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# FACT SHEET

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# Public-Sector Forced Union Fees Would Hurt Iowa's Private Sector

**'Tax Freedom Day' Comes 10 Days Earlier in States That Bar All Forced Union Fees**

Iowans most recently celebrated "Tax Freedom Day" on April 18, 2006. For Americans as a group, last year Tax Freedom Day came eight days later than in Iowa, on April 26.

The term Tax Freedom Day was coined and popularized by the nonpartisan, Washington, D.C.-based Tax Foundation. As a 2006 Tax Foundation press release explained, it is "the day when Americans . . . finally have earned enough money to pay off their total [federal, state and local] tax burden for the year."

Monitoring when Tax Freedom Day falls is an easy way to gauge the American citizen's heavy tax burden, which on average comprises nearly a third of his or her income. However, residents of different states often have tax burdens that are significantly less or more onerous than the national average.

And Right to Work laws, which protect both private-sector and public-sector employees from being forced to pay dues or fees to an unwanted union, are strongly correlated with lighter tax burdens. According to the Tax Foundation's estimate, in 2006 the average Tax Freedom Day in the 22 states with Right to Work laws on the books was April 20, six days earlier than the national average.[1]

Meanwhile, in the 28 non-Right to Work states as a group, Tax Freedom Day didn't come until April 30, four days later than the national average and 10 days later than the average in Right to Work states. (For simplicity's sake, the Tax Foundation assumes an equal amount of income is earned every day, and does not distinguish weekdays from weekends.)

### Real Estate, Transportation and Other Costs For Families and Businesses Are Far Lower in Right to Work States

An average tax burden that is roughly 9% lower is only one of many economic advantages that Right to Work states enjoy over forced-union-fee states. Another key advantage is that the average cost of living is substantially lower in Right to Work states.

[1] Tax Foundation, "Special Report: America Celebrates Tax Freedom Day," April 2006, Washington, D.C., http://taxfoundation.org/files/sr140.pdf. The Tax Foundation's report on Tax Freedom Day, 2007 is scheduled to be released on March 28.

Data from a 2003 study by researchers for the American Federation of Teachers (AFT/AFL-CIO) union show that, on average, a household in a non-Right to Work state needs to take in nearly 15% more in nominal income to enjoy the same living standard as its counterpart in a Right to Work state.[2] Looking at Iowa alone, the AFT data show that on average a household in a non-Right to Work state needs to take in nearly 18% more in nominal income to enjoy the same living standard as its counterpart in the Hawkeye State.

Of course, lower taxes and lower real estate, transportation and other costs benefit businesses as well as families. That's why, on average, states with lower tax burdens and lower living expenses enjoy far faster employment growth than other states.[3]

The fact that state Right to Work laws banning all forced union fees, private-sector and public-sector alike, facilitate business expansion, largely by helping keep taxes and living costs in check, is obvious when you contrast the experience of Iowa and other Midwestern Right to Work states with the experience of the seven forced-union-fee states in the Midwest.[4]

Between 1995 and 2005, private-sector employment increased by 9.6% in Iowa and by 12.9% in Midwestern Right to Work states as a group. Meanwhile, private-sector jobs grew by just 6.0% in Midwestern forced-unionism states and by 5.8% in Midwestern states with public-sector forced union fees. (Two Midwestern non-Right to Work states, Missouri and Indiana, do not statutorily authorize any forced union dues or fees in the public sector.)[5]

**Union Officials Wield Forced-Fee**
**Privileges to Lobby For Higher Taxes**

In states where union officials have obtained the privilege of forcing workers in the public- and/or private-sector to pay union dues, they have more money and power to advance their legislative agenda, which includes higher taxes, more government spending, and straitjacket regulation of business.

How much more money? Danny Homan, the czar of American Federation of State, Council and Municipal Employees (AFSCME) union Council 61, a conglomerate of the roughly 100 AFSCME union locals in Iowa, gave a hint at the state House committee hearings on forced union fees held in Des Moines this Valentine's Day.

Homan testified that AFSCME affiliates currently wield "exclusive"-bargaining control over 40,000 public-sector employees in Iowa, of whom just 16,000 are voluntary dues-paying members. He indicated that enactment of forced-fee legislation was necessary so that he and other union bosses could extract annual fees of $500 or more from the 24,000 AFSCME-"represented" Iowans who have chosen, for a variety of reasons, not to join the union.

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2 F. Howard Nelson and Rachel Drown, "Survey and Analysis of Teacher Salary Trends 2002," American Federation of Teachers, Washington, D.C., 2003, http://www.aft.org/salary/2002/download/SalarySurvey02.pdf. See especially page 13.

3 See, e.g., Greg Kaza, "Cowboy-Up Economics," *National Review Online*, March 7, 2007, http://article.nationalreview.com/?q=NmRmOWE2NDE5NDE4ZTRkMGY1NTEwYmYyNzgxODVkYTI=.

4 According to the U.S. Census Bureau, there are 12 Midwestern states. Of the 12, five (North Dakota, South Dakota, Nebraska, Kansas and Iowa) have Right to Work laws, and seven (Minnesota, Missouri, Wisconsin, Illinois, Indiana, Michigan and Ohio) do not.

5 U.S. Department of Labor, Bureau of Labor Statistics, State and Area Employment, Hours and Earnings, http://data.bls.gov/cgi-bin/dsrv?sm.

