

The Economic Benefits of a Michigan Right to Work Law

**A Public Policy Study
By Stan Greer
Senior Research Associate**

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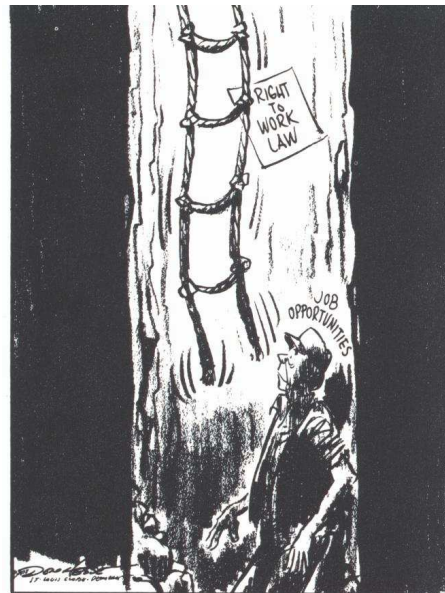
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Don Hesse/St. Lewis Post-Dispatch

It's hard to put a positive spin on Michigan's economic track record in recent years, or on the state's prospects for the future assuming no significant change in current policies.

Between 1994 and 2004, Michigan ranked dead last among the 50 states in non-farm employment growth. The average state enjoyed a percentage job gain more than two-and-a-half times as great as Michigan's.¹

Just in the past three years, the Wolverine State has lost 40,000 young people in the job market due to out-migration to other states, according to David Littmann, senior economist for the Midland, Mich.-based Mackinac Center for Public Policy.

And Mr. Littmann, formerly the senior vice president and chief economist for Comerica Bank, where he gained national acclaim for his uncannily accurate economic forecasts, did not see much hope for a turnaround in the near future. "Michigan is not yet at rock bottom, but it will be in the next three to five years," he said in a speech at Central Michigan University this summer. "We are seeing an economic decline in the next five years."²

'In Short, Michigan's Incentives Are Upside Down'

Fortunately for Michiganders, Mr. Littmann's prediction isn't written in stone. Indeed, in the very same speech, he proposed two "major reforms [that could] eventually reverse our sinking fortunes."³

¹ For 1969-2004 personal income data for the 50 states, see <http://www.bea.gov/bea/regional/spi/> on the web site of the U.S. Department of Commerce's Bureau of Economic Analysis (BEA).

² Tarryl Jackson, "Michigan's Economic Outlook Is Nearing 'Rock Bottom,' Speaker Says," *Central Michigan Life* (Central Michigan University, Mt. Pleasant, Mich.), August 25, 2005.

³ See <http://www.mackinac.org/article.aspx?ID=7325> for an edited transcript of the speech, entitled "Pain Threshold."

The first is to reduce the state's tax burden, preferably by eliminating the personal income tax, the corporate income tax, or the sales tax. The second is enactment of a state Right to Work law to prohibit the firing of workers for refusal to join or pay dues or fees to an unwanted labor union.

"The economic growth rate of 'right-to-work' states," explained Mr. Littmann, "has . . . so convincingly and consistently eclipsed the average growth of non-right-to-work states as to make the whole argument for more workplace flexibility a noncontroversial subject."

Noncontroversial, that is, from an economist's perspective.

Unfortunately, however, Michigan's Democrat governor, the overwhelming majority of its Democrat legislators, and a number of GOP legislators remain beholden to compulsory unionism and other forms of labor-union collectivism. Therefore, it won't be easy to change Michigan's public policies to incorporate what Mr. Littmann and other capable economists regard as common wisdom.

"In short, Michigan's incentives are upside down," he concluded in his speech.

As things stand today, Michigan employees, both private and public, may be fired for refusal to join or pay dues or fees to a labor union acting as their "exclusive" bargaining agent in contract negotiations, even if the employees never asked or wanted the union to bargain on their behalf.

Such government-authorized compulsory unionism is not merely, as Mr. Littmann and countless other financial experts have contended, economically counterproductive; it is also opposed by a clear majority of Wolverine State citizens.

In June 2004, the respected Michigan polling firm EPIC/MRA conducted a statewide survey on the Right to Work issue. The survey compiled the responses of a random sampling of 600 active voters to the following question:

"Currently, 23 [sic, the actual number is 22] states have right-to-work laws, which means that workers cannot be required to join a union or pay the dues or fees that union members pay to the union, if the company is unionized. Based on what you know about states with right-to-work laws compared to states such as Michigan that require union membership at a company that is unionized, would you favor or oppose a proposal to change the laws of Michigan to make it a right-to-work state?"

A 53% to 35% majority favored adoption of a Michigan Right to Work law. Significantly, the margin of support actually increased to 57-34 when respondents were presented with some of Big Labor's standard objections to Right to Work laws.⁴

⁴ "With Solid Backing From G.O.P. Voters, State Favors Right-to-Work Law," *Michigan Report*, Gongwer News Service, June 10, 2004.

