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Most U.S. Manufacturing Jobs Today Are Located in Right to Work States

On Average, Factory-Sector Employees in Forced-Unionism States Receive Roughly $3600 Less in Cost of Living-Adjusted Annual Compensation Than Their Right to Work State Counterparts

By Stan Greer

For several decades, it was a pillar of conventional labor-policy wisdom that manufacturing jobs in the United States were overwhelmingly located in states that did not protect employees from being forced to pay union dues or fees as a condition of employment.

Back in 1957, an editorial research report published by *Congressional Quarterly* claimed, somewhat dismissively: "It is worthy of note that the movement to ban compulsory unionism has spread most readily in areas where the economy has rested largely on agriculture and small business."[1]

And as recently as March 2011, Indiana GOP state Sen. David Long (Fort Wayne), then the majority leader of his chamber and now president pro tempore, reportedly sought to justify his reluctance to battle with Big Labor Democrats over passage of a statue prohibiting forced union dues on the grounds that "[n]o industrial state has a right-to-work law."[2] (Indiana went on to become America's 23nd Right to Work state in early 2012.)

Right to Work States' Rising Share of Manufacturing Jobs Only Partially Attributable to Enactment of New Laws

Such comments have always been misleading at best. <u>Ever since the first state Right to Work laws were enacted back in the 1940's, the share of total U.S. manufacturing employment located in such states has consistently been rising</u>. For our purposes here, it will suffice to consider only the data going back to 1975.

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[1] W.R. McIntyre, "Right-to-Work Laws," *Editorial Research Reports 1957*, CQ Press.

[2] *KPC News* (Kendallville, Ind.) editorial, March 15, 2011.

Forty-one years ago, 19 states[3] prohibited the termination of employees for refusal to join or pay fees to an unwanted union. According to the U.S. Labor Department, 26.4% of nationwide employment in manufacturing establishments at that time was located in those 19 states.[4]

<u>All of these states have continuously offered Right to Work protections for employees ever since. And their share of U.S. employment at manufacturing establishments rose to 29.9% in 1985, 33.4% in 1995, and 34.4% in 2005</u>. Since three additional states (Louisiana, Idaho and Oklahoma) prohibited compulsory union financial support between 1975 and 2005, by the latter year the total manufacturing-establishment employment share of the then-22 Right to Work states was 36.9%.[5]

Between 2012 and 2015, another three states (Indiana, Michigan and Wisconsin), all of which have large manufacturing sectors, switched over from forced unionism to Right to Work. It is largely thanks to the 1.57 million manufacturing payroll jobs located in these three states last year that the total for all Right to Work states surpassed the total for forced-unionism states, 6.21 million to 6.11 million, for the first time in 2015.[6]

However, it is also important to note that, since nationwide manufacturing payroll employment bottomed out at 11.53 million in 2010 in the wake of the Great Recession, the 22 states that already had Right to Work laws on the books at that time have enjoyed a 7.7% aggregate increase in factory-sector payroll jobs, or roughly 75% more than the total percentage gain for the 25 states where compulsory union dues were still permitted in 2015.[7] (This year, West Virginia became the 26th Right to Work state.)

'Total Factor Productivity' in Forced-Unionism States Only 57-64% 'of the Level' in Right to Work States

On average, cost of living-adjusted cash pay and benefits for factory-sector employees in Right to Work states today are significantly higher than for their counterparts in compulsory-unionism states.

U.S. Commerce Department data, adjusted for regional cost-of-living differences according to an index calculated by the Missouri Economic Research and Information Center (MERIC), a state government agency, show that in 2014 the average annual compensation per manufacturing

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[3] Alabama, Arizona, Arkansas, Florida, Georgia, Iowa, Kansas, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia and Wyoming.

[4] U.S. Commerce Department, *Statistical Abstract of the United States*, 1975 edition, Table 596.

[5] *Statistical Abstract*, 1987 edition, Table 671; 1996 edition, Table 653; 2007 edition, Table 617.

[6] See http://www.bls.gov/sae/ -- the State and Metro Area Employment, Hours and Earnings page of the U.S. Labor Department, Bureau of Labor Statistics (BLS) web site.

[7] See http://www.bls.gov/ces/ -- the Current Employment Statistics page of the BLS web site.

employee was $74,888. That's roughly $3600 higher than the average for the states that still lacked Right to Work protections in 2014.[8]

The Winter 2016 edition of *Cato Journal* features a research article, authored by Ball State University (Muncie, Ind.) economist Michael Hicks and two associates, that helps show why it makes good business sense for manufacturing firms to locate in Right to Work states and pay their employees well.[9]

The three scholars' analysis focuses in part on the relationship between Right to Work policies and total factor productivity (TFP), which they define as "the growth in output attributable to technological change in the capital and labor basis model":

> We estimate a Cobb-Douglas production function for manufacturing industries at the state level and find that total factor productivity in [non-Right to Work] states was about 57 percent of the level in [Right to Work] states. Our derivation of the Solow residual suggests that [non-Right to Work] manufacturing productivity was roughly 64 percent of the [Right to Work] states.

In the global marketplace that has emerged over the past quarter century, less and less "high-volume, commodity production, such as churning out t-shirts and toys," is going to occur in the U.S. and other wealthy countries, as National Institute for Metalworking Skills Executive Direct James Wall recently told CNN financial writer Tami Luhby.

That doesn't mean that in the future American manufacturing won't be able to sustain and create jobs that enable millions and millions of workers to provide well for themselves and their families. But these jobs require employees who are willing and able to develop their skills and show individual initiative:

> American manufacturing now involves more . . . technical jobs, such as fabricating airplane parts or artificial knees. . . . Many [manufacturing positions today] require certificates or additional technical training for specific jobs – such as Computer Numerical Control, in which computers run machine tools such as grinders and lathes. . . [W]orkers today need to know right angle trigonometry to program a machine to bore a hole into a metal sheet, Wall said.[10]

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[8] See http://bea.gov/regional/index.htm -- the BEA's Regional Regional Economic Accounts page – for 2014 data regarding manufacturing-sector employment and compensation in 2014. For a chart reproducing MERIC's annual composite cost-of-living indices for 2014, see Stan Greer, "Forced Unionism States Were on Average 22% More Costly to Live in Than Right to Work States in 2014," National Institute for Labor Relations Research blog post, March 10, 2015.

[9] Michael J. Hicks, Michael LaFaive, and Srikant Devaraj, "New Evidence on the Effect of Right-to-Work Laws on Productivity and Population Growth," pp. 101-120.

[10] Tami Luhby, "American Manufacturing Isn't Dead Yet," *CNN Money*, April 7, 2016.

Counterproductive work rules imposed and perpetuated for decades by Big Labor bosses wielding forced-unionism privileges are obviously a key factor behind the long-term shift of American manufacturing and employment to Right to Work states.

In industry after industry, union bosses have negotiated contracts requiring rigid job classifications that waste time and money, ultimately to the detriment of workers' paychecks and job security.

<u>It was only after devastating job losses for unionized employees to both international and domestic competition (very often based in Right to Work states) that union bosses in Big Labor-dominated states grudgingly allowed some reforms of work rules</u> and health-insurance and pension systems.

Right to Work laws, in contrast, foster an ideal environment for modern manufacturing by empowering employees who disagree with Big Labor obstructionism and "hate the boss" class warfare to resist by quitting the union and withholding all financial support for it.

This is a key reason why the 26 Right to Work states now represent the future for high-paying manufacturing jobs and businesses in the U.S.

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