Hard data furnished on the web site Unionstats.com,[6] maintained by labor-law professors Barry Hirsch and David Macpherson, also indicate that the imposition of a public-sector forced fee alone would furnish a very substantial windfall for Iowa union officials and their agenda.

In 2006, according to Drs. Hirsch and Macpherson, there were 74,114 public-sector union members in Iowa, but 102,734 public-sector workers who were compelled to accept a union as their "exclusive" bargaining agent. Making the plausible assumption that 12% of the unionized public employees in Iowa are federal employees who would not be touched by any change in Iowa labor law, the Hirsch-Macpherson data suggest <u>there are nearly 25,200 state and local government employees and teachers in Iowa who are not now union members, but would likely soon be forced to pay union fees if pending public-sector forced-unionism legislation is enacted this spring</u>.

Decades of experience show that when a state legislature authorizes forced union fees in the public sector, the vast majority of state agencies, local governments, and school boards acquiesce to their imposition within a few short years. And according to Jim Hawkins, the director of the Iowa Professional Educators Association, public-school teacher union members, who constitute by far the largest element in Iowa's unionized non-federal work force, paid an average of $610 in total union dues in 2006. Other government employees likely paid a similar amount.

If the Iowa Legislature approves forced-"agency"-fee provisions amounting to roughly 80% of full member dues, then Iowa government union bosses can quickly expect additional annual revenues of up to $15,000,000. Government union bosses could expect most of the current nonmembers to become full forced-dues payers, not forced-fee payers, because <u>many teachers and other public employees who now refuse to become members of a union they don't support would undoubtedly join, reluctantly, if they were being forced even as nonmembers to pay 80% of full membership dues</u>.

The power of a forced fee to browbeat reluctant public-sector workers to join a union is amply demonstrated by the Hirsch-Macpherson data. In the five Midwestern Right to Work states, an average of just over 77% of public-sector employees under union exclusive bargaining are union members. In the five Midwestern states that authorize public-sector forced fees, an average of nearly 94% of unionized public employees are union members.

Consequently, within a relatively brief time, most of the forced-fee and forced-dues money Iowa government union bosses will rake in if legislators okay a forced agency shop will be paid by coerced union members, not nonmembers. <u>That means union officials will have no legal problem whatsoever in spending this money on lobbying and political arm-twisting</u>.

## Massive Proposed Tax Increases in Illinois, Michigan Give Iowans a Glimpse of Their 'Agency' Fee Future

If proponents of public-sector forced union fees get their way, then Iowa's future is likely to be remarkably similar to the present in two Midwestern forced-unionism states, Illinois and Michigan. <u>On average, 2006 Tax Freedom Day in Midwestern states that currently authorize forced fees in the public sector came on April 28, 10 days later than in Iowa</u>. In Michigan alone, Tax Freedom Day arrived on April 24, and in Illinois, Iowa's eastern neighbor, it didn't turn up until April 30.

[6] Go to http://www.trinity.edu/bhirsch/unionstats/ to view the Unionstats.com web site.

Since Michigan and Illinois both have chronically underperforming economies, one might suppose that elected officials in those states would at least be reluctant to increase their tax burdens. But in both states, well over half of public-sector employees are under union exclusive bargaining and forced to fork over union dues or fees as a condition of employment. That means the political dynamic in these states is quite different from what it is in Right to Work Iowa, where fewer than a third of public employees are now dues-paying union members.

This month, both Illinois Gov. Rod Blagojevich (D) and Michigan Gov. Jennifer Granholm (D) proposed major hikes in state taxes and fees.

Mr. Blagojevich has called for $7 billion in new business taxes: a new "gross receipts" tax and a payroll tax on companies that can't afford to offer health insurance. The taxes would apply to many companies with as few as 15-20 employees.[7] The fact is, Midwestern Right to Work states have for years been far more successful in attracting jobs that come with health-insurance benefits than Midwestern forced-unionism states.

<u>Between 1995 and 2005, the number of people covered by employment-based private health insurance grew by 8.5% in Midwestern Right to Work states as a group, by 7.6% in Iowa alone, compared to a mere 0.7% in Midwestern forced-unionism states combined and 3.0% in Illinois alone</u>.[8] But apparently, Mr. Blagojevich and his government union-boss allies think heavier taxes on business will solve the Prairie State's problem!

In the Wolverine State, Ms. Granholm has just proposed establishing "a new corporate income tax as well as a 2% excise tax on upwards of 100 business services." The roughly $1 billion in new taxes she seeks would be spent largely on increasing the number of forced dues-paying employees in Michigan's massive and inefficient government education bureaucracy.[9]

Government union officials in Iowa are undoubtedly just as eager for massive tax increases as their counterparts in Illinois and Michigan. But right now, the pro-Big Government coalition in Iowa isn't powerful enough to put a major tax hike on the table. Besides stripping public-sector employees of their individual freedom, the pending forced union "agency" fee scheme in Iowa would greatly expand the Tax-and-Spend coalition in Iowa over the next few years.

Obviously, that's bad news for private-sector businesses and employees of all kinds in the Hawkeye State.

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7 Ryan Keith, "Businesses Fear Big Fallout from Governor's Tax Increases," *Northwest Indiana Times*, March 9, 2007.

8 See http://www.census.gov/hhes/www/hlthins/historic/index.html, Table HI-4, for U.S. Census Bureau data on private, employment-based health insurance in all 50 states between 1987 and 2005.

9 "MoveOnOutofMichigan.org," *Wall Street Journal* editorial, March 9, 2007.