FACT SHEET

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Recent Research Bolsters Economic Case For State Right to Work Laws

'The Evidence Suggests That There Is a Positive Relationship Between Economic Growth and the Presence of [a Right to Work] Law and That the Magnitude of the Legislation's Effects May Be Substantial'

By Stan Greer

All across America, Right to Work states have long benefited from economic growth far superior to that of states in which millions of employees are forced to join or pay dues or fees to a labor union just to keep their jobs.

And union bosses and their allies have long tried to argue that no one should pay any attention to the data showing that Right to Work status is correlated with faster growth in jobs and aggregate employee compensation.[1] In recent years, however Big Labor's task in trying to distract public attention from forced-unionism states' poor economic performance has become much more difficult.

A key reason why is the recent publication of a number of scholarly analyses showing that there is a *causal* positive relationship between the presence of a Right to Work law and economic growth.

In a series of articles published since 2010, eminent economist Richard Vedder and his various coauthors have helped build the case that Right to Work laws increase opportunities and raise employees' real incomes.

Workers See 'Greater Economic Opportunity' in Right to Work States

Dr. Vedder, a distinguished professor of economics at Ohio University in Athens, Ohio, and the author of more than 100 papers published in academic journals as well as several books, is a specialist in labor, taxation and education issues.

[1] See, e.g., "Right to Work States Benefit From Faster Growth, Higher Real Purchasing Power: Winter 2017 Update," National Institute for Labor Relations Research, January 2017, available at www.nilrr.org -- the Institute web site.

With fellow Ohio University economist Lowell Galloway, Vedder is the coauthor of the acclaimed book *Out of Work*, an examination of the ties between unemployment and public policies in 20th Century America. [2]

In "An Interstate Analysis of Right to Work Laws," published by the Washington, D.C.-based Competitive Enterprise Institute in 2014, Vedder and coauthor Jonathan Robe summarized a multiple regression analysis conducted by the authors.

Their aim was to determine if some factor or factors other than the lack of Right to Work protections could possibly account for the chronically slower aggregate growth in output and income experienced by states where forced unionism is authorized and promoted. In short, why do workers see "greater economic opportunity" in Right to Work states?

Right to Work Laws Increased 1977-2012 Economic Growth by 11.5 Percentage Points

One Vedder-Robe model incorporated five non-Right to Work variables "for control purposes," including, for example, change "in the employment-population ratio," change "in the proportion of the adult population" with at least a bachelor's degree education, and percentage of the "nonagricultural working population in manufacturing."

Vedder and Robe then reported their findings, which covered the 35 years from 1977 to 2012:

> [O]ur results suggest the overall effect of a [Right to Work] law is to increase [cumulative] economic growth rates by 11.5 percentage points . . . . This result is significant at the 99% confidence level.

<u>In personal per capita income terms, the authors estimated that residents of states that still lacked Right to Work protections as of 2012 had a per income that year $2500 to $3500 lower than would have been the case had forced unionism been prohibited in their state since 1977</u>!

Vedder is just one of a number of respected economists who have concluded in recent years that laws protecting the Right to Work are a means of raising living standards in a state.

Another example is Dr. Michael Hicks, the director for the Center for Business and Economic Research at Ball State University in Muncie, Ind., and the author of three books and more than 50 scholarly papers.

Data Point to a 'Positive' Impact 'on the Economic Well-Being of a State'

In a 2013 study for the Midland, Mich.-based Mackinac Center for Public Policy, Hicks and his coauthor, Michael LaFaive, described a statistical model they had created to measure the

[2] Holmes & Meier, New York, N.Y., 1993.

economic impact of state Right to Work laws. The Hicks-LaFaive model was carefully designed to disentangle Right to Work from "tax policy, weather and other variables" that may affect a state's growth rate.

Hicks and LaFaive also sought specifically to meet the challenge of reverse causation, or "endogeneity," as economists call it:

> There may be factors that influence the adoption of [Right to Work laws], such as high levels of union membership or traditional union antipathy, and these may be correlated with underlying economic growth.

Applied over the 64 years from 1947, when Congress first provided express authorization for state Right to Work laws in Section 14(b) of the Taft-Hartley Act, to 2011, the Hicks-LaFaive model showed "states with [Right to Work] laws had higher economic growth than they would otherwise have had . . . ."

