Minnesota Right-to-Work

How the Freedom of Workers in the Workplace Enhances Prosperity

By Richard Vedder, Matthew Denhart, and Jonathan Robe

CENTER OF THE AMERICAN EXPERIMENT

Center of the American Experiment is a nonpartisan, tax-exempt, public policy and educational institution that brings conservative and free market ideas to bear on the hardest problems facing Minnesota and the nation.

JANUARY 2012

Minnesota Right-to-Work

How the Freedom of Workers in the Workplace Enhances Prosperity

By Richard Vedder, Matthew Denhart,

and Jonathan Robe

Executive Summary

Unlike most southern and western states, Minnesota has no right-to-work law, a law which guarantees workers the freedom to join, or not to join, a labor union as the individual worker may choose. A wealth of research suggests that right-to-work laws are a significant factor in explaining state variations in industry location, human migration, and economic growth.

The evidence presented here for Minnesota suggests that the state's economic growth would have been greater if a right-to-work law had been adopted several decades ago. Specifically, we estimate that personal income per capita, on average, would have been $2,360 to $3,072 higher annually in 2008 if Minnesota had adopted a right-to-work law in 1977. On a per household basis, personal income would have been somewhere between $5,960 to $7,740 higher if such a law had been in place. Instead of being 14th in the nation in per capita income in 2008, the state would almost certainly have been in the top 10. Excepting the low-tax and resource rich Dakotas, Minnesota probably would have led the Midwest in economic growth.

The passage of a right-to-work law would end monopolistic practices in labor markets that have been an important factor in keeping the state from being nearer the top with respect to the standard of living of its citizenry. Moreover, the cost to the state government of doing so would be trivial as enacting a right-to-work law would require no expenditure of taxpayer dollars.

Introduction: Why Employee Right-to-Work Matters to Minnesota

The evidence presented in this report indicates that the typical resident of Minnesota today would have a higher income and standard of living if Minnesota took advantage of labor legislation existing in 22 states in the Union. Minnesota has been blessed with attributes that give it a productive, hard-working population, but the growth in its standard of living has slowed, and public policies designed to reverse that slowdown are desirable.

Arguably the single biggest impediment to an improved labor environment in Minnesota is the lack of a right-to-work (RTW) law which guarantees workers the freedom to join, or not to join, labor unions as they so choose. With a RTW law, no worker is coerced to pay union dues, support union political causes, or live under a collective labor agreement if she or he wishes to negotiate individually with the employer. As discussed more fully later on in this report, states with right-to-work laws have much higher rates of growth in income, new jobs, wages, capital investment, and net in-migration of people from other parts of the country.

This report looks at how a right-to-work law likely would impact Minnesota for the good, helping stem the outflow of resources that has contributed to the recent stagnation of the Minnesota economy. At a time when resources are limited, this is a state action that does not add to budget woes (and might reduce them because a RTW law works to contain public employee labor costs), and indeed helps provide the resources for future growth of both private and public needs.

Minnesota's Historic Prosperity and Recent Growth Slowdown

Historically, Minnesota has been a relatively prosperous state, and, indeed, its economy has grown even faster than the nation as a whole. Table 1 shows that personal income per capita—probably the most widely accepted measure of overall economic well-being—grew by healthy rates in the 1960s, 1970s, 1980s, and 1990s.

Yet the pattern of high growth changed sharply for the worse in Minnesota over the past decade. Whereas personal income grew in inflation-adjusted terms by 19 to 44 percent per decade from 1960 to 2000, the rate slowed to an anemic 3.8 percent from 2000 to 2010. To be sure, this mirrored a national slowdown in economic growth caused by a variety of factors and culminated in the financial crisis of 2008. Table 1 shows that U.S. per capita income grew by a similarly anemic 4.0 percent in the last decade. Nonetheless, to a considerable extent, it was a "lost decade" in terms of growth. Had Minnesota grown as much in the first decade of the twenty-first century as it did in the last decade of the twentieth, per capita incomes would have ended the decade an

Table 1: Per Capita Income and Its Growth In Minnesota and the U.S., 1970-2010

Year	Minnesota Real Per Capita Income*	% Growth Previous Decade	U.S. Real Per Capita Income*	% Growth Previous Decade
1970	$ 22,760.99	44.15%	$ 22,952.07	37.37%
1980	27,069.08	18.93	26,703.89	16.45
1990	32,883.60	21.48	32,289.66	20.92
2000	41,279.94	25.53	38.392.82	18.90
2010	42,847.00	3.80	39,945.00	4.04

Source: U.S. Bureau of Economic Analysis, authors' calculations.

* U.S. Bureau of Economic Analysis, authors' calculations.

extraordinary $8,972 higher per person compared to actual per capita incomes in 2010.

In all the decades in the later part of the 20th century, Minnesota outperformed the nation in real per capita personal income growth, with the most notable performance advantages occurring in the 1960s and the 1990s. While Minnesota's growth advantage was negligible in the 1980s, the state grew more than one-third faster than the national average in the 1990s. In the 2000s, Minnesota's income growth no longer outperformed the nation as a whole, suggesting that the state's economic exceptionalism (above average output and growth) may be slipping.

It's too soon to say Minnesota's economic exceptionalism is lost. The state's personal income per capita remains well above average and even grew more quickly in 2010. Nonetheless, at a minimum, these recent economic trends show that Minnesota is not reaching its full potential for economic growth.

Minnesota's Economic Growth Potential

Economic growth arises mainly from the accumulation of more resources—human and physical capital—as well as new technologies that allow for more outputs per any given amount of those resources.

Minnesota's recent sluggish growth almost certainly reflects rather meager rates of accumulation of human and physical capital (at least relative to the past rates of growth), along with average and perhaps below-average adaptation of the state to innovations and technological change. For example, from April 1, 2000 to June 30, 2009, the Census Bureau estimates that some 43,962 more native born residents of Minnesota left the state than entered. To be sure, when international immigration is included, on net the state added more residents through migration than it lost, but the appeal of the state to non-Minnesotans is clearly not extraordinarily high.[1]

"Perhaps Minnesota's true growth potential is even higher than its actual growth over time."

Much of Minnesota's past prosperity and superior growth can be attributed to a good endowment of human capital. The state consistently exhibits higher education levels, a less dysfunctional and more cohesive society, more respect for the rule of law, higher workforce participation, and an elevated entrepreneurial spirit in its citizenry. All of these positive characteristics contribute to positive economic growth and, assuming that these positive characteristics continue to apply to Minnesota's population, likely will contribute in the future to continued economic success in the state.

While Minnesota experienced strong growth thanks to these and other positive characteristics, perhaps Minnesota's true growth *potential* is even higher than its actual growth over time. Minnesota, like 27 other states, allows labor unions to sign collective bargaining agreements that force workers, at a minimum, to pay dues to support union activity (not only the collective bargaining process but also union political activity). The lack of complete worker freedom to contract individually may be a factor in the out-migration of labor from the state, despite the state's other positive economic attributes. More importantly, states that lack RTW laws are often perceived, no doubt correctly, to face higher actual or potential labor costs, making employers less likely to invest. This, in turn, reduces the capital resources available for workers, lowering productivity growth.

Some 22 states, however, have RTW laws that give workers the right to choose to refuse to join a labor union. These laws prohibit the coercive collection of dues from those not choosing to join. RTW laws

1 U.S. Census Bureau, Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2009 (NST-EST2009-04), at http://www.census.gov/popest/data/historical/2000s/vintage_2009/index.html.

tend to lower union presence, reduce the adversarial relationship between workers and employers, and make future investment more attractive.[2] One would expect this would have a positive impact on measures of economic performance, such as job creation and, ultimately, the standard of living of the population. This in fact is the case, as we show in this report.

Historical Background on Unionization and Right-to-Work

The twentieth century was a time of great change in American labor relations. From the country's founding until the early 1900s, organized labor played a very small role in the workplace. However, the structure of labor relations changed drastically in the 1930s. Several legislative efforts created a more union-friendly legal environment, and union membership grew dramatically. Yet by the end of the century, labor unions had lost much of their influence. Below, we trace in greater detail the history of labor relations and the right-to-work movement during the twentieth century.

