As Indiana works to rebuild its economy following the Great Recession, some advocates are promoting the idea that the state’s future hinges on adoption of a so-called “right-to-work” (RTW) law. Despite the name, right-to-work laws do not confer any sort of right to a job. Rather, they dilute union bargaining strength by making it harder for workers’ organizations to sustain themselves financially. Proponents argue that by weakening labor laws, RTW will lure outside companies—particularly manufacturers—into the state.

In Indiana and elsewhere, large sums of money have been devoted to backing RTW bills, with lobbyists claiming that RTW significantly improves both the number of jobs in a state and the wages people earn because companies that had avoided the state will flock there. The evidence shows that these claims are completely without scientific foundation.

In 2011, RTW bills were advanced in nearly a dozen states, but not one of these states adopted such a statute. Most recently, New Hampshire rejected right to work when 41 Republican legislators concluded that the policy would harm rather than help their state (Rayno 2011). Legislators spent many months digging into the economic facts surrounding RTW, resulting in rejection of the policy by legislators who might otherwise have looked to RTW as a hopeful solution in hard times. In an editorial titled “Facts show RTW makes no sense for New Hampshire,” a Republican member of the New Hampshire House of Representatives explained that careful examination of the data had convinced him that “RTW would be a huge step in the wrong direction for our state” (Copeland 2011).

RTW proponents: working hard to make Indiana look bad

Recently, national organizations promoting right-to-work laws have turned their focus to Indiana, creating a flurry of new claims on behalf of the policy. The Chamber of Commerce, the National Right to Work Committee, the American Legislative Exchange
Council (ALEC), and even an Oklahoma-based corporate advocacy group have issued reports or public statements aimed at convincing Hoosiers to adopt a right-to-work law. Each paints a dire picture of Indiana’s economy and suggests that only by adopting an anti-union statute can the state save itself from a future of low wages and disappearing jobs. To support this conclusion, RTW advocates have promoted a series of highly misleading assertions, while simultaneously concealing information that reflects poorly on the RTW cause. For instance:

- The National Right to Work Committee issued a “factsheet” stating that job growth over the past decade was slower in Indiana than in the “Midwest” RTW states (National Institute for Labor Relations Research 2011). The factsheet does not disclose that the higher “average” for these states is due entirely to North Dakota, whose growth was sped up by the discovery of oil, which has nothing to do with RTW.3 Without North Dakota, the rest of the states averaged a net job loss. If the National Right to Work Committee had focused on manufacturing instead of oil, it would have found that in the past two years Indiana added more than twice as many manufacturing jobs as all the Midwest RTW states combined (Figure A). If businesses and workers are “voting with their feet,” they are voting for Indiana.

- The National Right to Work Committee also produced a Powerpoint presentation, Indiana and Right to Work, that quotes an executive of Fantus, a site-location firm, warning that “approximately 50 percent of our clients … do not want to consider locations unless they are in right-to-work states” (National Right to Work Committee 2011). The committee neglects to mention that the quote is based on a report from 1975, and that by 1986, the firm’s executive vice president reported that the figure had fallen to 10 percent (Warren 1986).
• In its *Rich States, Poor States* report, the American Legislative Exchange Council promotes RTW by noting that RTW Texas has added more jobs in the past decade than any other state and declaring Texas “the state with the best policy to emulate” (Laffer et al. 2011, 13). What ALEC doesn’t tell readers is that for the last four years, the state’s job growth has come entirely through government jobs, while the private sector shrank—clearly a trend that cannot be credited to RTW (Fletcher 2011).

• In January, the Indiana Chamber of Commerce published a report claiming that from 1977 to 2008, per capita income grew at a faster rate in RTW states than non-RTW states and concluding that if Indiana adopted an RTW law, Hoosiers would enjoy similar income growth. What the Chamber failed to disclose is that, while the overall average of the 22 RTW states was impressive—led by fast-growing states such as North Dakota and Virginia—the actual state-by-state numbers showed no relationship whatsoever between RTW laws and income growth. Four of the five fastest-growing states in the country were non-RTW states, and Indiana’s growth was 25 percent greater than that of its nearest RTW neighbor, Iowa (Vedder et al. 2011; Lafer 2011).

