysis of Right-to-Work Laws and Economic Growth

Ohioans are likely most concerned with what a RTW law would do to benefit the state's economy. Using multiple regression modeling techniques, we attempt to answer that question. However, before presenting our complicated regression equations, it is helpful to examine simple correlations between RTW laws and the growth in citizens' incomes. Chart 3 shows the

24 For a listing of previous empirical research on the relationship between RTW and wages, see Table 1 of W. Robert Reed, "How Right-to-Work Laws Affect Wages," *Journal of Labor Research*, Vol. 24 (2003), pp. 713–730.

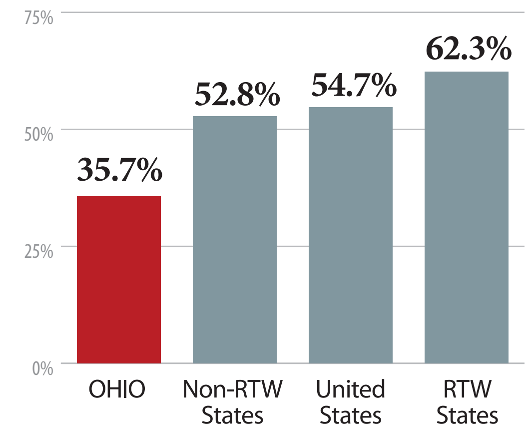
25 *Ibid.*

Chart 3. **Growth in Real Personal Income, 1977–2008**



Sources: Bureau of Economic Analysis and authors' calculations.

Chart 4. **Growth in Real Per-Capita Income, 1977–2008**



Sources: Bureau of Economic Analysis and authors' calculations.

long-term rates of economic growth, defined as the growth in inflation-adjusted total personal income, between RTW and non-RTW states over the period 1977 to 2008. The data show that nationally, real total personal income grew by 114 percent, meaning that, after adjusting for inflation, total personal income in the United States more than doubled in this 31-year time span. Compared to the national average, RTW states experienced substantially higher growth (the rate of growth was 165 percent), indicating that inflation-adjusted total personal income in these states was more than 2.6 times higher in 2008 than it was in 1977.

On the other hand, non-RTW states saw below-average growth of only 93 percent, meaning that real total personal income did not quite double in these states during this same period. The growth in real total personal income in Ohio was only 45 percent, far below even the average for non-RTW states. In fact, Ohio had the third-lowest rate of economic growth from 1977 to 2008, as measured by real personal income (only Michigan and West Virginia saw lower growth in personal income than the Buckeye State during this period).

Part of the driving force behind total real personal income growth is population growth. Because RTW states have experienced above-average population growth during this period, this would explain part of the above-average growth in real personal incomes shown in Chart 3. Perhaps a better way to measure economic growth is to look at the growth in per capita income. Using per capita income allows us to examine how the average individual's personal income level changes over time. Chart 4 reports our results after adjusting for changes in population size.

Even after controlling for growth in the population, growth in real per capita incomes in RTW states is substantially higher than both the national average and non-RTW states. The real income for the average person in a RTW state was 1.6 times higher in 2008 than it was in 1977. However, for non-RTW states, it was only 1.5 times higher. Ohio again fares worse than all three of these groups of states, with real per capita incomes growing only 35.7 percent

Table 1. Regression Results for Right-to-Work Laws and Economic Growth, 1977–2008

Dependent Variable: Growth in Real Per Capita Income
Ordinary Least Squares Estimation
N = 48 [a]

VARIABLE	COEFFICIENT	T-RATIO	
Constant	0.0663751	0.5127	
Right-to-Work	0.114886	3.5736	***
Change in Employment-to-Population Ratio	1.47039	2.7535	***
Change in College Attainment	1.48377	2.9825	***
Age of State	0.00146862	3.0223	***
Average Manufacturing	-0.892472	-2.2535	
Population Growth	-0.0589838	-1.3811	

STATISTIC	VALUE
R-squared	0.610115
Adjusted R-squared	0.553058
F (6, 41)	10.69318
P-value(F)	3.93E-07

[a] *This model includes only the 48 contiguous States and excludes Alaska and Hawaii, as well as the District of Columbia.*
** p < 0.1, ** p < 0.05, ***p < 0.001*

during this period, placing the Buckeye State in the bottom decile of states in terms of per capita income growth since the late 1970s.