Erosion of the Common Law Tradition in Labor Relations

Prior to federal legislation passed during the 1930s, labor unions were largely governed under the same common law principles that apply to ordinary citizens. Under this system, special labor laws were unnecessary because the Constitution itself guarantees property and contract rights. Disputes between labor and management were handled through private negotiations or, if necessary, in court. Unions were permitted to organize workers, but union membership could not be a requirement for employment. Similarly, employers were also free to decide whether they desired to enter into contractual agreements with unions.[3]

From colonial times up until World War I, union membership was fairly small, never exceeding more than around 2.7 million American workers.[4] However, by the 1920s movements began in the railroad industry that would undermine America's common law tradition with respect to labor relations. In 1920, Congress passed the Transportation Act establishing the Railroad Labor Board (RLB). The RLB soon granted railroad unions the power of exclusive representation in labor disputes, departing abruptly from the common law tradition. Although these exclusive representation provisions were ruled unconstitutional by the Supreme Court in 1923, railroad unions saw another legislative victory in 1926 with the passage of the Railway Labor Act (RLA). The RLA did not reinstate exclusive representation, but it did specifically grant workers the right to organize. Furthermore, it replaced a "freedom of contract" for employers with a legal "duty to bargain." In 1951 Congress amended the RLA to permit compulsory unionization of workers in the railroad and airline industries (the airline industry by that time had fallen under the legal statutes of the RLA). This practice continues to this day, even in RTW states.[5]

Although the next strong period of union power arose during the presidency of Franklin Roosevelt, unions realized a major victory under President Herbert Hoover when he signed the Norris-LaGuardia Act in 1932. The law made workers' non-union agreements with management unenforceable in federal court. Furthermore, it exempted unions from potential violations of anti-trust law and freed unions from private damage suits or injunctions arising from their strikes. As might be expected, work stoppages stemming from union activity increased in the years following Norris-LaGuardia. In 1932 (the year Norris-LaGuardia was passed), there were 852 work stoppages involving

2 At the same time, however, it would be misleading to call RTW laws "anti-union." They merely create a level playing field where workers can decide for themselves whether to join unions. One irony is that in recent years the decline in union membership, a nation-wide phenomenon, has been somewhat more pronounced in the non-RTW states than in those with RTW laws.

3 George C. Leef, *Free Choice for Workers: A History of the Right to Work Movement* (Ottawa: Jameson Books, 2005).

4 *Historical Statistics of the United States: Earliest Times to Present, Millennium Edition, Vol. 2, Part B: Work and Welfare. Cambridge University Press P. 2-336.*

5 *Leef*, p. 37.

324,000 workers, the equivalent of 1.8 percent of all workers. However, the next year (that is, 1933) work stoppages nearly doubled to 1,672 instances and involved 6.3 percent of all workers.[6]

National Labor Relations Act of 1935

As the hallmark labor legislation of his New Deal policies, in 1935 President Franklin Roosevelt signed the National Labor Relations Act (hereafter called the Wagner Act). By this time, unions represented 13.2 percent of non-agricultural workers,[7] and unions were beginning to become a major force in American life. The Wagner Act provided for elections that would determine whether a group of workers would be represented by a labor union. If a majority of workers voted to allow union representation, the Wagner Act permitted unions to arrange different types of union security provisions within a firm. The first, referred to as the "closed shop," required workers to be a member of the relevant union as a prerequisite for employment. Unions could also establish "union shop" provisions that allowed companies to hire non-union members, but forced workers to join the union within a predetermined amount of time following their hiring. Finally, "agency shop" agreements could also be enacted, allowing unions to collect dues payments from all workers, but not making union membership itself compulsory.

The Wagner Act was a monumental move that greatly increased the power of labor unions. Following the passage of the act, union membership swelled rapidly. By 1939 some 28.6 percent of non-agricultural workers belonged to unions, an increase of 117 percent since the passage of the Wagner Act in 1935.[8]

The Wagner Act essentially granted monopoly power to unions, allowing them to coerce workers to join, or at least contribute financially, to support union activities. This represented a dramatic break from the American tradition of individual liberty. Opponents of big labor, of course, find fault with the Wagner Act provisions that force workers to support a union, even those who believe entering into a contract with a union is in their own best interest. Yet, even union sympathizers might well fear monopoly power because it undermines the incentive for unions to remain accountable to the workers they supposedly represent. Without union security provisions, unions must provide something that workers believe is worth the union dues they pay. Compulsory unionism removes this market mechanism that assures accountability, and thus allows labor unions to pursue their own interests regardless of their consistency with the interests of workers.

"The Wagner Act essentially granted monopoly power to unions, allowing them to coerce workers to join, or at least contribute financially, to support union activities. This represented a dramatic break from the American tradition of individual liberty."

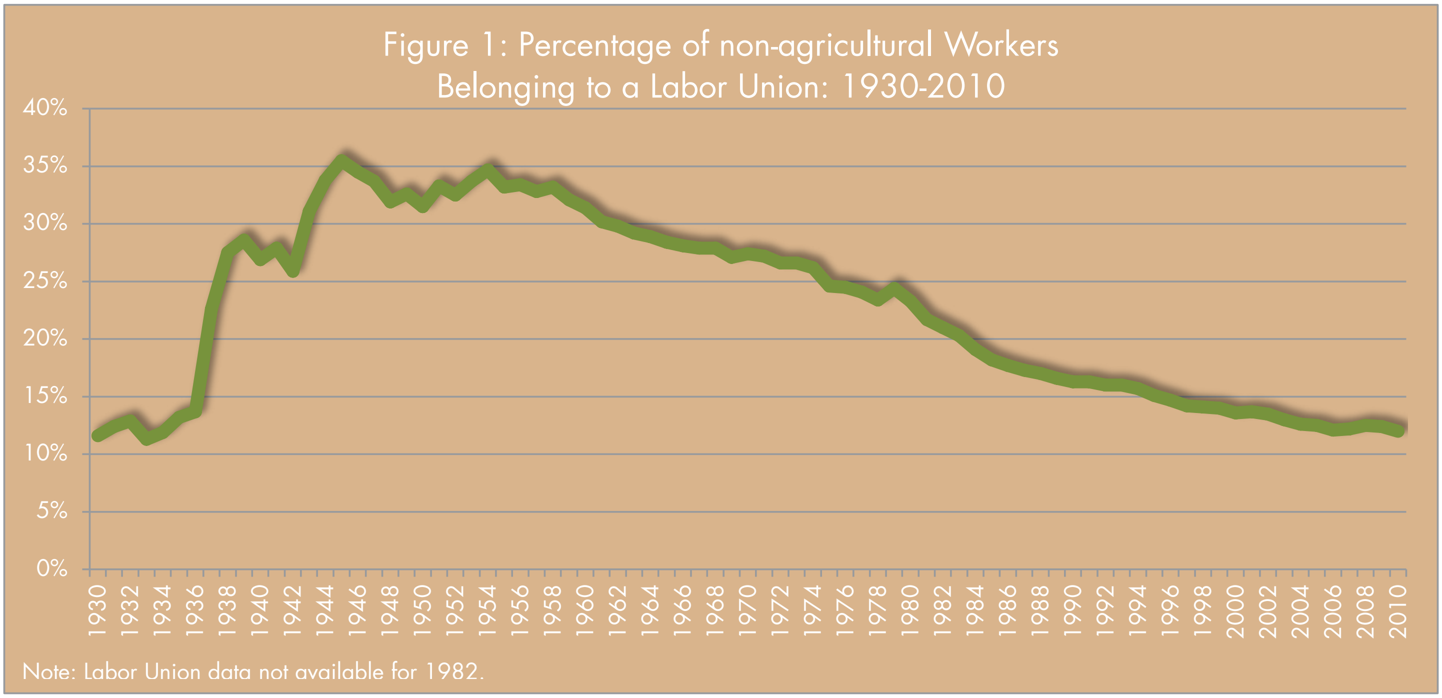
The Legal Foundation for Right-to-Work

In 1947, in response to growing public disillusionment with labor union power and perceived abuses, Congress amended the Wagner Act by passing the Taft-Hartley Act over President Harry Truman's veto. Under Taft-Hartley, the closed shop was outlawed, but union and agency shop arrangements were still permitted. However, section 14(b) of Taft-Hartley allows individual states to override union and agency shop provisions

6 *Historical Statistics of the United States, Earliest Times to Present, Millennium Edition, Vol. 2, Part B: Work and Welfare. Cambridge University Press P. 2-354.*

7 United States Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970, Part 1*, p. 178.

8 United States Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970, Part 1*, p.178.



Sources: United States Census Bureau; Union Membership and Coverage Database *at* http://unionstats.com/; see also Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, Vol. 124, No. 7, July 2001.

as well. Specifically, it declares that the act "shall not be construed as authorizing the execution or application of agreements requiring membership in a labor organization as a condition of employment in any State or Territory in which such execution or application is prohibited by State or Territorial law." This clause provides the legal foundation for states to enact RTW legislation.

