

# The Economic Benefits of a Kentucky Right to Work Law

A Study by Stan Greer  
Senior Research Associate



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**NATIONAL INSTITUTE FOR LABOR RELATIONS RESEARCH**

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**By Stan Greer, Senior Research Associate**  
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# The Economic Benefits of a Kentucky Right to Work Law

Union propaganda touts compulsory unionism as a “tonic” for a wide array of economic ills. But Kentucky workers are choking on this “tonic.”

A decade ago, the share of Kentucky private-sector employees who were compelled to accept a union as their “exclusive” bargaining agent in contract negotiations was equal to the national average. By 2003, the share of private-sector workers subject to union monopoly bargaining was 10% above the overall average.<sup>1</sup>

The national AFL-CIO’s PR department, therefore, obviously has no interest in painting an unduly bleak picture of how Kentucky employees and their families are faring relative to residents of other states. But the economic news from Kentucky conveyed in a “fact sheet”<sup>2</sup> posted on the AFL-CIO web site in June is very bleak indeed.

Citing several recent U.S. Census Bureau reports, the AFL-CIO hierarchy’s “Show Us the Jobs” project charges that the number of Kentuckians with employer-provided health-insurance coverage fell by 188,000, or 7.6%, between 2000 and 2002. Furthermore, the Bluegrass State’s real median household income fell by \$554 between 2000-2001 and 2001-2002. Over the same period, the number of Kentuckians in poverty rose by 69,000.

## Recent Right to Work Electoral Gains Put Issue on the Table

As this paper will show, there is a wide array of statistical evidence indicating that the compulsory-unionism “tonic” is in reality largely responsible for the negative trends just mentioned.

Fortunately, a simple policy reform that has the proven potential to expand health-care coverage and job opportunities and accelerate income growth already enjoys the support of GOP Gov. Ernie Fletcher and is gaining strength in the Kentucky Legislature.

During his successful campaign for governor last year, Mr. Fletcher, then a U.S. congressman, outspokenly opposed forced unionism.

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<sup>1</sup> Barry T. Hirsch and David A. Macpherson, *Union Membership and Earnings Data Book* (2004 Edition), Bureau of National Affairs, Washington, D.C., 2004, p. 13.

Bureau of National Affairs, *2004 Source Book on Collective Bargaining: Wages, Benefits, and Other Contract Issues*, Washington, D.C., 2004, p. 158.

<sup>2</sup> AFL-CIO, “The Kentucky Jobs Crisis” ([www.showusthejobs.com/yourstate/upload/KY.pdf](http://www.showusthejobs.com/yourstate/upload/KY.pdf)). Accessed July 9, 2004.

He publicly pledged, if elected, to revoke outgoing Big Labor Gov. Paul Patton's (D) 2001 executive order imposing union monopoly bargaining on thousands of public employees. Mr. Fletcher also pledged in writing to support a state Right to Work law banning private- and public-sector forced union dues. He went on in November to defeat Big Labor-backed Democratic nominee Ben Chandler by a solid 55% to 45% margin.

Bluegrass State Right to Work advocates' next goal is to secure roll-call votes on Right to Work measures in both chambers of the Kentucky Legislature.

Since a Right to Work Bill (S.B. 77) sponsored by Senate President Pro Tem Dick Roeding (R-Lakeside Park) was already approved last year by the Senate's Economic Development, Tourism and Labor Committee, this goal could be achieved soon.

Previous Kentucky gubernatorial candidates who were personally opposed to forced unionism have, in response to union-boss threats, attempted to sidestep the Right to Work issue, and then gone down to defeat.

The resounding victory won by Mr. Fletcher after Big Labor went all out to defeat him, along with recent legislative gains for opponents of compulsory unionism, puts Kentucky on the top tier of competitors for enactment of the next state Right to Work law.

### **Real Income Growth Since 1993: 11 Percentage Points Higher in Right to Work States**

For many Right to Work supporters in Kentucky and elsewhere, moral principle alone provides sufficient reason to prohibit all forms of forced union membership. The moral case for Right to Work is easy to state: A worker's freedom *not* to affiliate with a labor union is no less deserving of protection than his or her freedom to affiliate with a union.<sup>3</sup>

But the economic record of the 22 states that already have Right to Work laws indicates that a similar Kentucky law prohibiting forced union dues would also be good for the pocketbooks of employees and their families.