In all these cases, lobbyists have trumpeted spurious connections and/or concealed much more telling data—all in the service of painting a hopeless picture of Indiana’s economy. Political advocates who begin with an ideological conclusion and then search for data to support their cause are usually able to find some set of numbers that appears to point to the desired outcome. But such methods are a disservice to public debate and to legislators charged with forging effective economic policy. When subjected to rigorous scholarly analysis, it is clear that the arguments advanced by RTW advocates are not borne out by economic reality.

**What makes any RTW statistics trustworthy?**

Generally, RTW advocates argue that the average growth rate for the 22 states with RTW laws, taken as a whole, is higher than the average growth in the 28 free-bargaining states. By implication, they have argued that right-to-work laws are the cause of economic growth, that right-to-work states inevitably perform better than others, and that if a new state adopts such a law, its economy will grow at the same rate as the 22-state average. None of this is true. Whether measuring wages, job growth or unemployment rates, the actual state-by-state data show that there is no relationship between RTW laws and economic growth.

The only honest way to measure the effect of RTW is to separate out its impact from everything else. How much of Texas’ growth is due to warm weather, the oil industry, NASA, or migration from Mexico? Conducting measurements *while holding everything else equal* is called “regression analysis” in statistics, and it’s required for any article published in an academic journal. It is also what courts use to distinguish evidence admissible in lawsuits from what is termed “junk science.” The numbers provided by ALEC, the National Right to Work Committee, and other advocacy groups fail this most basic test; they hold nothing equal and simply assume that RTW explains growth.

**What is the actual effect of adopting a right-to-work law?**

Rigorous studies—using regression analysis to home in on the effect of RTW laws—show that RTW laws:

• reduce wages by $1,500 a year, for both union and nonunion workers, after accounting for different costs of living in the states (Gould and Shierholz 2011)

• lower the likelihood that employees get healthcare or pensions through their jobs—again, for both union and nonunion employees (Gould and Shierholz 2011)

• have no impact whatsoever on job growth (Lafer and Allegretto 2011)

**The impotence of right-to-work laws in the age of globalization**

The Chamber of Commerce report promoting an Indiana RTW law focuses on economic growth rates measured from the 1970s. A major problem with looking at what happened decades ago is that we inhabit a fundamentally different economy, one that changed when the 1994
North American Free Trade Agreement (NAFTA) ushered in the current terms of globalization. In the 1970s and 1980s, companies may well have moved to RTW states in search of lower wages. But in 2012, companies looking for cheap labor are overwhelmingly looking to China or Mexico, not South Carolina. To the extent that enacting RTW legislation ever served as an effective economic development strategy—and the evidence is weak on this point—globalization has rendered RTW irrelevant.

The impotence of right to work in the era of globalization is evident in the widespread job losses experienced by RTW states over the past 15 years. The loss of manufacturing jobs post-NAFTA has been felt in every state in the country. As shown in Figure B, the highest rates of job loss have been in right-to-work states, with the Carolinas, Mississippi, Alabama, Georgia, and Florida all losing a higher percentage of their manufacturing jobs than Indiana (Public Citizen 2011).

### A cautionary RTW tale from Oklahoma

The most instructive lesson for Indiana is what has happened in Oklahoma—the only state to newly adopt RTW in the era of globalization. When Oklahoma was debating RTW in 2001, supporters insisted that it would dramatically improve the state’s job growth. One of the most widely circulated claims came from a site location consultant who told the state Senate that many companies won’t even consider locating in states without RTW laws, insisting that the absence of such a law was cutting Oklahoma off from “90 percent of the relocating companies.” The number of companies considering locating in Oklahoma would increase by “eight to ten times” if right to work were passed, he said (May 2001). Then-Governor Frank Keating echoed this assertion, insisting, “if we don’t pursue right to work, we are redlined” (Levy 2001).
Though no data were ever presented to substantiate these claims, they were widely publicized and doubtless influential in legislators’ thinking about the issue. One of the groups that played a leading role in touting the job-creation powers of RTW was the Oklahoma Council on Public Affairs (OCPA), which is not actually a public organization but a private, anti-union advocacy group. OCPA’s widely circulated 2001 study repeated the claim that RTW would significantly increase the number of new companies coming into the state, and would increase growth in manufacturing jobs (Reed 2001). These claims, in turn, were frequently repeated by the National Right to Work Committee (Monies 2003; Greer 2005, 2007).