Three years before the passage of the Taft-Hartley Act, Florida and Arkansas both adopted RTW provisions. Two years later, in 1946, Arizona, Nebraska, and South Dakota followed suit, as did Georgia, Iowa, North Carolina, Texas, Tennessee, and Virginia in 1947. Union leaders quickly pushed back, challenging the RTW laws of Arizona, Nebraska, and North Carolina in court. The cases ran quickly through the courts and in 1949 the U.S. Supreme Court ruled in favor of the constitutionality of the RTW laws in the case *Lincoln Federal Labor Union v. Northwestern Iron and Metal Co*., 335 U.S 525 (1949).[9]

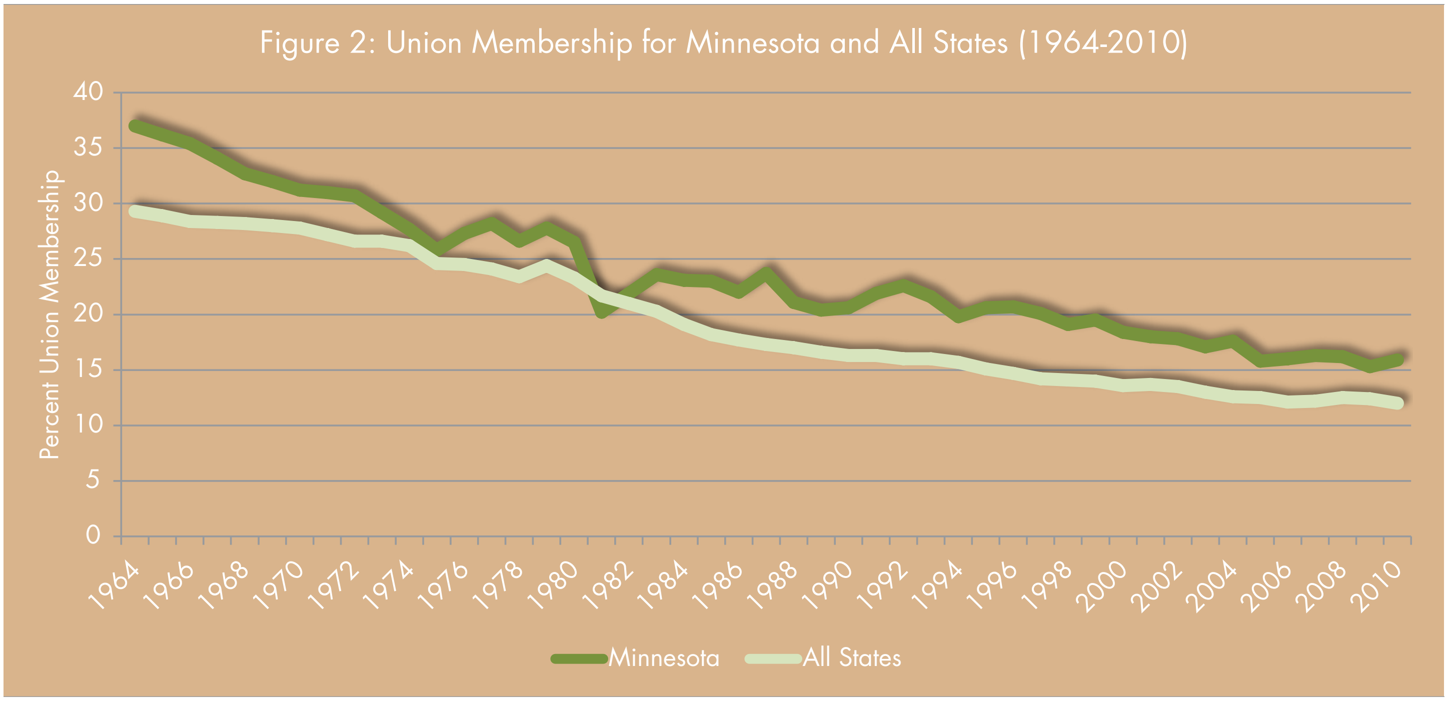
9 Leef, p. 29.

Today, 22 states have RTW laws in place.[10] These states are geographically concentrated in the southern and western portions of the country. None of the 14 states comprising the New England, Mid-Atlantic, and East North Central census regions—the industrial Northeast and Midwest—are RTW states, but a majority of the remaining states (61 percent) have RTW laws.

While the number of RTW states has grown only slightly in recent decades, the proportion of the American population living in a RTW environment has steadily grown, jumping from about 29 percent in 1970 to 40 percent by 2008.[11] Part of that growth reflects a modest increase in the geographic area covered by RTW laws and even slightly higher rates of fertility in those states. However, most of it is the

10 The right-to-work states include Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming.

11 Richard Vedder, "Right-to-Work Laws: Liberty, Prosperity and Quality of Life," *Cato Journal*, Vol.30 (Winter 2010), pp. 171-180.



Sources: United States Census Bureau; Union Membership and Coverage Database *at* http://unionstats.com/; see also Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, Vol. 124, No. 7, July 2001.

result of a very considerable migration over time of Americans out of non-RTW states and into RTW states.

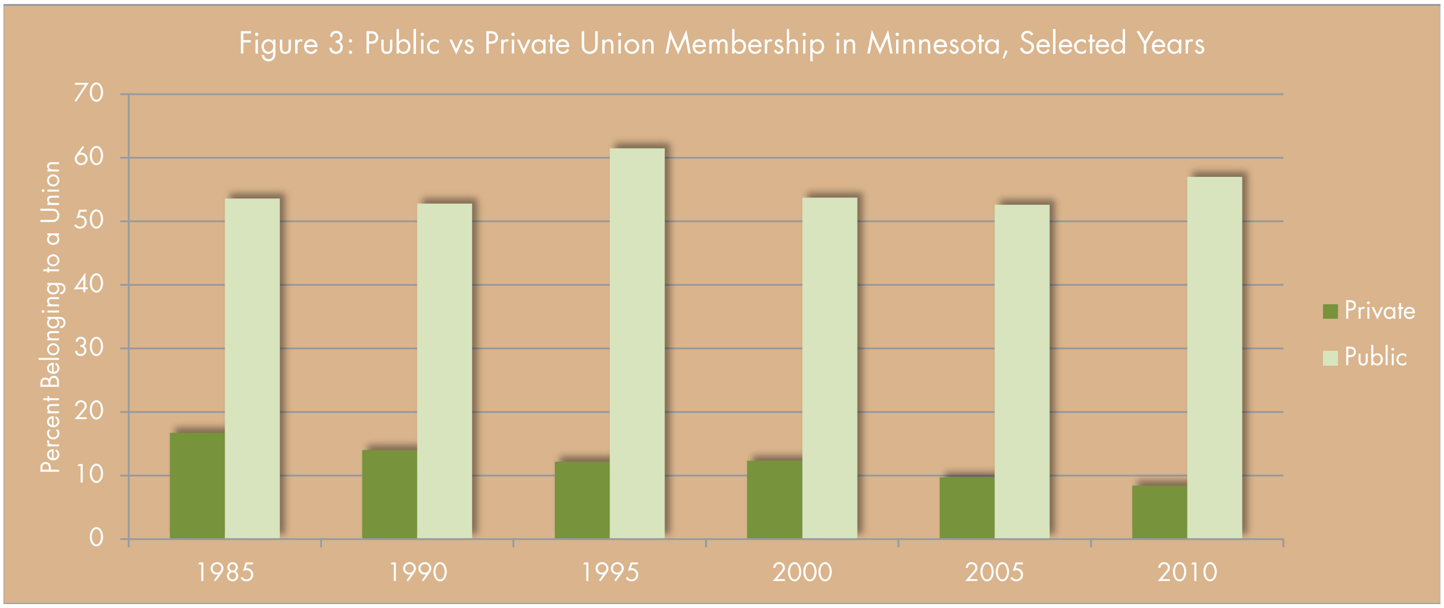
The Decline of Labor Unions in America

Not surprisingly, RTW states typically have far lower levels of union membership in the labor force than other states. The un-weighted percentage of workers belonging to unions in 2007 was over 14 percent in the 28 non-RTW states, compared with less than 7 percent in the 22 states with RTW laws.[12] The ability of workers to opt out of union membership where collective bargaining exists has a significant negative effect on union membership, explaining the virulent opposition to these laws by the union movement.