For example, between 1993 and 2003, real personal income in Right to Work states increased by 38.8%, compared to increases of just 28.0% in Kentucky and 27.6% in non-Right to Work states as a group.<sup>4</sup>

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<sup>3</sup> For a more detailed rendering of the moral case for Right to Work laws, see Stan Greer and Charles W. Baird, "Reply to Hogler and LaJeunesse's 'Oklahoma's Right to Work Initiative: Labor Policy and Political Ideology,'" *Labor Law Journal*, Summer 2003, pp. 89-100 ([www.nilrr.org/LLJ.pdf](http://www.nilrr.org/LLJ.pdf)).

<sup>4</sup> "BEA Reports Average Income Growth Improved in 2003," Table 1, *supra*, Footnote 1.

Bureau of Economic Analysis, revised state personal income for 1993, posted April 27, 2004 (<http://www.bea.gov/bea/regional/spi/>).

Bureau of Labor Statistics, "Inflation Calculator," (<http://data.bls.gov/cgi-bin/cpicalc.pl>).

Why was personal income growth 11 percentage points, or roughly 40%, higher in Right to Work states over the past decade?

The single most important factor is the net migration of millions of employees and their family members from non-Right to Work states to Right to Work states that took place during the 1990's and continues today. Out-migration from non-Right to Work states has been especially heavy among younger employees.

Between 1992 and 2002 (the last year for which age-adjusted state population figures are available), the number of Right to Work state residents in the 25-34 age bracket increased by 2.0%, from 14.7 million to 15.0 million. Meanwhile, the population aged 25-34 in non-Right to Work states *fell* by 10.2%, from 27.1 million to 24.4 million. Kentucky alone lost a net of 3.7%, or 22,000, of its residents in this age group.<sup>5</sup>

The overall decline of the 25-34 population is a consequence of the well-documented "baby bust" of the 1970's. But there is no disparate trend in birth rates in Right to Work states and non-Right to Work states to account for the grossly disparate trends in the two groups of states.

Nor is there any disparate trend in immigration of young people from abroad to explain the difference. Climate also doesn't seem to be a major factor, as temperate Kentucky experienced a decline in its youthful population along with truly cold forced-unionism states like Minnesota, Michigan and Maine. Chilly Right to Work Idaho enjoyed a sizzling 15.9% increase in its population aged 25 to 34. But sunny non-Right to Work California endured a 6.1% decline, and this was despite a heavy influx of young adults from abroad.

Like most other non-Right to Work states, Kentucky simply isn't creating enough good jobs to lure in young adults from other states, or even to keep many of its young people from leaving.

And unless this trend changes, it will seriously threaten the state's economy and its ability to maintain vital government services.

### **Cost of Living-Adjusted Disposable Incomes Higher In Right to Work States**

When adjusted in accord with an interstate cost-of-living index created by a researcher for the American Federation of Teachers (AFT/AFL-CIO) union, disposable per capita income is already slightly lower in both Kentucky and in non-Right to Work states as a group than it is in Right to Work states.

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Since Oklahoma became the 22<sup>nd</sup> Right to Work state in September 2001, it is excluded from this analysis and all others that compare years prior to 2001 with years after 2001.

<sup>5</sup> *Statistical Abstract*, 113<sup>th</sup> Edition (1993), p. 33; 123<sup>rd</sup> Edition, p. 24.

In 2001, the latest year for which the AFT/AFL-CIO index is available, the average cost-of-living adjusted disposable income per capita was \$24,304 in Kentucky and \$25,641 in non-Right to Work states as a group, but \$25,940 in Right to Work states.<sup>6</sup>

And absent a significant shift in state policy, disposable incomes in Kentucky can be expected to slip further behind incomes in Right to Work states in the coming years.

Why is it that Right to Work states, contrary to Big Labor propaganda claims, consistently enjoy superior income growth over time?

Economists have identified both direct and indirect effects of Right to Work laws that facilitate faster productivity growth, which is a key factor for improving employee earnings and employer profits.

