Policy Matters Ohio

Press statement

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So-Called "Right to Work"

A literature review

Conservative organizers are gathering signatures to try to put a So-Called Right to Work (SCRTW) measure on the ballot in Ohio. Several prominent economists from around the country have done research on SCRTW. This brief reviews some of the best work that has been done.

Professor Gordon Lafer of the University of Oregon summarized the most rigorous scientific analysis as follows (http://www.epi.org/publication/right-to-work-michigan-economy/):

- SCRTW laws have no impact in boosting economic growth: research shows that there is no relationship between SCRTW laws and state unemployment rates, state per capita income, or state job growth;
- SCRTW laws have no significant impact on attracting employers to a particular state; surveys of employers show that SCRTW is a minor or non-existent factor in location decisions, and that higher-wage, hi-tech firms in particular generally prefer free-bargaining states;
- SCRTW laws lower wages – for both union and nonunion workers alike – by an average of $1,500 per year, after accounting for the cost of living in each state;
- SCRTW laws also decrease the likelihood that employees get either health insurance or pensions through their jobs – again, for both union and nonunion workers;
- SCRTW laws threaten to undermine job growth by reducing the discretionary income people have to spend in the local retail, real estate, construction, and service industries. Every $1 million in wage cuts translates to an additional six jobs lost in the economy. Widespread wage and benefit cuts could translate into significant negative spillover effects for the state's economy.

Economists Heidi Shierholz and Elise Gould found, after controlling for other variables, (http://www.epi.org/publication/bp299/) that workers in SCRTW states have lower wages (about $1,500 a year) and are less likely to have health insurance or retirement benefits.

Oklahoma, the most recent state to adopt SCRTW (until Indiana just this year), actually saw a steep decline in its relative and absolute well being after passing SCRTW. Since then, manufacturing in Oklahoma has shrunk, new companies coming to the state fell by one third, and growth worsened when compared to neighbors. In fact a 10-year expansion of the state's manufacturing sector reversed after passage of SCRTW and the sector has failed to grow in any year since. These details are found in this excellent paper by Sylvia Allegretto (UC-Berkeley) and Lafer: http://www.epi.org/page/-/BriefingPaper300.pdf.

Recent research conducted by the American Enterprise Institute's Richard Vedder and others for the Buckeye Institute is problematic in its methodology (http://buckeyeinstitute.org/the-liberty-wall/).

First, Vedder engages in hyperbole. "Arguably the single biggest impediment to an improved labor environment is the lack of a right-to-work law," the report says. Reporters, policy makers and the public can judge for themselves the notion that this minor variable is more important than education levels, infrastructure, manufacturing policy, economic development policy, trade agreements or other variables. It goes on to say "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." This claim, too, is laughable, as manufacturing states with and without SCRTW laws have performed similarly poorly in recent decades. North Carolina, Mississippi and South Carolina, all SCRTW states, have lost higher percentages of their manufacturing jobs since passage of NAFTA than Ohio has (see both charts in the PDF version of this report: http://www.epi.org/publication/working-hard-indiana-bad-tortured-uphill/).

Second, Vedder divides states into two categories (SCRTW and non-SCRTW) and makes comments on average traits of each of these categories. This is misleading – we don't talk about "child tax credit states" and "non child tax credit states" because we know that the child tax credit is a minor variable in a state economy. Lafer has joked that between 2000 and 2009, states whose names start with N-Z had an average employment growth rate nearly nine times higher than states whose names start with A-M. Yet we wouldn't say that Alabama could improve growth by changing its name to "Talabama." SCRTW, in itself, is only slightly more relevant – it is a small part of economic policy. The main components of a state economy (manufacturing vs. oil drilling, for example), proximity to markets, educational levels, quality of infrastructure, and other variables are far more important predictors of economic success. The importance of these other factors makes it difficult to accept claims like Vedder's assertion that passing SCRTW would increase 4-person family income by over $12,000 a year in Ohio. Outrageous claims of this sort made in the Oklahoma debate have proven to be sadly mistaken.

Vedder argues in the Ohio paper that the average growth in per capita income in SCRTW states exceeded that in non-SCRTW states over the past 30 years. But if you examine all states and sort them according to growth rates, as Gordon Lafer does on page 2 of this paper (http://www.epi.org/page/-/pdf/pm174.pdf), you will find that the three fastest-growing states, five of the six fastest-growing states, and 10 of the 15 fastest-growing states were all free-bargaining or non-SCRTW states. The relatively pro-union Massachusetts grew at a rate that was 50 percent higher than the average of **all** SCRTW states.

Vedder makes similar claims about employment growth being stronger in SCRTW states. In fact, if you look at state-by-state numbers you see no clear pattern. Many fast-growing states have relatively pro-union policies, others have implemented union-suppressing policies like SCRTW.

Vedder, recognizing the legitimacy of past critiques of his work, does claim to control for variables in a later section of the paper. He uses a 30-year period during which our economy changed enormously, and combines multiple variables in puzzling ways. He chooses irrelevant variables that skew the results. For example he includes the number of years that have elapsed since a state attained statehood. This changed the findings considerably, but it is hard to see the relevance for economic success. Its main effect may be to artificially lower the positive impact of being east of the Mississippi, and most eastern states are free bargaining. In contrast we know that since the proliferation of air conditioning, population has shifted to SCRTW states, yet he doesn't control for climate.

The historical section of the paper is also revealing. The authors argue that the period prior to the 1930s was preferable to the period after 1935, saying that the National Labor Relations Act "represented a break from the American tradition of individual liberty." Yet the reforms enacted in 1935, combined with the stimulus provided by World War II, led to the long economic expansion that dramatically improved the well-being of Americans across the economic spectrum and particularly of Ohioans who benefited greatly from the manufacturing investments and unionization that characterized this era.

In short, a robust body of research by prominent academics and economists reveals that SCRTW is a modest policy that has little effect on a state economy overall, but that it does result in reduced wages and benefits for working people in a state. This body of research indicates that Ohioans should avoid following Oklahoma's ill-advised path. Instead we should invest in education and training and maintain collective bargaining rights for all Ohio workers, public and private.