While the existence of RTW laws no doubt is a contributing factor in the declining relative importance of labor unions in the American workforce since the passage of Taft-Hartley (see Figure 1), it is not the leading one.[13] At the time of the passage of the Wagner Act and other pro-union legislation in the 1930s, the proportion of Americans working in large industrial settings was much greater than today. Workers were far less likely to occupy managerial, technical, or professional forms of jobs, women were a much smaller proportion of workers, and educational attainment levels were far lower. Furthermore, both government-provided (e.g., Social Security, workers compensation, unemployment insurance, Food Stamps, etc.) and private forms of income security (e.g., private pension plans, 401 savings accounts, IRAs, etc.) were far less prevalent than they are today. Also, with the passage of time, the proportion of Americans working for very large corporations has actually declined as a percentage of the labor force, probably enhancing direct communications between workers and upper level management.

12 *Ibid.*, p. 175.

13 The literature on this point is mixed. For a study arguing that right-to-work laws reduce the incidence of unionization, see T.M. Carroll, "Right-to-Work Laws Do Matter," *Southern Economic Journal*, Vol.50 (1983), pp. 494-509. For a different view, see K. Lumsden and C. Petersen, "The Effect of Right-to-Work Laws on Unionization in the United States," *Journal of Political Economy*, Vol. 75 (1975), pp. 1237-1248, and H.S. Farber, "Right-to-Work Laws and the Extent of Unionization," *Journal of Labor Economics*, Vol. 2 (1984), pp. 319-352.



Sources: Union Membership and Coverage Database *at* http://unionstats.com/; see also Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, Vol. 124, No. 7, July 2001.

The rise in globalization, manifested in a huge growth in international trade, makes it difficult for high-cost labor monopolies within a single nation to sustain themselves against the forces of international competition. Thus, the relative decline of many of America's heavy industries (e.g., automobiles and steel) is often attributed to the high costs of labor arising from labor agreements dating back to an era when international competition was far less intense. All of these changes in the labor market environment serve to reduce the attractiveness of unions.

Minnesota historically has had a strong labor union tradition. Indeed, even the official name of the state's Democratic Party (i.e., the "Democratic-Farmer-Labor Party") reflects this tradition. Figure 2 shows the percentage of Minnesota workers who are union members compared to the national average. From the chart it is clear that Minnesota has regularly had higher union membership than the nation as a whole. However, consistent with the national trend of falling union membership rates, Minnesota too has seen this percentage shrink over time. Nearly a half century ago, in 1964, Minnesota had the 10th highest union membership rate of any state at 37.0 percent. By 1980 this rate had fallen to 26.5 percent and by 2000 it stood at 18.4 percent. The rate fluctuated some in the 2000s before closing out the decade at 15.9 percent in 2010.[14]

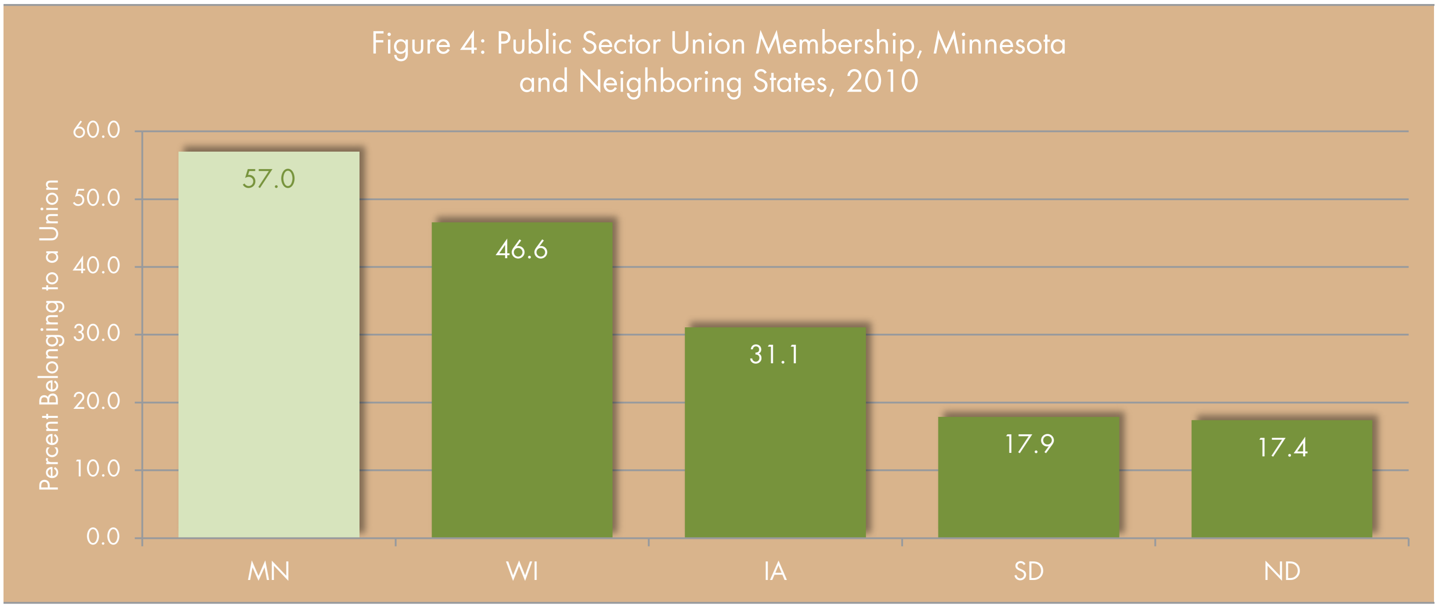
While Minnesota is still one of the most heavily unionized states in the country (ranking 11th in 2010), today unions play a much smaller role in the lives of Minnesotans than they did 50 years ago. Fewer than two out of every ten Minnesota workers belong to a union today, and less than one out of every ten workers in the state's private sector is a union member.[15]

Public-Sector Unions

Despite the large declines in overall union membership over the past several decades, this decline has decidedly not applied to public sector workers. Despite the Wagner Act granting private sector workers vast collective bargaining rights in 1935, public sector employees would not gain these privileges until more than two decades later. In 1959, Wisconsin became the first state to grant bargaining rights to its public sector workers, and

14 Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, Vol. 124, No. 7, July 2001.

15 *Ibid*.



Sources: Union Membership and Coverage Database *at* http://unionstats.com/; see also Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, Vol. 124, No. 7, July 2001.

many other states would soon follow.

Today, unionism is the strongest within the public sector, and Minnesota illustrates this phenomenon as well as nearly any state in the country. Although less than 16 percent of all Minnesota workers belonged to a labor union in 2010, among public sector workers this figure stood much higher at 57 percent. Figure 3 compares public and private union membership in Minnesota for selected years since 1985.

While public sector unionism is high relative to the private sector nationwide, it is especially high in Minnesota. In 2010, Minnesota had the sixth highest public sector union membership rate, behind only New York, Connecticut, Rhode Island, Massachusetts and New Jersey (all northeastern states). When compared to its own region, this figure for Minnesota especially stands out. Figure 4 compares Minnesota's public sector union membership rate with each of its neighboring states. Minnesota's 57 percent rate dwarfs the rate for North Dakota (17.4 percent), South Dakota (17.9 percent) and Iowa (31.1 percent), and is even significantly higher than Wisconsin's rate of 46.6 percent.

Public unions are especially troubling in states without a RTW law because they represent an agreement between two monopoly providers: state governments have a monopoly over the provision of public goods within a state, and the unions (in the absence of a RTW law) hold a monopoly over employment services. This can lead to above-market compensation levels for employees and sharply higher costs of providing public services. It is interesting to note that public sector union membership rates are dramatically lower in RTW states than in non-RTW states. In 2010, in the RTW states, 16.9 percent of public employees belonged to a union compared to 49.9 percent in the non-RTW states.[16]

Given Minnesota's high public and private sector union membership rates, the state may well benefit from the passage of a RTW law. Our research suggests that adopting RTW provisions can have strong economic benefits for a state, and below we consider the potential economic benefits for Minnesota.