In a 2002 study entitled *The Impact of Compulsory Unionism on Economic Development*, Dr. William T. Wilson of the Midland, Mich.-based Mackinac Center for Public Policy focused primarily on the direct impact of Right to Work laws:

Employees protected by RTW legislation can quit supporting a union without quitting their job. . . . This . . . prompts local union leaders to strive more for consensus among their members. Right-to-work legislation forces a union to bargain more in the immediate interest of all members because members can withdraw from a union at any time without cost to themselves.

Rigid union-negotiated employee contracts typically have the perverse effect of reducing the pay of the most productive workers while increasing compensation of less productive workers. Any system that grants union officials the legal power to impose unwanted union representation on its most productive workers, and then forces them to pay for it, ultimately lessens the income and the standard of living of all . . . .<sup>7</sup>

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<sup>6</sup> F. Howard Nelson and Rachel Drown, "Survey and Analysis of Teacher Salary Trends 2002," American Federation of Teachers, Washington, D.C., July 2003, p. 13 ([www.aft.org/research/survey02/SalarySurvey02.pdf](http://www.aft.org/research/survey02/SalarySurvey02.pdf)).

*Statistical Abstract*, 122<sup>nd</sup> Edition (2002), p. 427.

The Bureau of Economic Analysis calculates disposable personal income as "personal income less personal tax and nontax payments." Disposable income is higher in Right to Work states not only because state and local tax burdens are generally somewhat lower than in non-Right to Work states, but also because progressive federal income tax rates are levied on nominal, rather than real, incomes. Living costs are on average nearly 15% lower in Right to Work states. A family in a non-Right to Work state that has the same spendable pre-tax income as a similar family in a Right to Work state, therefore, will typically have to fork over a significantly higher share of its income to the federal government.

<sup>7</sup> William T. Wilson, *The Impact of Compulsory Unionism on Economic Development*, the Commonwealth Foundation, Harrisburg, Pa., November 2002, pp. 19-20 ([www.commonwealthfoundation.org/economy/s02-01.pdf](http://www.commonwealthfoundation.org/economy/s02-01.pdf)).

Dr. Thomas J. Holmes, a University of Minnesota economist, alluded to the indirect impact of Right to Work laws on overall business climate in a paper for the Federal Reserve Bank of Minneapolis:

States that have right-to-work laws tend to adopt other pro-business policies compared with states that do not have these laws. . . .

One can find rankings of “state business climates” in a variety of places. One well-known ranking is the one constructed by the Fantus company in 1975. Though somewhat dated, the Fantus index was constructed in a more comprehensive way than more recent alternatives. The ranking was based on 15 different aspects of state policy, including labor-market policies, unemployment compensation taxes, corporate income taxes, and so forth. The striking thing about [the Fantus index] is the extremely high correlation between business climate ranking and presence of a right-to-work law.

This occurs even though right-to-work law status counts for only one of the 15 different criteria in the index, and the 15 different categories were equally weighted.<sup>8</sup>

### **Forced Union Dues Bankroll Tax-Spend-and-Regulate State and Local Politicians**

The very year Dr. Holmes published the study just cited, the Washington, D.C.-based Small Business Survival Committee (SBSC) issued its first index ranking the states (and counting Washington, D.C. as one of them) for “friendliness” to small business.

According to SBSC Chief Economist Raymond Keating, the latest version of this index, issued in September 2003, “ties together 21 major government-imposed or government-related costs impacting small businesses and entrepreneurs across a broad spectrum of industries and types of businesses.”<sup>9</sup>

Just as the Fantus index did three decades ago, the *Small Business Survival Index (SBSI) 2003* indicates that Right to Work status alone is an excellent predictor of overall business climate favorability.

Seven of the top 10 states on the SBSI 2003 have Right to Work laws. But not one of the bottom 10 states has one. Even more significantly, the two largest-population

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<sup>8</sup> Thomas J. Holmes, "The Effect of State Policies on the Location of Industry: Evidence from State Borders," Federal Reserve Bank of Minnesota Research Department Staff Report 205, Minneapolis, revised September 1996, pp. 7-8 (<http://minneapolisfed.org/research/sr/sr205.pdf>).