Regression Analysis

Although Chart 4 suggests that there is an important and positive relationship between RTW laws and economic growth (i.e., states with RTW laws have experienced above average economic growth while states without such laws have seen below average growth), it does not control for other factors which may have affected economic growth in the various states during this period. For instance, we would expect states which have more highly educated populations to have higher levels of economic growth or that states which have had relatively higher growths in average educational achievement to also have higher rates of growth. We included this, and other factors, in our regression analysis to control for their possible effects on growth. Following accepted practice in building state-level growth models, we restricted our analysis to the 48 contiguous U.S. states. The results of our regressions are reported in Table 1.

Besides using a variable specifying whether or not the state has a RTW law, we controlled for the change in the proportion of the state population that was employed (the employment-to-population ratio), and the change in the rate of college attainment (the proportion of adults completing college).[26] We also included the number of years that have elapsed since a state attained statehood (State Age), the average proportion of nonagricultural employees in the manufacturing sector (Average Manufacturing), and the rate of population growth. We used a number of other independent variables in alternative growth models which are not reported here.

As shown in Table 1, our regression results indicate that states with RTW laws saw, on av-

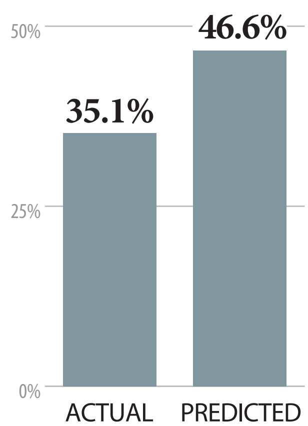
26 Prior to 1992, official college attainment data were for the proportion of adults who had completed four or more years of college. After 1992, the data refer to the proportion of adults who have received at least a bachelor's degree.

erage, higher growth rates than states without such a law. Our results suggest that the impact of a RTW law is to increase economic growth rates by 11.5 percent; this result is significant at the 99 confidence level. Not surprisingly, we also see a positive relationship between economic growth and increases in both the employment-to-population ratio and the proportion of adults who have college degrees. We see a negative relationship between manufacturing and growth, indicating that states which are more manufacturing intensive have, over the past 30 years, seen lower levels of growth. Similarly, states which have higher levels of population growth have seen, on average, lower levels of real per capita income growth, though this relationship is not significant at the 95 confidence level.

The findings above are significant not only in the formal statistical sense, but also convey that the impact of RTW is in fact rather powerful, as Chart 5 indicates.[27] Suppose, for example, that Ohio had adopted a RTW law in 1977 and maintained it throughout the subsequent years. What would have been Ohio's economic growth, compared to what actually happened? The estimates from the equation above suggest that income per capita in 2008 would have risen by $3,061 over actual levels—an amount equal to $12,244 for a family of four.

From 1977 to 2008, per capita income in Ohio fell from slightly over 1 percent above the national average to around 11 percent below the average. The empirical work above suggests that 58.6 percent of the difference between the Ohio and national rates of economic growth in modern times is explainable by Ohio's lack of a RTW law. If Ohio had a RTW law, it would not be languishing below historically poor southern states in terms of its overall levels of income.

Chart 5. **Actual and Predicted Economic Growth for Ohio, 1977–2008**



Source: Authors' calculations.

Two caveats about the conclusion above are in order. The results in statistical models do vary with the control variables introduced, and this is no exception. We estimated alternative models, most of which yielded similar results. In one model, for example, we added a variable that controls for income levels in each state at the beginning of the period examined (1977). Again the RTW variable performs strongly and positively, but the estimated impact is about 23 percent smaller than indicated above. Using that estimate, "only" about 45.1 percent, instead of 58.6 percent, of Ohio's growth deficit relative to the U.S. is explainable by RTW, and the per capita income growth associated with RTW would have been $2,356 (still over $9,400 for a family of four) instead of $3,061. We would argue, however, that even this lower number is very sizable, particularly for a change in the legal environment that is essentially costless in terms of direct financial outlays, an important consideration in these times of budget stringency.

The second caveat relates to the future. There

27 Please note that the figure for the actual economic growth rate in Ohio reported in Chart 5 differs very slightly (but not materially) from the rate reported in Chart 4. The reason for the apparent discrepancy is that the data reported in Chart 5 were adjusted using estimations from the data compiled by the 2010 Census while the data reported in Chart 4 were not adjusted. The very minor differences do not materially affect our findings.

is little doubt in our mind that the economic damage that a non-RTW environment imposes is meaningful, and will continue to be so in the future. But the future is always different, at least in some dimensions, from the past, and the precise magnitude of the positive effects of a RTW law is impossible to state. The estimates above suggest that the impact will be material, however, and we see nothing in the future which would change the reality that RTW laws would enhance the attractiveness of the Buckeye State to productive resources that create income and wealth. The one factor that might reduce the magnitude of the positive effects of RTW somewhat is the decline in unionism, discussed both above and below. As the unionized sector of the economy shrinks, the relevance of RTW declines somewhat. However, that may be offset by the recent passage, for the first time, of a RTW law in a geographically contiguous state, Indiana. Since people and businesses favor short migrations to longer ones, the possibility of more RTW induced migration has been enhanced by the Hoosier State's enactment of RTW.