None of those predictions came true.

The facts—which come straight from the state and federal government and are now uncontested by any party, are:

- In the 10 years since the law was passed, the number of new companies coming into the state has decreased by one-third (Oklahoma Department of Commerce 2011). Indeed, the same two OCPA staff analysts who authored the most recent RTW study—Moody and Warcholik—also published a 2010 article showing that Oklahoma has suffered a net out-migration of jobs to other states.

- In the 10 years since Oklahoma adopted its right-to-work law, the number of manufacturing jobs in the state has fallen by one-third (U.S. Bureau of Labor Statistics 2011).

This evidence suggests that RTW was not an economic windfall for the state, but is not conclusive since other factors have also impacted job growth over this period. A more careful analysis (Lafer and Allegretto 2011) comparing Oklahoma to its neighboring states to control for other trends found that “[t]he adoption of right-to-work in Oklahoma had no significant positive impact whatsoever on employment.”

Rather than apologizing to Oklahoma legislators who may have been misled by their earlier predictions, OCPA recently released a new study aimed at convincing Indiana lawmakers that Oklahoma’s RTW law was a success. In pursuit of this goal, OCPA has completely revised its definition of success.

In its most recent report, OCPA admits that “manufacturing is lower today than it was before RTW” but insists that RTW doesn’t have to create jobs to be successful. Instead, all that matters is manufacturing GDP, or the value of sales created by the state’s manufacturing industries, OCPA says (Moody and Warcholik 2011). This argument makes no economic sense. A higher dollar-value of manufacturing sales only helps the population at large if it translates into more jobs or higher wages, which OCPA admits is not the case.

In the face of such daunting facts, OCPA offers a novel take on RTW’s failure to produce jobs. The law, the report asserts, has helped boost productivity—meaning that fewer people are needed to produce the same quantity of goods. This is a boon to Oklahomans because it “frees scarce labor to pursue other economic activities” (Moody and Warcholik 2011).

While higher productivity is certainly desirable, it’s hard to imagine that unemployed Oklahomans take comfort in having been “freed” from their former jobs. Needless to say, scarce labor is not the major problem currently facing Indiana.

For Hoosiers, the question is simple: If Indiana has the same experience as Oklahoma—both the number of manufacturing jobs and the number of new companies coming into the state significantly decrease—would that be deemed a success?

**Employers say RTW is not important to location decisions**

The American Legislative Exchange Council’s *Rich States, Poor States* report contains a state-by-state ranking of “economic outlook” based on 15 policies on ALEC’s political agenda, including RTW. But employers say ALEC focuses on the wrong things. Every year, *Area Development* magazine asks employers to identify the most important factors that determine their location decisions. In 2010, only one of ALEC’s 15 policies (corporate taxes) was included in the top 10; RTW was ranked 16th (*Area Development* 2011).

For higher-tech, higher-wage firms, the *State New Economy Index* ranks states according to their favorability for “new economy” employers, using 26 separate factors to measure state economies. Not one of ALEC’s policies is included on this list (Atkinson and Andes 2010).
What’s really happening in the RTW states? Warm weather and immigration—not state labor laws—explain growth

ALEC argues that faster population growth in the 22 states with RTW laws shows that “people … want to move to places where workers have the freedom to decide whether they would like to join a union” (Laffer et al. 2011, 13).

In fact, Hoosiers are not flocking to RTW states. People who leave Indiana primarily move to non-RTW states, with Illinois and Kentucky the top two choices (Carter 2011). Moreover, there is no evidence that people switch states because of labor laws. ALEC does not present any data showing that even one interstate migrant in a thousand knows whether his or her destination state has a right-to-work law. Nor can ALEC explain why Miami, in RTW Florida, has steadily lost population for the past five years, nor why Seattle, in non-RTW Washington, has been a population magnet (Bruner 2011).

The phrase “right-to-work states” is itself misleading, since it implies that these states’ economies are primarily related by their labor laws. In fact, these are 22 very different state economies whose performance varies widely. For instance, both the highest and lowest unemployment rates are found in RTW states (U.S. Bureau of Labor Statistics 2011). The only commonality among this set of states is their concentration in the South and Southwest—regions with warm weather and fast-growing populations.