16 *Ibid*; and authors' calculations.

Right-to-Work Laws and Economic Growth: Basic Economic Principles

The effect of RTW laws on other economic indicators has been a subject of intense study since the laws were first introduced in the 1940s. A wealth of research suggests that RTW laws are a significant factor in explaining state variations in industry location, human migration, and economic growth. Below, we analyze how a Minnesota RTW law may benefit the state.

Theory behind Right-to-Work's Contribution to Economic Growth

It is the goal of labor unions to increase wages and benefits for their members. A union that does not raise wages for workers above what exists in a non-union environment is usually perceived as unsuccessful by its membership—particularly since workers have to pay dues to maintain the paid union leadership who negotiate and administer labor contracts. Historically, there is some evidence that the short-run effect of unionization is to raise wages, perhaps by 10 percent or more from what would otherwise exist.[17]

To the extent that unionization increases labor costs, it makes a given location a less attractive place to invest new capital resources. Thus, other things equal, capital will tend to migrate away from non-RTW states (like Minnesota) where the perceived costs of unionization are relatively high. Over time, this works to lower the ratio of capital to labor in non-RTW states relative to ones with RTW laws. Since labor productivity is closely tied to the capital resources (machines and tools) that workers have available, labor productivity will tend to grow more in the RTW states, stimulating economic growth, including the growth in wages and employment.

"A wealth of research suggests that RTW laws are a significant factor in explaining state variations in industry location, human migration, and economic growth."

Plant Location and Employment Growth

Much evidence supports the notion that RTW laws attract industry to a state. In a 1983 econometric analysis of the movement of industry to southern states throughout the 1960s and 1970s, economist Robert Newman concluded that "RTW laws have not only affected movement *to* the South, but have also influenced movement *within* the South as well."[18] Newman further found that "…the RTW variable in both a South and non-South regression 'carries its own weight' and hence, the widely held notion that RTW laws are a uniquely Southern phenomenon cannot be supported by these data."[19] These conclusions suggest that RTW laws themselves were a significant factor in attracting businesses to the South.

A more recent study examined this issue of business location again. The paper tested the broader issue of the effect of business climate on industry plant location, but used the existence (non-existence) of a RTW law as a proxy for a favorable (unfavorable) business climate. In the analysis, University of Minnesota economist Thomas Holmes examined how manufacturing activity differs in counties that border each other but are located in different states, one with a favorable business climate and the other with an unfavorable business climate.

17 For the pioneering work, see H. Gregg Lewis, *Unionism and Relative Wages in the United States* (Chicago, IL: University of Chicago Press, 1963). For a review of the literature confirming, for the most part, Lewis's observation, see C.J. Parsley, "Labor Union Effects on Wage Gains: A Survey of Recent Literature, *Journal of Economic Literature*, Vol. 18 (March 1980), pp. 1-31. There is a big distinction, that Lewis himself emphasizes, from the micro effects that unions have on newly organized workers and the broader economic or "macro" effects. See, for example, Lewis's "Union Relative Wage Effects: A Survey of Macro Estimates," *Journal of Labor Economics*, Vol. 1 (January 1983), pp. 1-27.

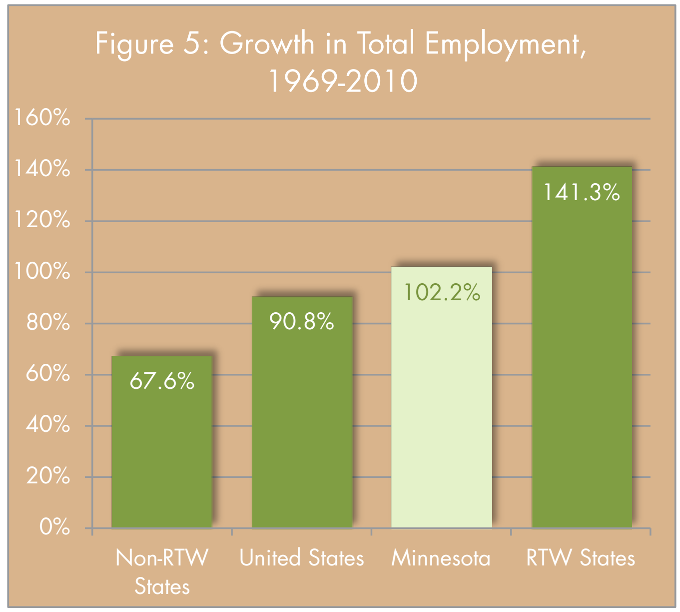
18 Robert J. Newman, "Industry Migration and Growth in the South," *The Review of Economics and Statistics*, Vol. 65, No. 1 (Feb. 1983), pp. 76-86.

19 *Ibid.*, p. 85.

The assumption is that any two bordering counties will be highly similar in most respects except for the policy environment that faces businesses, due to contrasting state policies. Holmes found that "on average, the manufacturing share of total employment in a county increases by about one-third when one crosses the border into the pro-business side."[20] While this is attributed to the overall state policy effects, and not specifically the existence of a RTW law, the finding is still important to note: states with business-friendly policies attract new industry.[21]

Another useful analysis is to compare total employment growth in RTW states versus that growth in non-RTW states. According to data from the U.S. Bureau of Economic Analysis, over the period of 1969-2010, total employment grew by 91 percent in the United States as a whole, as Figure 5 shows. Employment growth in RTW states considerably outpaced this national average, as total employment in those states grew by 141 percent over the same time span (put somewhat differently, total employment in RTW states in 2010 was nearly two and half times the level of employment in 1969). Total employment growth in non-RTW states, on the other hand, lagged behind growth in both RTW states and the national average, with growth of only 68 percent over the same period.

While it is certainly true that employment growth in Minnesota was greater than the national average during this 49-year period (Minnesota experienced a growth of just over 102 percent), growth in employment in Minnesota was still nearly 40 percentage points lower than the growth rate in RTW states over the same time. While these data alone do not conclusively show that RTW laws cause large growth in employment, they are suggestive that a significantly positive relationship does exist between job growth and the existence of a RTW law, even after controlling for other factors.



Source: Bureau of Economic Analysis; Authors' calculations.

Migration into Right-to-Work States

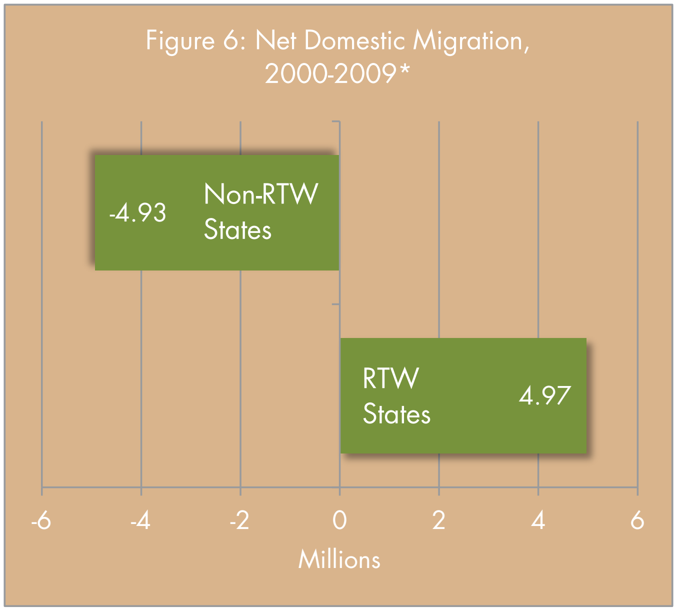
To be sure, the rise in the capital-labor ratio associated with the lower perceived labor cost that arises from RTW laws is partially offset by the fact that workers, seeing the greater productivity growth and economic opportunities in the RTW states, tend to migrate to them. Census data show, for example, that from 2000 to 2009 more than 4.9 million native-born Americans moved from non-RTW to RTW states, equating to over 1,450 persons per day (including Sundays).[22]

The migration data are interesting in another respect. The movement of a person from one geographic location to another is reasonably considered to be evidence that the new location to which he or she moves is preferred over the old one—that the act of migration indicates an attempt to improve the quality of life by moving to a new domicile. The massive migration towards RTW states suggests that people value the increased freedom for workers and employers where governmental constraints on individual employment bargaining are removed, or at least that the economic vitality associated to RTW states appeals to many.