The Political Economy of Right-to-Work in Ohio

Public policy is not made in a vacuum, and as Abraham Lincoln so famously observed at Gettysburg 148 years ago, we are a nation "of the people, by the people, and for the people." Regardless of the positive economic effects, RTW could be rejected if there were a clear indication that "the people" do not want it, or that it would materially negatively impact a sizable portion, albeit a minority, of the population. However, the evidence, if anything, says the opposite: RTW laws are popular, and the segment of the population that conceivably might have strong negative feelings towards them have declined. Assuming Ohio's political process is working and, by and large, the will of the people is exercised, we would opine that the prospects for an Ohio RTW law are the best that they have been at any time in recent decades.

To begin, polling data suggest Americans are generally suspicious of or even hostile to labor unions. Most startlingly, this applies to union members themselves. For example, a survey of 760 private and government union employees was conducted in 2010, where the workers were asked:

> ***Please tell me whether you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statement: "Workers should have the right to decide to join a union. They should never be forced or coerced to join or pay dues to a union as a condition of employment."*** [28]

Remarkably, some 80 percent of these union members either strongly or somewhat agreed with the statement, while only 14 percent unambiguously disagreed. Even within union members, there is a sense that people should be permitted to make their own decision about both joining a labor union and paying its dues.[29] This poll is indicative of the long-time citizen support for RTW laws. In 1965, a poll conducted by the well-respected Opinion Research Corporation found that "by a margin of 64 percent to 14 percent, Americans favored retaining Section 14(b) [of the Taft-Hartley Act]; by a margin of 61 percent to 24 percent, Americans said they would vote in favor of a Right to Work law in their state if they had the chance; and by a

28 "Benchmark Study of Union Employee Election Year Attitudes," The Word Doctors, 2010, at *http://www.nrtw.org/files/nrtw/Luntz_NRTW_Union_Member_Survey_Oct2010.pdf* (May 2, 2011).

29 *Ibid.*

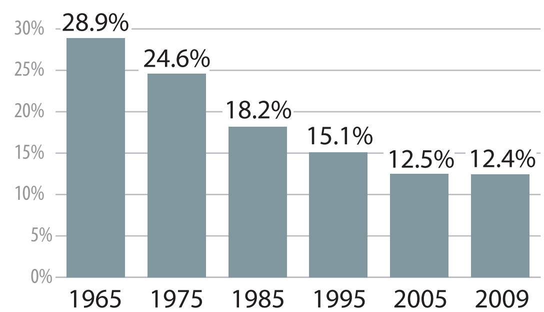
margin of 70 percent to 21 percent, Americans believed that a worker should not be fired just because he would not join a union."[30] Clearly, RTW laws are appealing to an overwhelming percentage of Americans.

Union Membership

The percentage of Americans belonging to unions has declined sharply over time, as shown by Chart 6, which shows the proportion of all nonagricultural wage and salary employees who are union members for all states in the union. (Interestingly enough, currently more union members work in the public sector than in the private sector, as shown in Chart 7.) Moreover, any notion that the decline in union membership does not hold in Ohio is dispelled by the data on Ohio union membership, shown in Chart 8. Interestingly enough, the rate at which union membership has declined has been faster in Ohio than in the United States as a whole. Nationally, union membership has fallen by over 16 percentage points between 1965 and 2009; in Ohio, union membership has fallen by almost 23 percentage points. While union membership in Ohio was much higher than the nation in 1965 (37 percent versus 29 percent), by 2009, the gap between Ohio and the United States had greatly shrunk (14 percent versus 12 percent).

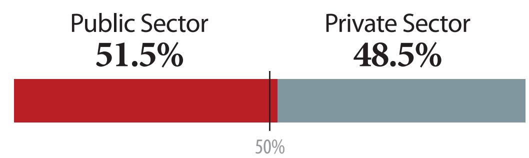
This rather continuous and sharp decline over time in union membership suggests that, despite all the protections of employer rights to bargaining collectively provided under the Wagner Act, Americans and Ohioans alike are "just saying no" to unionization. It would seem that the public interest in providing special legal privileges to a

Chart 6. **Union Membership in the United States, 1965–2009**[31]



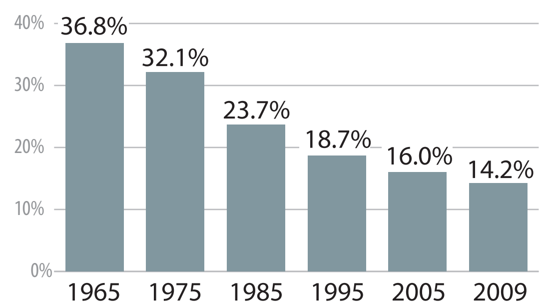
Sources: UnionStats, at http://unionstats.com. See also Hirsch, Macpherson, and Vroman (2001).