Since 1990, Right to Work States' Real Income Growth Nearly Double That of Michigan

While Michiganders' opposition to forced unionism isn't as lopsided as that of Americans in the South, the Great Plains and the Rocky Mountains who have already lived and worked under Right to Work laws, it's plain to see. Therefore, it's not surprising that the issue is gaining momentum.

Just last year, then-state Republican Party Chairwoman Betsy DeVos shook up the Michigan GOP establishment when she acknowledged: "States with right-to-work environments have an advantage in attracting new jobs."⁵ Ms. DeVos's husband, Dick, is now strongly favored to win the 2006 GOP nomination for governor.

For many Right to Work supporters in Michigan 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.⁶

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

For example, between 1990 and 2004, real personal income in Right to Work states increased by 51.8%, nearly double the increase in Michigan.⁷

Part of Right to Work states' overall advantage over non-Right to Work states is that real income per person has grown faster, by 18.5% between 1990 and 2003, compared to 15.6% in non-Right to Work states as a group.⁸

While compelling on their own, these figures actually greatly understate the overall advantage enjoyed by states that protect voluntary unionism.

When 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 over the past decade is factored into the analysis, the Right to Work difference is staggering.

Between 1993 and 2003 (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

⁵ *Ibid.*

⁶ 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 (<http://www.nilrr.org/LLJ.pdf>).

⁷ See Footnote 1, as well as the Bureau of Labor Statistics (BLS), "Inflation Calculator," (<http://data.bls.gov/cgi-bin/cpicalc.pl>). Since Oklahoma became the 22nd 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.

⁸ *Ibid.*, plus the Bureau of Economic Analysis's state population data for 1990 and 2004 (<http://www.bea.gov/bea/regional/spi>).

bracket increased by 3.8%, from 14.6 million to 15.2 million. Meanwhile, the population aged 25-34 in non-Right to Work states *fell* by 9.6%, from 26.7 million to 24.1 million. Michigan alone lost a net of 11.7%, or 174,000, of its residents in this age group.⁹

The overall decline of the 25-34 population is a consequence of the well-known “baby bust” of the 1970s. But there is no disparate trend in birth rates in Right to Work states and non-Right to Work states between the late 1950s and the late 1970s to account for this huge difference between the two groups of states.

Moreover, young people immigrating from abroad disproportionately first settle in non-Right to Work states, so the data cited above actually *understate* the extent to which native-born Americans are resettling in Right to Work states. And the evidence indicates young people aren’t fleeing states like Michigan because they don’t like cold winters, either.

Chilly Right to Work Idaho enjoyed a sizzling 18.5% increase in its population aged 25-34. But sunny non-Right to Work California endured a 6.6% decline, despite a heavy influx of young adults from abroad.

Like most other non-Right to Work states, Michigan simply isn’t creating enough good jobs, either to keep its young adults from leaving or to lure in young adults from other states.¹⁰

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

Cost of Living-Adjusted Household Incomes Higher In Right to Work States

When adjusted in accord with a nationwide cost-of-living index for metropolitan areas furnished in *Cities Ranked & Rated*, by statistician/business consultant Peter Sander and journalist Bert Sperling, average household incomes are already significantly lower in non-Right to Work states as a group than in Right to Work states.

Using *Cities Ranked & Rated* and other sources, Dr. Barry Poulson, an economist at the University of Colorado, recently calculated cost-of-living adjusted household incomes in 133 metro areas in Right to Work states and 158 metro areas in non-Right to Work states.

Poulson is the author of a widely used college textbook, *Economic History of the U.S.*, and is a past president of the North American Economics and Finance Association.

⁹ *Statistical Abstract*, 114th Edition (1994), p. 32; 124th Edition (2004-2005), p. 23.

¹⁰ For additional sources and details, see Stan Greer, “The Case of the Missing Young Employees,” <http://www.nilrr.org/Case%20of%20the%20Missing.pdf?storyId=4834393>, National Institute for Labor Relations Research, Springfield, Va., 2005.

He found that, when the number of households in each metropolitan area is factored into the equation, the average cost of living-adjusted household income in Right to Work state metro areas in 2002 was \$50,571, compared to \$46,313 in non-Right to Work states.¹¹

Poulson's study doesn't calculate real household income data for metropolitan areas in particular states. But it strongly suggests that government-imposed compulsory unionism's impact on Michigan's living standards is detrimental.

Why is it that Right to Work states consistently enjoy superior earnings and 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 for the Commonwealth Foundation in Harrisburg, Pa., entitled *The Impact of Compulsory Unionism on Economic Development*, Dr. William T. Wilson 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 all¹²

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. . . .

¹¹ Barry W. Poulson, "The Standard of Living in Right to Work States," <http://www.nilrr.org/Poulson%20SOL%20Study.pdf>, National Institute for Labor Relations Research, Springfield, Va., 2005, pp. 10-16.

¹² William T. Wilson, "The Impact of Compulsory Unionism on Economic Development," The Commonwealth Foundation, Harrisburg, Pa., November 2002, pp. 19-20 (<http://www.commonwealthfoundation.org/economy/s02-01.pdf>).