20 Thomas J. Holmes, "The Effect of State Policies on the Location of Manufacturing: Evidence from State Borders," *The Journal of Political Economy*, Vol. 106, No. 4 (August 1998), pp. 667-705.

21 *Ibid.*, pp. 702-704.

22 Vedder, "Right-to-Work Laws," p. 173. Unfortunately, we were not able to obtain migration data on just working persons, which would arguably be a more relevant statistic.



Source: U.S. Census Bureau
*Note: Data excludes the District of Columbia

Figure 6 displays net domestic migration (that is, domestic in-migration less domestic out-migration) for the period of 2000 to 2009, comparing RTW and non-RTW states. Over this period, approximately 4.9 million people made the decision to migrate from non-RTW states to states that had a RTW law. The stark contrast in migration trends for RTW states and non-RTW states suggests that, throughout the first decade of the twenty-first century, Americans were voting with their feet and moving away from non-RTW states and into RTW states. In light of the fact that employment growth was much higher in RTW states than in non-RTW states over the past three decades, it is not surprising that people would prefer to live in those states with stronger job growth.

The Wage Effect

The effect of RTW laws on actual wages for employees has been another topic of significant academic research. However, economists have not come to a consensus on the topic, as some studies conclude there is a negative relationship while others argue the relationship is positive.[23]

A recent study by Robert Reed demonstrates that after controlling for the economic conditions of a state prior to its adoption of a RTW law, the relationship between RTW and wages is positive and statistically significant. Reed estimates that when "holding constant economic conditions in 1945—average wages in 2000 are 6.68 percent higher in RTW states than non-RTW states."[24]

It is conceivable that controlling for economic conditions in a state prior to the enactment of a RTW law is important; indeed, a majority of RTW states were poorer historically than those states in the industrial Northeast and Midwestern parts of the country. Thus, without controlling for this, one would expect that wages in RTW states would be lower than wages in other states. Reed's study is an important addition to the literature on this topic and indicates that the passage of RTW laws may boost workers wages.

This may seem to contradict an earlier observation, namely that initially after joining a union, worker wages typically rise a bit. But there is both a short-run and a long-run effect to unionization. In the short run, unionization may force wages up for those involved, but in the long run the debilitating impact on capital formation and the movement of human capital (workers) lead to lower growth in per capita income, so the overall long-term effect of unionization is negative, implying a positive wage effect of RTW laws in the long-run. Thus, many studies purporting to show a positive wage impact from unionization capture the short-run effect of unionization but largely—or entirely—ignore the long-run negative effect, which is what Reed quantified in the paper discussed earlier.

Furthermore, and we might add, paradoxically, RTW laws may actually favorably impact labor unions. Theoretically, RTW laws would add competition to the labor market, forcing labor unions to competitively demonstrate their worth to workers. With a RTW law in place, if a labor union proves ineffective at negotiating on the part of its members, those members will exercise their "right to work" by leaving the union and either begin to negotiate for themselves or join another

23 For a listing of previous empirical research on the relationship between RTW and wages, see Table 1 of W. Robert Reed, "How Right-to-Work Laws Affect Wages," *Journal of Labor Research*, Vol. 24 (Fall 2003), pp. 713-730.

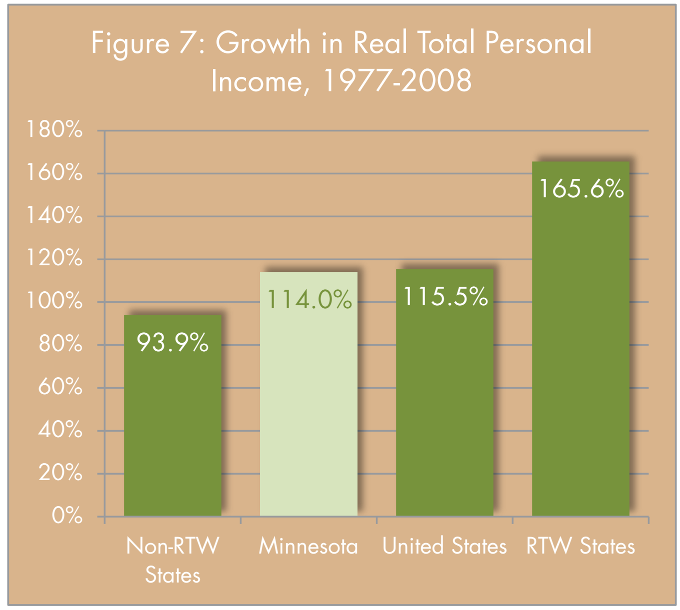
24 *Ibid*.

union which has proven to be a more effective bargainer for its members. Interestingly enough, the data show that, although the trend in unionization (both as measured by union membership and union coverage, that is, the proportion of workers who are covered by union contracts regardless of actual membership) nationally has been in steep decline over the past decades, the decline in unionization has actually been less pronounced in RTW states than in non-RTW states. According to data published by Hirsch, Macpherson, Vroman (2001), while union membership was lower in 2010 than in 1977 by 12 percentage points in non-RTW states and the nation as a whole, union membership was down by only 9.1 percentage points in RTW states. It's possible that the significantly higher job growth in RTW states over the past four decades may actually have cushioned the decline in unionization in those states, compared to non-RTW states as competitive pressures in the former states required labor unions to "prove their worth" to their members.

Regression Analysis of Right-to-Work Laws and Economic Growth

The typical citizen—whether of the United States as a whole or of the State of Minnesota in particular—is almost certainly more concerned with the economic effects of a RTW law than many of the other issues which pertain to such laws. We have attempted to estimate the economic effects of RTW by using multiple regression modeling techniques.

However, before discussing our growth model, it is helpful to examine simple correlations between RTW laws and the growth in citizens' incomes. Figure 7 shows the long-term rates of economic growth, (defined here as the growth in inflation-adjusted total personal income), for RTW and non-RTW states over the period 1977 to 2008. The data show that nationally, real total personal income grew by 116 percent, meaning that, after adjusting for inflation, total personal income in the United States more than doubled in this 31-year time span. Compared to the national average, RTW states experienced substantially higher growth (the rate of growth was 166 percent), indicating that inflation-



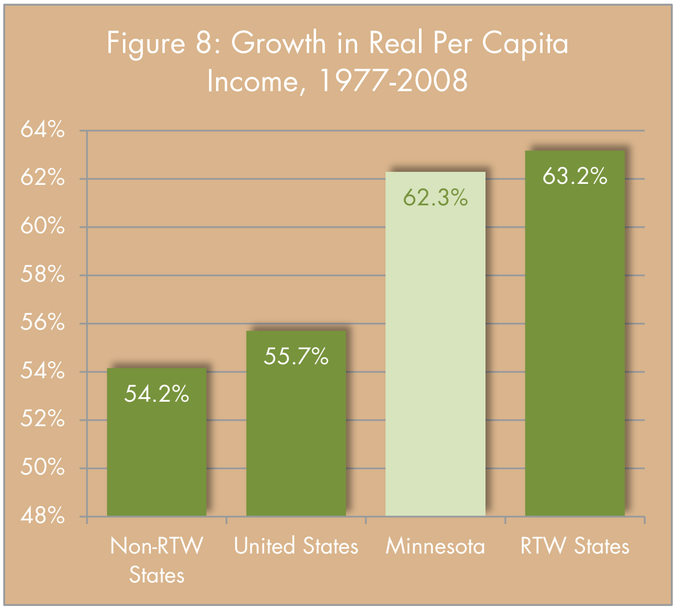
Source: Bureau of Economic Analysis; Authors' calculations

adjusted total personal income in these states was more than 2.6 times higher in 2008 than it was in 1977.

On the other hand, non-RTW states saw below-average growth of only 94 percent, meaning that real total personal income did not quite double in these states during this same period. The growth in real total personal income in Minnesota was much higher than the average for non-RTW states, but with a growth rate of 114 percent, Minnesota was still slightly below the national average and considerably below the average growth rate for RTW states.

Part of the driving force behind total real personal income growth is population growth. Because RTW states have experienced above-average population growth during this period, this would explain part of the above-average growth in real personal incomes shown in Figure 7. Perhaps a better way to measure economic growth is to look at the growth in *per capita income*. Using per capita income allows us to examine how the average individual's personal income level changes over time. Figure 8 shows the real total personal income growth rates after adjusting for changes in population.