<sup>9</sup> Raymond J. Keating, *Small Business Survival Index 2003*, Small Business Survival Committee, Washington, D.C., September 2003, p. 4([www.sbcs.org/Media/dpf/SBSI2003.pdf](http://www.sbcs.org/Media/dpf/SBSI2003.pdf)).

Right to Work states, Texas and Florida, respectively rank sixth and fifth, while the two largest-population non-Right to Work states, California and New York, respectively rank 46<sup>th</sup> and 45<sup>th</sup>.<sup>10</sup>

The fact that businesses and their employees in Right to Work states generally benefit from less burdensome taxes and bureaucratic red tape is no coincidence.

In non-Right to Work states, union officials wield the government-granted power to get workers fired for refusal to pay union dues or “fees.” Union campaign operatives use a large chunk of the forced dues collected under this system to elect politicians who are beholden to Big Labor’s agenda. And this is an agenda of higher taxes, more government spending, and straitjacket regulation of business.

Big Labor’s motive in favoring Bigger Government isn’t hard to understand.

Although private-sector, non-farm employment across the U.S. grew by 31.4 million, or 44%, between 1983 and 2003, the number of private-sector union members (overwhelmingly forced-dues payers) fell by 3.5 million, or 29%. Meanwhile, government union membership soared by 1.6 million, or 28%, slightly faster than overall government employment.<sup>11</sup>

Union officials, therefore, know that the expansion of government and higher taxes are by far the surest ways for them to collect more union dues and acquire more political clout. And in states where they retain the legal privilege to compel workers to pay union dues as a job condition, union officials most often get what they want.

### **Examples of Oklahoma, Idaho Provide Additional Confirmation of Right to Work Laws’ Positive Economic Impact**

As we have seen above, there is a strong empirical case that employees and businesses benefit economically from Right to Work laws. Such laws facilitate faster productivity growth in unionized businesses, and they eliminate forced-dues electioneering (at least with forced dues collected in-state), thus diminishing union officials’ ability to elect and reelect business-hindering state and local politicians.

If history is any guide, enactment of a Kentucky Right to Work law would lead to significantly faster personal income growth and help the state maintain and expand its share of American employees who are under 40.

This prediction can be made even more confidently as a result of the experiences of the two states that most recently enacted Right to Work laws, Oklahoma and Idaho.

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<sup>10</sup> *Ibid*, p. 10.

<sup>11</sup> Barry T. Hirsch and David A. Macpherson, *Union Membership and Earnings Data Book* (2004 Edition), Bureau of National Affairs, Washington, D.C., 2004, pp. 13, 16.

Oklahoma was a non-Right to Work state until 2001. Between 1970 and 2000, real per capita personal income grew by 75.1% in Right to Work states as a group, by 63.2% in non-Right to Work states as a group, and by just 58.3% in Oklahoma.<sup>12</sup>

But in 2002 and 2003, Oklahomans' incomes grew twice as fast as the non-Right to Work state average, even though oil prices, historically a key source of income for Sooners, fell during the first year.

According to the most recent Commerce Department estimates, between 2001 and 2003, real personal income in Oklahoma grew by 2.1%, compared to 1.1% aggregate growth in non-Right to Work states.<sup>13</sup>

The latest Census Bureau reports on household income and health-insurance coverage point to even stronger gains for Oklahoma. Indeed, the first of the two shows the Sooner State is the only one of the 50 to record a statistically significant rise (of 3.7%, or \$1,295) in median real household income between 2000-2001 and 2001-2002. Kentucky's median real household income fell by 1.5%, or \$554, during the same period.<sup>14</sup>

The second report shows that the number of Oklahomans covered by private-health insurance increased by 54,000 between 2001 and 2002, even as the number of Kentuckians with private coverage fell by nearly 58,000 and the number of Americans with private coverage dropped by nearly a million.<sup>15</sup>

Idaho's record of economically outperforming the country as a whole since its Right to Work law took effect more than 18 years ago indicates that Kentucky would also benefit over the long term.