<u>From 1991 to 2011, the most recent period considered by the study, Right to Work laws "boosted average . . . [annual] real personal income growth" by 0.7%, or 15.8 percentage points cumulatively over the course of two decades</u>. Right to Work laws boosted employment growth by a cumulative 8.3 percentage points over the same 20-year period.

Taken as a whole, the Hicks-LaFaive findings "suggest that [Right to Work] laws may have a positive -- at times very positive -- impact on the well-being of a state and its residents."

Yet another highly credentialed economist who has recently investigated the evidence regarding the impact of Right to Work on "growth, employment, investment and innovation" and concluded it is consistent with the findings of scholars such as Richard Vedder and Michael Hicks is Jeffrey Eisenach, senior vice president of NERA Economic Consulting, a global firm that serves clients from offices across North America, Europe, and Asia Pacific.

Eisenach, a specialist in issues concerning market competition, regulation, and consumer protection, has submitted expert testimony in federal court and before the Federal Communications Commission and the Federal Trade Commission, as well as several state utility commissions and foreign courts and regulatory bodies. He has written or edited 19 books and monographs, and has served as vice president of the Washington Economics Club since 2011.

'Weight of the Evidence Strongly and Increasingly Suggests' That Right to Work Laws 'Improve Economic Performance Overall'

In his 2015 paper, "Right-to-Work Laws: The Economic Evidence" (published by NERA Economic Consulting but reflecting his own views only), Eisenach opted not to create his own model to determine whether or not there is a causal relationship between compulsory unionism and diminished growth.

Instead, Eisenach summarized other studies, including the two discussed above, that find that Right to Work is economically beneficial and investigated whether "this evidence is consistent with actual observed results." Again and again, he found that his observations were "in line with the academic literature." With regard to unemployment, for example, Eisenach discovered:

> [Right to Work] states have had lower average annual unemployment in every year from 2001 to 2014. On average, the annual unemployment rate in [Right to Work] states was 0.5 [percentage points] lower than in [non-Right to Work] states. In concrete terms, if [non-Right to Work] states had had the same unemployment rate as [Right to Work] states in 2014, approximately 400,000 more people would have been employed.

Eisenach's observations were also consistent with economic literature suggesting that Right to Work laws "have positive direct and indirect effects on economic output." He cited federal data showing that, from 2001 to 2013, real private-sector GDP cumulatively expanded by more than 30% in Right to Work states, compared to roughly 20% in forced-unionism states.

Theoretical models suggesting that "businesses are more inclined to open plants" in Right to Work states than in non-Right to Work states received especially strong support from the empirical U.S. Census Bureau data cited by Eisenach. <u>He found that, between 2001 and 2012, the number of business establishments in Right to Work states increased by 9.2%, compared with just 2.1% in non-Right to Work states</u>.

Eisenach concluded that the "weight of the evidence strongly and increasingly suggests" that Right to Work laws "improve economic performance overall."

His use of the actual records of states with and without Right to Work laws to test the theories of his fellow economists stemmed from his recognition that "sound analysis is unavoidably a judgment-laden mix of rigorous reasoning ('theory') with careful observation of facts . . . ."[3]

Of course, "data . . . do not speak for themselves . . . ." But at the same time a serious economist cannot simply ignore the real-life experiences of people living under the competing systems he or she is examining:

> It is indisputable that a theory that is inconsistent with empirical data is a poor theory. No theory should be accepted merely because of the beauty of its logic or because it leads to conclusions that are ideologically welcome or politically convenient.[4]

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[3] Don Boudreaux, "Theorizing About Facts: There's No Escaping Theory, " *Cafe Hayek* blog post, April 28, 2015.

[4] *Ibid.*

On the other hand, when sound theoretical models and meaningful empirical data both point in the same direction, as they do in the case of Right to Work laws' positive economic impact, they reinforce each other's credibility. That is one reason why Vedder and Robe could be confident in writing:

> Although many factors besides labor laws affect economic change, the evidence suggests that that there is a positive relationship between economic growth and the presence of [a Right to Work] law and that the magnitude of the legislation's effects may be substantial.

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