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"Right to Work" Lowers Wages – And That's a Fact!

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What is likely to happen in Indiana if "right-to-work" (RTW) legislation passes is not much of a mystery. Unions will lose members and financial resources, they will have less bargaining power in negotiations with employers, and wages and benefits for workers represented by collective bargaining agreements will fall short of what they would have been without the RTW law. This will also be true for other workers as well, since companies will feel less need to compete with union-scale wages and benefits.

RTW advocates assert that passage of a RTW law in Indiana will lead to higher incomes for Hoosiers. The Indiana Chamber of Commerce report on RTW (Vedder, Denhart, and Robe, 2011) states that higher incomes will come about from more businesses relocating to Indiana due to lower labor costs. This is the logic of the RTW argument, but it is a rather uncomfortable and contradictory argument to make, that we need to lower the wages of workers in Indiana in order to improve incomes.

Perhaps that is why RTW advocates are going to great lengths to deny the fact that RTW would lower wages in Indiana. A recent oped by Speaker of the House Brian Bosma (2011) states that, when adjusted for the cost of living, wages in RTW states are actually higher than in non-RTW states. An October 2011 Fact Sheet from the National Institute for Labor Relations Research (NILRR) contends that the "Cost of Living-Adjusted Compensation Per Private-Sector Employee" is $1,155 higher in RTW states than in non-RTW states.

Unfortunately, the data analysis conducted by NILRR has significant methodological problems and does not prove anything about what will happen if Indiana passes a RTW law.

The NILRR analysis compares compensation (wages plus benefits) for *private-sector* employees. There is no reason to exclude public-sector employees from this analysis. Indeed, there is a particular reason to include them, since public-sector employees are more highly unionized than are private-sector employees.

Also, the NILRR analysis adjusts for differences in the cost of living by using a state-level index created by the Missouri Economic Research and Information Center (MERIC). The data in the MERIC index comes from the ACCRA index of city-level data created by the American Chamber of Commerce Research Association (which now calls itself the Council for

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Community and Economic Research). But the ACCRA index is woefully inadequate as a way to address cost-of-living issues for workers who might be affected by RTW legislation.

According to the ACCRA website (Council for Community and Economic Research, 2011), “The ACCRA Cost of Living Index measures regional differences in the cost of consumer goods and services, excluding taxes and nonconsumer expenditures, *for professional and managerial households in the top income quintile*” (emphasis added). Although everyone needs food, shelter, and other necessities, it is probably fair to say that the goods and services purchased by professional and managerial households in the top 20% of the income distribution are not the same as those that might be purchased by workers affected by RTW legislation.

There are also other problems with the ACCRA index. For example, the ACCRA index only reports prices in larger metropolitan areas, so rural areas and smaller cities and towns are not represented. And the prices are collected on a voluntary basis, so that the set of cities can vary with each report (Fisher and Gordon, 2001).

Researchers at the Political Economy Research Institute (PERI) at the University of Massachusetts have created an alternative cost-of-living index that avoids these problems: their index does not focus only on professional and managerial households in the top income quintile, it incorporates data from metropolitan areas of various sizes, and it uses data from publicly-available sources that are collected on a regular basis.

Of course, no index is perfect. The PERI index has not been updated quarterly, as has the ACCRA index. Also, there are inherent difficulties in creating any state-level index from lower-level data. But, as explained in a technical paper (Heintz, Wicks-Lim, and Pollin, 2005), the PERI index is based on procedures used by researchers at the Census Bureau to make cost-of-living adjustments to federal poverty thresholds (Short, 2001). The Census Bureau researchers do not consider their index to be the complete answer to the cost-of-living adjustment problem, but they do consider it to incorporate “the best available data and statistical methodology” (Renwick, 2011).

The Census index is centered on variations in housing costs in different geographical areas, and the PERI index incorporates housing and utilities costs. The biggest cost-of-living differences among states are observed in housing and utilities expenditures. The Department of Housing and Urban Development produces estimates of average rent and utilities at the county level, call the Fair Market Rent (FMR). The FMR was used to construct the PERI cost-of-living adjustment on a state-by-state basis. Researchers at PERI have conducted tests to evaluate the robustness of their index to represent the full spectrum of cost-of-living differences, and have concluded that it performs quite well in this respect (Heintz, Wicks-Lim, and Pollin, 2005).

It is thus possible to correct for the methodological problems in the NILRR analysis. Using third-quarter 2011 data on total nonfarm compensation (wages and benefits) from the Bureau of Economic Analysis in the Department of Commerce (Regional Data) and total nonfarm employment from the Bureau of Labor Statistics, and incorporating the PERI index, produces the following interesting results:

Average compensation per nonfarm worker:	Non-RTW states	$65,567
	RTW states	$57,732
Cost-of-living-adjusted comp. per nonfarm worker:	Non-RTW states	$63,484
	RTW states	$61,308

So it is not possible to conclude that adjusting for the cost of living demonstrates that workers in RTW states receive higher wages and benefits than do workers in non-RTW states. In fact, the whole process of adjusting for the cost of living in this manner says very little about how RTW affects wages and benefits, or what we could expect if Indiana became a RTW state.

For one thing, an average of all RTW or all non-RTW states taken together does not necessarily say anything about the performance of any individual state. In fact, only 6 of the RTW states have cost-of-living-adjusted wage levels above the national average; 16 of the 22 states are below the national average.

Also, it turns out that states whose names begin with the letters N-Z have higher cost-of-living-adjusted compensation per worker than do states whose names begin with the letters A-M. As Gordon Lafer (2011) has pointed out, changing Indiana's name to Tindiana would not improve its results. Just because states beginning with N-Z have higher wages does not mean that the spelling of its name necessarily has anything to do with its wage levels. Likewise, just because RTW or non-RTW states have higher or lower wages does not prove – by itself -- that a state's RTW status is the source of the higher or lower wage levels.

The only way to attribute the influence of RTW status on wage levels is to isolate the specific impact of RTW from all the other variables that influence wages. Researchers Elise Gould and Heidi Shierholz (2011) have done this in a rigorous statistical analysis. They conclude that the separate influence of RTW is to lower worker wages by $1,500 annually. As it turns out, RTW does really lower wages.

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