Chart 7. **Union Membership in the United States, by Sector, 2009**



Sources: U.S. Census Bureau and authors' calculations.

Chart 8. **Union Membership in Ohio, 1965–2009**[32]



Sources: UnionStats, at http://unionstats.com. See also Hirsch, Macpherson, and Vroman (2001).

30 Leef, "Free Choice for Workers," pp. 65–66.

31 Data for United States are data for "All States" published at *http://unionstats.com/* (May 2, 2011) and are for the proportion of all nonagricultural wage and salary employees who are union members. See Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, Vol. 124, No. 7 (July 2001). See also Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey: Note," *Industrial and Labor Relations Review*, Vol. 56, No. 2 (January 2003), pp. 349–354, and Gerald Mayer, "Union Membership Trends in the United States," *Federal Publications*, Paper 174, 2004, at *http://digitalcommons.ilr.cornell.edu/key_workplace/174* (May 2, 2011).

32 Hirsch, Macpherson, and Vroman, "Estimates of Union Density by State."

sector that is increasingly unpopular with its potential client base is highly suspect. This is aside from the purely political question of whether a diminished membership has the political clout to stop a legislative change that almost certainly would be popular with the people.

But What About S.B. 5?

Despite the trends described above, some observers might conclude that RTW legislation is politically impossible at the moment in Ohio based on the rejection by the voters in 2011 of Senate Bill 5, legislation that would have restricted collective bargaining in public employee unions. While it is true that S.B. 5 was a labor law involving the issue of unionization, it bears almost no resemblance to a RTW law such as recently enacted in Indiana and earlier in 22 other states.

A right to work law applies to all workers, not just public employees. It places absolutely no restrictions on collective bargaining topics. For example, S.B. 5 involved a statutory minimum in employee health care insurance contributions, while a RTW law does no such thing. RTW simply gives employees the right to decide whether they wish to unionize or not—period. It restricts the ability of unions to force, through a collective bargaining agreement, workers to belong to a labor union, but other than that it has no impact on the nature of collective bargaining. It does not say which topics are subject to collective bargaining, and which are not.

Moreover, recent polling data by the respected Quinnipiac Poll show a majority of voters actually want a RTW law. As Peter A. Brown, assistant director of the Quinnipiac Polling Institute observed, "Given the assumption that the SB 5 referendum was a demonstration of union strength in Ohio, the 54 to 40 percent support for making Ohio a 'right to work' state does make one take notice."[33]

Conclusion

America operates with Depression-era labor laws that are increasingly out of touch with the realities of a global labor market. The Taft-Hartley Act of 1947 provided states an opportunity to sharply reduce some of the adverse effects of these laws by passing "right-to-work" legislation that gives workers the right to decide whether they wish to join and/or pay its dues. Ohio has failed to avail itself of that opportunity thus far, and has paid a high economic price for not doing so. RTW laws attract productive resources (both capital and labor) to a state, and the absence of such laws repels them. Using econometric procedures, we estimate that in the year 2008, the typical Ohio family of four would have had over $12,000 more income had RTW laws been adopted 31 years earlier. Even if those estimates are high—say by a factor of two—the impact of Ohio moving to become a right-to-work state is potentially quite sizable.

Ohio has suffered a growth deficit for several decades—growing less than the nation as a whole, and its income levels have fallen below several southern states—historically the poorest part of the nation. In a time of budget stringency, governments cannot afford to use financial resources to impact growth, but they can change the legal environment in which labor, the most important factor of production, operates. It seems to us the time has come for Ohio to move towards positive consideration of a right-to-work law.

33 Jim Provance, "Poll Finds 54% of Voters Like Idea of Ohio Becoming 'Right to Work' State," *Toledo Blade*, February 14, 2012, at *http://www.toledoblade.com/State/2012/02/14/Poll-finds-54-of-voters-like-idea-of-Ohio-becoming-right-to-work-state.html* (February 29, 2012).

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by Richard Vedder, Matthew Denhart, and Jonathan Robe

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