RTW advocates suggest that faster population growth proves the centrality of labor laws.

According to ALEC, “American workers, families, and businesses are repelled by high taxes, overspending, and excessive regulation,” and citizens “vote with their feet” by moving to RTW states (Laffer et al. 2011, 9).

But this description of what motivates migration has no basis in fact. Population trends actually point to the marginality of RTW. People move to Texas or Florida not for labor laws; indeed, the share of Americans who are at all familiar with right-to-work laws is doubtless quite slim. People and businesses move for things such as better weather; Indiana, for example, averages 25 snow days per year, a significant cost of business. By comparison, Texas has two snow days per year and Florida none (Current Results 2011).

National data show that most people move from one state to another to find more affordable housing, to meet certain family needs, to retire, to move to or from college, to access better weather, or for other reasons unrelated to work (Schachter 2001; Molloy et al. 2010).

It’s useful to examine the case of Texas, whose population has grown more than any other state in the past decade, but for reasons utterly unrelated to RTW. The state’s weather was a draw for many, as were its oil industry, NASA, and large military presence. In addition, Texas is among the border states that received substantial immigration from Mexico over the past decade, and experienced by far the greatest growth in undocumented workers (Pew Hispanic Center 2011).

In turn, this population growth produced job growth. Whatever draws people to Texas, once there, new residents buy food, rent apartments, and stimulate the economy.

“Retirees in search of warm winters, middle-class Mexicans in search of a safer life—bring purchasing power that leads to greater local employment,” explains Paul Krugman (2011), a winner of the Nobel Prize in Economics and columnist with the New York Times.

In other words, the evidence of Texas’ job growth points not to the impact of RTW but the opposite—to the power of migration to stimulate job growth independent of labor laws. This has been particularly clear in the period from 2007–2011, in which all of Texas’ job growth has been in the public sector (Fletcher 2011). Population growth—unrelated to private sector job creation—led to growing demand for schools, police, road crews and other local services (Fletcher 2011).

ALEC’s Rich States, Poor States report acknowledges that both weather and housing costs are important drivers of migration. But rather than separating out the impact of these factors to accurately gauge the reduced impact of RTW, the organization simply proceeds as if RTW alone explains population growth. Indeed, ALEC alternately claims credit for economic growth on behalf of a variety of its favored policies. When ALEC is advocating lowering taxes, it attributes Texas’ growth to the absence of an
income tax; when it argues against class action lawsuits, it says growth is due to tort reform; and when it argues against unions, it credits RTW (Laffer et al. 2011).

This type of selective focus produces contradictory messages. Rich States, Poor States notes the “especially noteworthy… economic success” of Washington state and attributes that success to the absence of a state income tax, but ignores the fact that Washington has strong labor laws, which elsewhere in the report are decried as a cause of economic failure (Laffer et al. 2011). The type of numbers-play that characterizes this report may produce good sound bites, but it does not make for sound policy.

What’s the real challenge facing Indiana’s economy?

Indiana faces real economic challenges, as does nearly every state in the country. But these challenges are unrelated to the state’s labor laws. Moody’s Analytics recently reported that 90 percent of Indiana’s employment worries are due to national factors primarily related to the slowdown in demand for manufacturing (Carter 2011). Manufacturing has been hit hard, and this has taken a particular toll on manufacturing-intensive states such as Indiana. Yet the past year has brought improvements, including in the automotive industry. Honda recently hired 1,000 workers at a plant near Indianapolis, and GM has announced a $270 million expansion for its truck plant near Fort Wayne (Carter 2011).

The goal of right-to-work laws is to lower wages in hopes of luring outside manufacturers to the state. As the Indiana Chamber of Commerce report explains, “unionization increases labor costs,” and therefore “makes a given location a less attractive place to invest new capital resources” (Vedder et al. 2011, 6). But in the age of globalization, the strategy of attracting employers by cutting one’s own wages is a race to the bottom. Recognizing this, most state economic development officials now focus on attracting higher-tech, higher-wage companies providing jobs that can support local families and that are less likely to be shipped abroad. Such companies overwhelmingly favor strong union states, because those states tend to have higher skilled workers, lower turnover, and superior education and digital infrastructure (Atkinson and Andes 2010).