Between 1993 and 2003, for example, Idahoans' aggregate real personal income chalked up an increase of 39.5% -- far greater than Kentucky's 28.0% and the 27.6% aggregate increase in non-Right to Work states.<sup>16</sup>

Idaho has also been very successful at creating good jobs that provide important benefits like health-insurance coverage. Between 1992 and 2002, the number of Idahoans covered by employment-based health insurance grew by 21.1%, compared to increases of just 19.1% in Kentucky and 14.2% in non-Right to Work states as a group.

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<sup>12</sup> Bureau of Economic Analysis, state population and personal income data for 1970 and 2000 (<http://www.bea.gov/bea/regional/spi/>). All 1970 incomes are converted into 2000 dollars according to the CPI-U index. Since Louisiana and Idaho passed Right to Work laws during the period in question, they are excluded from this analysis.

<sup>13</sup> *Ibid*, state population and personal income for 2001 and 2003; CPI-U index.

<sup>14</sup> U.S. Census Bureau, "Incomes in the United States: 2002," issued September 2003, ([www.census.gov/prod/2003pubs/p60-221.pdf](http://www.census.gov/prod/2003pubs/p60-221.pdf)), pp. 11-14.

<sup>15</sup> "Historical Health Insurance Tables," last revised April 21, 2004 ([www.census.gov/hhes/hlthins/historic/hihist4.html](http://www.census.gov/hhes/hlthins/historic/hihist4.html)).

<sup>16</sup> *Supra*, Footnote 5.

And Right to Work states' aggregate health-coverage expansion of 24.9% was actually even more impressive than Idaho's!<sup>17</sup>

**Everyone Will Benefit Except  
Union Officials Who Rely on  
Compulsion to Maintain 'Membership'**

Of course, whenever a state comes close to passing a Right to Work law, Big Labor gets very agitated and begins sounding the alarm that enactment of a ban on forced union dues will cause the sky to fall.

But the only people who are actually harmed by a Right to Work law are union officials who rely on compulsion, rather than offering genuine benefits to workers, to maintain and expand their "membership" rolls and their treasuries.

The host of economic statistics cited above bear witness to Right to Work laws' success in practice. The fact that union officials have spent countless millions of dollars trying to repeal state Right to Work laws over the past half-century, but not one such law that was actually implemented has ever been repealed, is also powerful testimony.

When Kentucky enacts a Right to Work law, therefore, it will be adopting an economic-development strategy that has already been tested time and again, under the most varied of conditions, and consistently proven successful.

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<sup>17</sup> *Supra*, Footnote 15.

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### THE PROBLEM

Organized labor has had a profound economic and political impact on the institutions of American power. Yet the far-reaching ramifications of that impact are largely unknown to the public. Academic interest in labor unions and labor relations is at its lowest point in decades.

While there has been a notable proliferation of private interest groups in recent years, none has exposed the excesses of America's union establishment from an academic perspective. Consequently, not enough light has been shed on one of the few remaining forms of tyranny left in America: compulsory unionism.

### THE NEED

Labor policy in America has not reflected the will of its citizenry for decades because Big Labor's support in the academic community has allowed it to control debate. As a result, labor unions have not been subjected to the same degree of scrutiny as their counterparts in the corporate world.

In many cases, the interests and concerns of Americans who support the right to work without compulsion are ignored for lack of an academic support structure. Freedom of association has diminished because its proponents frequently are without the analysis and research necessary to effectively make their case.

Obviously, there is an urgent need for an organization that will draw together scholars and economists to perform objective and revealing research into the practices of America's labor unions. The National Institute for Labor Relations Research is such an organization.

### THE PROGRAM

**1.** The Institute's primary function will be to act as a research facility for the general public, scholars and students. It will provide the supplementary analysis and research necessary to expose the inequities of compulsory unionism.

**2.** It will publish monographs, brochures and briefing papers designed to stimulate research and discussion with easy-to-read summaries of current events. The Institute will also conduct nonpartisan analysis and study for the benefit of the general public.

**3.** It will render aid gratuitously to individuals suffering from government over-regulation of labor relations and will provide educational assistance to those individuals who have proved themselves worthy thereof.

It is high time that self-interested union officials be confronted with the facts on how their brand of unionism has failed to improve general conditions for workers. With an intensive program of study and education, the National Institute for Labor Relations Research intends to do just that.

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