“Right to Work’s” Dark Side

– Low Wages, Economic Decline

By Dave Johnson | December 17, 2012

Michigan Republicans are pushing low wages, claiming that “right-to-work” laws will “attract businesses.” Does it work?

Conservatives argue that strong unions cost jobs and anti-union “right-to-work” laws will bring jobs, because companies will move to places where workers are less able to fight for good pay and benefits. What do the numbers tell us?

Last week the far-right CNSNews carried a post, *Right To Work States Have Lower Unemployment, Higher Income and Healthcare Coverage, NRTW President Says*, quoting the head of the corporate-funded, anti-union organization, National Right To Work. He claimed that passing right-to-work laws not only increases employment but actually increases wages and benefits.

Mix notes that workers in Right to Work states not only tend to have as much as $4,300 more purchasing power, but also are more likely to have health insurance:

“And if you look at the other 22 Right to Work states, you find when it relates to private sector job growth, when it relates to increase in private sector per-capita purchasing power, or adjusted for cost of living, you find those states are doing much better.

“So, there’s lots of data out there that talks about this, including a study from the George Mason Department of Economics. They did a study when, adjusting wages for cost of living, they found workers in Right to Work states have about $2,300 more to spend than workers in forced-unionism states.

More on this in a minute…

The Detroit Free Press took a deeper look at the numbers, in *Right-to-work law's impact on Michigan debatable based on other states*, and found that it was inconclusive. While they fond that some "right-to-work" states do have lower unemployment, the reasons are not clear.

"You can cherry-pick individual states that have done well," said Michael Hicks, director of the Center for Business and Economic Research at Ball State University in Muncie, Ind. "What nobody has done is report convincing, statistical evidence that right-to-work by itself makes a statistically discernible difference in economic outcomes, whether for good or ill."

Hicks studied right-to-work laws and their effects on manufacturing. His findings: Right-to-work can indicate a more accommodating business climate, but the law itself will not attract more manufacturing or result in better wages or employment numbers.

Another factor to consider is the race-to-the-bottom effect as *other* states (like Alabama) suppress unions *even more*, forcing wages *even lower*, and also offer tax incentives to "attract" businesses. From the Detroit Free Press report,

The Economic Policy Institute, a Washington-based liberal think tank, published an article last week about Indiana's right-to-work experience that highlighted tax credits and state assistance packages as a less-hyped factor in some businesses' expansion decisions.

The article noted how Busche Enterprise obtained $750,000 in assistance from the Indiana Economic Development Corp., the state's main economic development agency and recruiter. The article also noted that Indiana's right-to-work law didn't keep Busche from recently acquiring another plant site in October for a separate project in Alabama, its first non-Indiana production site.

Indiana offered up the moon, but Alabama offered up the moon *and the stars*, so they went with Alabama.

Neither the Detroit Free Press nor CNSNews factored in that their statistics were influenced by states like North Dakota that are currently enjoying an "energy boom." Also, this idea that these low-wage states have a lower cost-of-living is another way of saying that they are poor. *And they are poor because their leadership is offering them up as low-wage states "to attract businesses."*

Energy Boom States

Advocates of pushing down wages and suppressing workers rights use numbers that include the gains in energy-boom states to make their point.

The statistics that show job and wage growth in RTW states rely heavily on gains in North Dakota, Wyoming and other **states that are currently having an "energy boom."** This would

clearly indicate that the gains have nothing to do with suppression of unions. (Unless suppressing unions causes supplies of energy to suddenly appear under the ground.)

Note which states show significant job and wage gains in the Detroit Free press report:

Right-to-work states added a total of nearly 2 million jobs — a 3.4% increase over that period. The big winners were North Dakota (21.8% jump), Wyoming (15.8%), Utah (12%) and Texas (11.5%).

Meanwhile, employment dropped by 2 million jobs in non-right-to-work states, or a 2.5% decrease.

The average annual pay in right-to-work states grew from $30,172 to $41,243 from 2001 to 2011, a 36.7% increase.

Average pay in the other states rose 32.4%, from $35,505 to $47,002.

Obviously the employment and good wages in energy-boom states swings the "averages." But this has nothing to do with "right-to-work" union-suppression laws.

Other Studies

There have been some good studies of the effect of these union-suppression laws apart from the energy-boom effect occurring in states like North Dakota.

A Feb., 2011, Economic Policy Institute (EPI) study, *Does 'right-to-work' create jobs? Answers from Oklahoma*, found "overwhelming" evidence:

Despite ambitious claims by proponents, the evidence is overwhelming that:

• Right-to-work laws have not succeeded in boosting employment growth in the states that have adopted them.

• The case of Oklahoma – closest in time to the conditions facing those states now considering such legislation – is particularly discouraging regarding the law's ability to spur job growth. Since the law passed in 2001, manufacturing employment and relocations into the state reversed their climb and began to fall, precisely the opposite of what right-to-work advocates promised.

• For those states looking beyond traditional or low wage manufacturing jobs – whether to higher-tech manufacturing, to "knowledge" sector jobs, or to service industries dependent on consumer spending in the local economy – there is reason to believe that right-to-work laws may actually harm a state's economic prospects.

A Sept., 2011, study, also by EPI, *'Right to work,' The wrong answer for Michigan's economy*, found that,

• Right-to-work 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.

• Right-to-work laws also decrease the likelihood that employees get either health insurance or pensions through their jobs—again, for both union and nonunion workers.

• By cutting wages, right-to-work 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 into an additional six jobs lost in the economy. With 85 percent of Michigan's economy concentrated in health care, retail, education, and other non-manufacturing industries, widespread wage and benefit cuts could translate into significant negative spillover effects for the state's economy.

A January, 2012 study by American Rights at Work, New Research Counters Arguments for "Right-To-Work" Laws, examined a number of studies and found that "recent studies rebut claims of economic growth and instead find that laws suppress wages."

A May, 2011 Bureau of Labor Statistics study found that "right-to-work" states have lower wages (examples: 9.4% lower for all occupations, 11.4% lower for teachers) than states with union rights.

In *Nonunion Wage Rates and the Threat of Unionization* Henry Farber, Professor of Economics at Princeton University found that after Idaho passed a RTW law in 1985, there was a statistically-significant drop in *nonunion* wages relative to other states.

The Larger Effect Of Race-To-The-Bottom Policies

While it might sound sensible to say that lowering wages and benefits and suppressing worker rights (along with giving tax incentives) will "attract businesses" to a state, what is the effect on the larger economy? What happens in the states where these businesses – if any – come *from*? And what happens to the tax base in states that push lower wages?

If these low-wage policies are successful, two things happen. The states that lose the jobs are poorer, and the workers in the low-wage states they came from (if any actually do) are poorer. And these low-wage states put pressure on wages for the jobs that remain, *so wages are driven down economy-wide, across the country*. This means that overall economic demand decreases so businesses have fewer customers, and tax revenue decreases because of lower wages and lower demand. As tax revenue decreases schools are defunded, infrastructure is not maintained, and economic conditions deteriorate for businesses throughout the economy.

Cutting wages — and offering tax incentives — to “attract businesses” sounds like it makes sense, but really it is penny wise and pound foolish. In the long run everyone is hurt, except the few already-wealthy billionaires pushing these policies.