Even after controlling for growth in the population, growth in real per capita incomes in RTW states is



Source: Bureau of Economic Analysis; Authors' calculations

notably higher than both the national average and non-RTW states. The real income for the average person in a RTW state was 63 percent higher in 2008 than it was in 1977, but for non-RTW states, real income was only 54 percent higher. Minnesota fared much better than both the average non-RTW state and the national average (indeed, by this measure, Minnesota's growth—at 63.3 percent—is comparable to the growth in the RTW states).[25]

Part of the reason that Minnesota has enjoyed such relatively high levels of growth, comparable to the growth rates of RTW states is likely due to a number of other factors which favorably impact the Minnesota economy. For instance, a number of indicators (including test scores and public high school graduation rates) suggest that Minnesota possesses a well-educated citizenry (or as economists would put it, Minnesota enjoys a high level of human capital). [26] Minnesota may also benefit from a relatively high level of social cohesion—suggested, for instance, by the relatively low crime rates in the state.[27] Insofar as lower crime rates indicate that a population is inclined to respect the rule of law, these limited data would suggest that Minnesotans possess qualities which lead to economic growth. There is also data which indicate that Minnesotans possess an above-average entrepreneurial drive. While Minnesota accounts for 1.7 percent of the U.S. population, the state accounted for 3.3 percent of all U.S. patents issued to residents of the United States in 2010.[28]

With all of these favorable characteristics, one might wonder why Minnesota's growth actually has not been higher. Perhaps Minnesota could experience even higher growth rates if it could enjoy the growth benefits of increased freedom in the state's labor market. As we discuss more fully in the following section, empirical evidence suggests that increased labor market freedom (specifically, an

25 It is instructive to note that part of the reason for Minnesota's relatively high *per capita* income growth (during a time when its *total* income growth was relatively low) is at least partly due to the fact that Minnesota had below-average population growth from 1977 to 2008. Population growth in the State of Minnesota during this period was about 32 percent, lower than both the national average (38 percent) and much lower than the growth rate for RTW states (63 percent). The growth trend in Minnesota (relatively low growth in both *total* income and population), then, is in contrast to the growth trend in RTW states, where high levels of *total* income growth are coupled with high levels of population growth. As was mentioned earlier in the context of migration between states, it seems that RTW states are generally more successful in attracting people from other areas of the country.

26 According to data published by *Postsecondary Education Opportunity*, a public high school student in Minnesota has a 59 percent chance of attending college by the age of nineteen—a rate higher than every other state except South Dakota. Furthermore, educational attainment (measured as the proportion of adults 25 years or older who possess a Bachelor's degree) is, and has been, above the national average in Minnesota. In fact, during the period of 1989 to 2007, the gap between Minnesota and the nation with regards to educational attainment widened. One reason for this growth in educational attainment is that Minnesota enjoyed a relatively high level of net in-migration of young, college educated workers. See Rachel S. Franklin, "Migration of the Young, Single and College Educated 1995-2000," U.S. Bureau of the Census, November 2003.

27 Property crimes (burglary, larceny/theft and motor vehicle theft) are lower in Minnesota than the United States as whole, according to the 2009 crime statistics. More importantly, though, is that the rate for violent crimes such as murder, robbery and aggravated assault are only around half of the national average.Because the Minnesota reporting guidelines for forcible rape differ from the national guidelines, we have excluded forcible rape from our comparison of crime rates.

28 U.S. Census Bureau.

operating RTW law in a state) leads to statistically significantly higher growth rates. In other words, we estimate that if Minnesota had had a RTW law, its economic growth rate over the past several decades would have been even higher than it actually was.

Regression Analysis

Although Figure 8 suggests that there is an important and positive relationship between RTW laws and economic growth (i.e., states with RTW laws have experienced above average economic growth while states without such laws have seen below average growth), it does not control for other factors which may have affected economic growth in the various states during this period. For instance, as discussed previously, we would expect states which have more highly educated populations to have higher levels of economic growth or that states which have had relatively higher growth in average educational achievement to also have higher rates of economic growth. We included this, and other factors, in our regression analysis to control for their possible effects on growth. Following accepted practice in building state-level growth models, we restricted our analysis to the 48 contiguous U.S. states. The results of our regressions are reported in Table 2.

Besides using a variable specifying whether or not the state has a RTW law, we controlled for the change in the proportion of the state population that was employed (the employment-to-population ratio), and the change in the rate of college attainment (the proportion of adults completing college).[29] We also included the number of years that have elapsed since a state attained statehood (State Age), the average proportion of non-agricultural employees in the manufacturing sector (Average Manufacturing), and the rate of population growth. Finally, we included the income levels in each state at the beginning of the period examined (1977).[30] We used a number of other independent variables in alternative growth models which are not reported here.

Regression Results for Right-to-Work Laws and Economic Growth, 1977-2008

As shown in Table 2 on the following page, our regression results indicate that states with RTW laws saw, on average, higher growth rates than states without such a law. Our results suggest that the impact of a RTW law is to increase economic growth rates by 8.8 percentage points (i.e., from 40 to 48.8 percent); this result is significant at the 95 percent confidence level. Not surprisingly, we also see a positive relationship between economic growth and increases in both the employment-to-population ratio and the proportion of adults who have college degrees. We see a negative relationship between manufacturing and growth, indicating that states which are more manufacturing intensive have, over the past 30 years, seen lower levels of growth. Similarly, states which have higher levels of population growth have seen, on average, lower levels of real per capita income growth, though this relationship is *not* significant at the 90 percent confidence level.

The findings above are significant not only in the formal statistical sense, but also convey that the impact of RTW is in fact rather powerful, as Figure 9 (page 17) indicates.[31] Suppose, for example, that

29 Prior to 1992, official college attainment data were for the proportion of adults who had completed four or more years of college. After 1992, the data refer to the proportion of adults who have received at least a bachelor's degree.

30 We included these various variables in our statistical model because we thought they may have some statistically significant relationship to economic growth. The proportion of the adult population who are employed conceivably would be positively related to growth (that is, a state with a higher proportion would likely also have higher income growth as proportionally more adults would be working). Similarly, the college attainment variable would reflect the importance of human capital in economic growth. The state age and per capita income levels (at the beginning of the period of our analysis) are standard variables often included in economic growth models. Including the manufacturing and population growth variables allows us to control for these factors in our model.

31 Please note that the figure for the actual economic growth in Minnesota differs very slightly in Figure 9 compared with Figure 8. The reason is that the data reported in Figure 9 were adjusted using estimations from the data compiled by the 2010 Census while the data reported in

Table 2: Regression Results for Right-to-Work Laws and Economic Growth, 1977-2008

Dependent Variable: Growth in Real Per Capita Income
Ordinary Least Squares Estimation
N = 48[a]

Variable	*Coefficient*	*t-ratio*	
Constant	0.325582	1.6806	
Right-to-Work	0.0882671	2.5368	**
Change in Employment-to-Population Ratio	1.35535	2.5825	**
Change in College Attainment	1.69612	3.3932	***
Age of State	0.00149362	3.1505	***
Average Manufacturing	-1.07935	-2.6951	**
Population Growth	-0.0525643	-1.2573	
Real Per Capita Income 1977	-9.51943e-06	-1.7640	*
Statistic	*Value*		
R-squared	0.638257		
Adjusted R-squared	0.574952		
F(7, 40)	10.08224		
P-value(F)	3.40e-07		

[a]This model includes only the 48 contiguous States and therefore excludes Alaska and Hawaii, as well as the District of Columbia.
* p < 0.1, ** p < 0.05, ***p < 0.001

Minnesota had adopted a RTW law in 1977 and maintained it throughout the subsequent years. What would have been Minnesota's economic growth, compared to what actually happened? The estimates from the equation above suggest *that income per capita in 2008 would have risen by $2,360 over actual levels—an amount equal to $5,960 for the average size Minnesota household.*[32]

From 1977 to 2008, per capita income in Minnesota rose from slightly under 2 percent above the national average to around 6 percent above the average. The empirical work here suggests, had Minnesota had a RTW law, its per capita income in 2008 would have been a bit less than 12 percent above the national average—*the Minnesota growth advantage would have nearly doubled*.