A review of 56 recent major investments in the “auto industry of the future”—lithium-ion batteries, advanced battery materials, electric drive manufacturing, and advanced vehicle electrification—found that more than 85 percent of the $2.5 billion invested was concentrated in strong union states, including Indiana.4

There is no easy panacea for economic growth. But diversification into higher-tech manufacturing offers a strategy for building a future of family-wage jobs—a future that does not rely on trying to lower wages in order to compete with China or Mexico. Indeed, Moody’s prescription for Indiana has nothing to do with RTW or lowering wages. According to the firm, one of the most important steps Indiana lawmakers can take to shape the state’s economic future is to increase investment in education so that Hoosiers can better compete for high-wage jobs (Carter 2011).

While pursuing diversification into higher-wage manufacturing, it is important to remember that approximately 85 percent of Indiana’s jobs are in non-manufacturing industries. The source of the largest number of new jobs in the next decade will be healthcare and other service sectors. Service-sector employers tend to be immobile; hospitals must be where the sick people are, schools must be where the children are.

While RTW can thus have little positive impact on employment in these sectors, it can have significant negative impact. A service economy depends on consumers having disposable income. But when RTW laws undermine union wages, they also weaken consumer demand. Every $1 million in wage cuts results in six additional jobs lost in service, retail, construction, real estate, and other local industries.5 In addition, the healthcare industry is only viable to the extent that citizens have health insurance. When unions are weakened and the share of people with health insurance declines, the viability of this industry may be threatened.

In a big country, it is always possible to find anecdotes on both sides of a given issue. But rather than relying on anecdotal testimony from political advocates or corporate consultants, legislators would do well to emulate New Hampshire lawmakers and study the facts about RTW that arise from the experience of Oklahoma, employer surveys carried out by nonpolitical organizations, and
truly scientific studies that separate out the real factors that influence state economic growth.

Indiana faces real challenges, but the answers to those challenges have nothing to do with weakening labor unions. Indiana already outperforms a majority of RTW states on a number of critical measures, including higher pension and health insurance coverage and superior educational scores (Corporation for Enterprise Development 2009; Kaiser Family Foundation 2011; EPI 2011). To trade away this record based on the arguments presented by RTW advocates would mark a step backward for the state’s economic future.

—Gordon Lafer is an Associate Professor at the Labor Education and Research Center at the University of Oregon. His work concentrates on labor law and employment policy issues.

Endnotes

1. Right-to-work laws do not have anything to do with people being forced to join a union or pay dues for political causes they do not support. Federal law already guarantees that no one can be forced to join a union, and no one can be required to pay union dues that fund political causes they oppose. What is permitted under federal law is for a group of employees to propose—and if their employer agrees, to write into a contract—the provision that all employees who benefit from the terms of a union contract are required to pay their fair share of the costs of administering that contract. Right-to-work laws make it illegal for employees and employers to negotiate such a contract. By making it harder for workers’ organizations to sustain themselves financially, right-to-work laws aim to weaken unions’ bargaining strength.

2. Because service industries are not mobile—schools and hospitals have to be sited near the kids and sick people they serve—right-to-work policies focus on manufacturing. Right-to-work in Indiana is based on the conviction that the only way for the state to grow is to lower its wages in the hopes of attracting out-of-state manufacturers to relocate in the state. For example, the Chamber of Commerce argues that firms choosing between Indiana and RTW states might assume that Hoosiers’ wages and benefits will be 10 percent higher because of their greater ability to organize unions, and therefore that firms would choose to locate in a lower-wage state (Vedder et al. 2011, 6). Right to work urges Hoosiers to gamble that undermining union strength and lowering their wages and benefits will lead to success in drawing more factories into the state. Unfortunately, the economic data suggest this gamble cannot pay off.

3. North Dakota’s oil not only created an employment boom in that sector but also created a $1 billion budget surplus that allowed the government to expand public employment at a time when other states were cutting back (Cauchon 2011, North Dakota Governor’s Office 2011).

4. Data include high technology auto industry investments that received support from the federal government through the Department of Energy’s EISA Section 136 loans, EPCA section 1703 and 1705 loans, and the American Recovery and Reinvestment Act, and includes all projects listed as of August 5, 2011 (U.S. Department of Energy 2011).

5. Calculation by EPI staff economists based on standard multiplier ratios.

References