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.¹³

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

Today there are a number of surveys rating states and/or metropolitan areas for business climate, and every credible one shows jurisdictions where employees’ Right to Work is legally protected clustered in the highest ranks.

One especially thorough annual study is conducted by *Forbes*, America’s leading business magazine, with the help of Economy.com, a well-known research firm based in Westchester, Pa., and Bert Sperling, a consultant in Portland, Ore. *Forbes* ranks large and smaller metro areas based on a variety of factors, including tax, energy and office space expenses, living costs, job and income growth, and quality of life issues.

In this year’s survey, eight of the nine top-ranking large metro areas and six of the nine top-ranking smaller metro areas included in the study are located in Right to Work states. The top four large metro areas “for business and careers”: Boise, Idaho; Raleigh-Durham, N.C.; Austin, Texas; and the Virginia suburbs of Washington, D.C., are all located in Right to Work states.¹⁴

Just as the Fantus index documented previously, today the *Forbes* index shows that Right to Work status alone is an excellent predictor of overall business climate favorability.

This is even more apparent when one focuses one’s attention on the nation’s biggest cities. The three largest-population Right to Work metro areas – the Virginia suburbs of Washington, D.C., Houston, and Atlanta – rank, respectively, fourth,

¹³ 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>).

¹⁴ Visit <http://www.forbes.com/bestplaces> to download a copy of the 2005 *Forbes* study.

13th, and ninth, while the three largest-population metro areas in non-Right to Work states – Los Angeles, New York City, and Chicago – respectively rank 106th, 120th, and 87th.

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.¹⁵

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 Michigan Right to Work law would lead to significantly faster personal income growth and the end of the exodus of young people from the state after they finish their education.

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.

Oklahoma was a non-Right to Work state until 2001. According to the U.S. Census Bureau, in 2000-2001 the Sooner State’s median household income was \$36,772 (in 2004 dollars), nearly \$8800 below the national median.¹⁶

¹⁵ 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.

¹⁶ U.S. Census Bureau, “Income in the United States: 2002,” issued September 2003, pp. 11-14. Figures converted into 2004 dollars using the BLS’s inflation calculator.

By 2003-2004, Oklahoma's constant-dollar median-household income had increased by roughly \$1500, while the national median had fallen by \$1106 as a result of the 2001 recession and subsequent slow recovery. Michigan's median real household income fell by nearly \$4700 between 2000-2001 and 2003-2004.¹⁷

Oklahoma households at all income levels seem to be benefiting from the state's improving economic climate. From 2000-2001 to 2003-2004, the state's poverty rate dropped by 3.2 percentage points, while poverty increased by 2.7 percentage points in Michigan and 1.1 percentage points nationwide.¹⁸

Idaho's record of economically outperforming the country as a whole since its Right to Work law took effect 19 years ago indicates that Michigan would also benefit over the long term.

Between 1994 and 2004, for example, Idahoans' aggregate real personal income chalked up an increase of 36.8% – far outpacing the 27.1% aggregate increase in non-Right to Work states. Michigan's real personal income grew by just 16.8% during this period.¹⁹

Idaho has also been very successful at creating good jobs that provide important benefits like health-insurance coverage. Between 1994 and 2004, the number of Idahoans covered by private health insurance grew by 12.7%, compared to increases of just 2.8% in Michigan and 5.6% in non-Right to Work states as a group.

And Right to Work states' aggregate health-coverage expansion of 11.5% was nearly as impressive as Idaho's.²⁰

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

Of course, whenever a state comes closer 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 themselves, whenever they rely on compulsion, rather than offer 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

¹⁷ U.S. Census Bureau, "Income, Poverty, and Health Insurance Coverage in the United States: 2004," issued August 2004, p. 23.

¹⁸ U.S. Census Bureau, "Poverty in the United States: 2002," issued September 2003, p. 10. Also see *supra*, Footnote 17, p. 25.

¹⁹ *Supra*, Footnote 1.

²⁰ U.S. Census Bureau, Table HI-4, Health Insurance Coverage Status and Type of Coverage by State, All People, <http://www.census.gov/hhes/www/hlthins/historic/hihist4.html>, last revised August 30, 2005.

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.

Therefore, when Michigan enacts a Right to Work law, 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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The National Institute for Labor Relations Research is an organization whose primary function is to act as a research facility for the general public, scholars and students. It provides the supplementary analysis and research necessary to expose the inequities of compulsory unionism.

The Institute is classified by the Internal Revenue Service as a Section 501(c)(3) educational and research organization. Contributions and grants are tax deductible under Section 170 of the Code and are welcome from individuals, foundations, and corporations. The Institute will, upon request, provide documentation to substantiate tax-deductibility of a contribution or grant.

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Nothing here is to be construed as an attempt to aid or hinder the passage of any bill before Congress or any state legislature.



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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.

Contributions to NILRR Are Tax Deductible

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