Two caveats about the conclusion above are in order. The results in statistical models do vary with the control variables introduced, and this is no exception. We estimated alternative models (well over 100 in all), most of which yielded similar results. Relative to other models we tested, the model we report in Table 2 yields a more conservative estimate for the effect of RTW on economic growth. For example, this model includes a measure of the income levels at the beginning of the examined period, but when we removed that variable from the model, the RTW variable performs even more strongly and more positively. Under this second, alternative model, a RTW law is estimated to increase economic growth by 11.49 percentage points, about a 30 percent larger increase than indicated in Table 2. Using both models suggests a range of income growth associated with RTW between $2,360 and $3,072 per person,

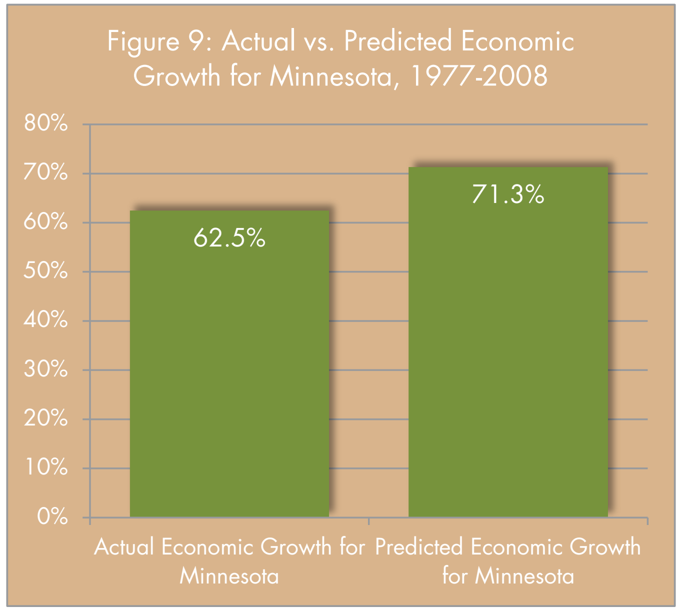
Figure 8 were not adjusted. The very minor differences do not materially affect our findings.

32 The average Minnesota household size was 2.52 as of the 2000 Census, slightly below the national average of 2.59. The 2.52 figure was used in calculating household income effects. For demographic and other data for Minnesota and the nation, see http://factfinder.gov/serlet/SAFFFacts.

or between $5,960 and $7,741 per household.[33] We would argue this represents a sizable growth in income associated with RTW, particularly for a change policy change that is essentially costless in terms of direct financial outlays. This is, of course, an important consideration in these times of budget stringency.

The second caveat relates to the future. There is little doubt in our mind that the economic damage that a non-RTW environment imposes is meaningful, and will continue to be so in the future. But the future is always different, at least in some dimensions, from the past, and the precise future magnitude of the positive effects of a RTW law is impossible to state. The estimates above suggest that the impact will be material, however, and we see nothing in the future which would change the reality that RTW laws would enhance the creation and utilization of Minnesota's productive resources that create income and wealth. The one factor that might reduce the magnitude of the positive effects of RTW somewhat is the decline in unionism, discussed above. As the unionized sector of the economy shrinks, the relevance of RTW in terms of economic growth can be expected to also decline somewhat. This, however, only changes the magnitude of the impact, not its direction: the net effect of a RTW law would still be positive.

33 One might ask, "why don't you include *all* explanatory variables in a single model?" The reason is that when too many variables are interjected into the model, very significant statistical problems emerge, most notably multicollinearity, where, because several variables are closely correlated with one another, it becomes difficult to sort out the precise impact of individual variables, their explanatory power, and their statistical significance. To deal with this, we estimated a large number of models, all including the right to work variable, but also varying combinations of alternative variables. The non-RTW variables are included simply for control purposes, to more closely approximate the "other things held equal" assumption that is made in virtually all economic hypothesis testing. We do not discuss the results pertaining to these variables in the text because they are not directly related to the right to work issue. Noteworthy in all of this statistical estimation was the consistent statistically significant relationship observed between RTW and economic growth. Sensitivity analysis (widespread testing of the hypothesis) strengthened our conviction that the observed positive relationship between RTW and economic growth in fact exists.



Conclusion

America operates with Depression-era labor laws that are increasingly out of touch with the realities of a global labor market. The Taft-Hartley Act of 1947 provided states an opportunity to sharply reduce some of the adverse effects of these laws by passing "right-to-work" legislation that gives workers the right to decide whether they wish to join and/or pay its dues. Minnesota has failed to avail itself of that opportunity thus far, and has paid a high economic price for not doing so. RTW laws attract productive resources (both capital and labor) to a state, and the absence of such laws repels them. Following a decade of relatively lower economic growth, it may well be time for Minnesota to become the 23rd state to pass a RTW law. ■

About the Authors

Richard Vedder is Distinguished Professor of Economics at Ohio University. He is also an adjunct scholar at the American Enterprise Institute and Director of the Center for College Affordability and Productivity (CCAP) in Washington, D.C. He is the author of numerous scholarly papers in journals of economics and public policy as well as several books, including *Out of Work: Unemployment and Government in Twentieth-Century America*, with Lowell E. Gallaway. **Matthew Denhart** works for the 4% Project of the George W. Bush Institute. He received a degree in economics and political science from Ohio University. **Jonathan Robe** is Administrative Director at CCAP. He is a graduate of Ohio University and did post-graduate work at Trinity College, Oxford.

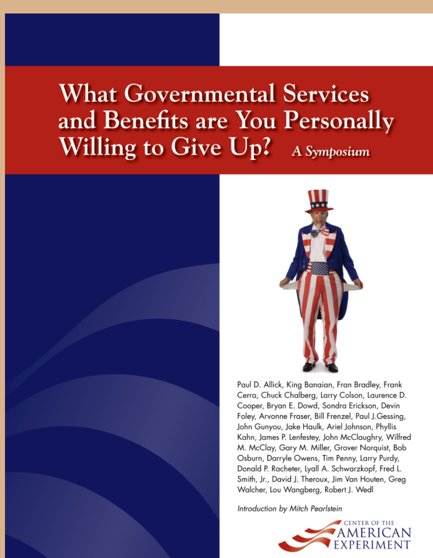
CENTER OF THE AMERICAN EXPERIMENT

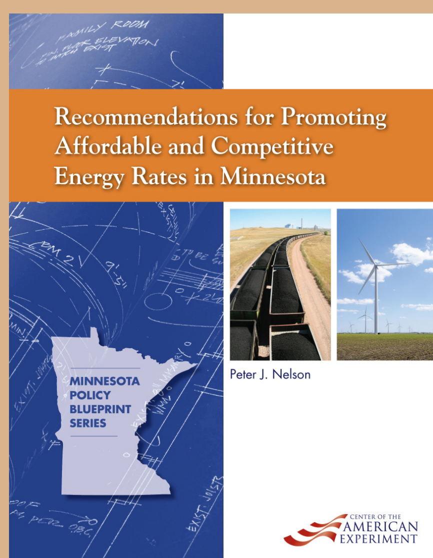
1024 Plymouth Building ★ 12 South 6th Street
Minneapolis, MN 55402

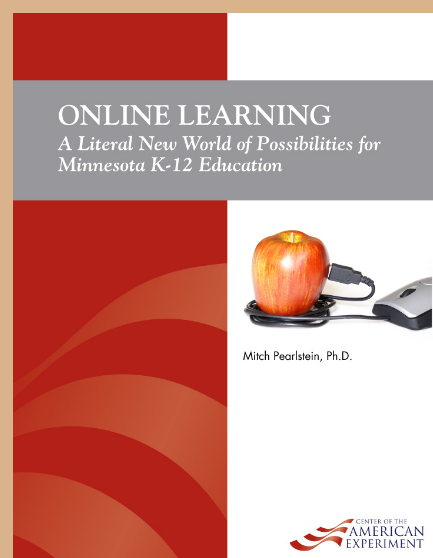
www.AmericanExperiment.org

To obtain copies of any of our publications

please contact American Experiment at (612) 338-3605 or Info@AmericanExperiment.org. Publications also can be accessed on our website at www.AmericanExperiment.org.







Center of the American Experiment is a nonpartisan, tax-exempt, public policy and educational institution that brings conservative and free market ideas to bear on the most difficult issues facing Minnesota and the nation.

612-338-3605
612-338-3621 (fax)
AmericanExperiment.org
Info@AmericanExperiment.org