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# FACT SHEET

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## Right to Work Laws Keep Good Jobs in U.S.

### Banning Forced Union Dues Spurs Productivity Growth, Weakens Rationale For ‘Outsourcing’

Is the U.S. auto industry dying? The alarming news coming out of Detroit in recent weeks – such as the S & P’s move to cut General Motors (GM) and Ford bonds to junk status, “below the ratings now enjoyed by Poland, Russia, and Mexico” – might make you think so, veteran Motor City observer Paul Ingrassia recently acknowledged.

But Mr. Ingrassia, now president of Dow Jones Newswires, answered the question in the negative. And the first reason he cited is telling:

The U.S. auto industry isn’t dying. In fact, it is being reborn. This is because the U.S. auto industry is more than just GM, Ford and the Chrysler division of DaimlerChrysler. It includes Toyota, Nissan, Honda, Hyundai, BMW and all the “foreign” car companies expanding in the U.S.<sup>1</sup>

In sharp contrast to GM, Ford and Chrysler (collectively known as “the Big Three”), foreign “transplant” car companies are flourishing, as can be shown by any number of indicators. For example, since 2000, the Big Three automakers, whose production workers are almost entirely unionized, have cut their North American employment by more than 130,000. Meanwhile, the overwhelmingly union-free American assembly plants owned by foreign transplants have added over 27,000.<sup>2</sup>

The experience of the transplants is a refreshingly hopeful sign regarding the future of U.S. manufacturing.

The long-term decline in the number of American manufacturing jobs has been the subject of countless news articles, books and scholarly studies over the years. As many observers have pointed out, part of this decline is clearly inevitable. To start with, worker productivity growth in the manufacturing sector has long outpaced productivity growth in services, but at the same time the global demand for services is increasing far more rapidly than the global demand for manufactured goods.

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<sup>1</sup> Paul Ingrassia, “Junk Cars,” *Wall Street Journal*, May 17, 2005.

<sup>2</sup> George F. Will, “What Ails GM,” *Washington Post*, May 1, 2005.

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However, countless millions of the American manufacturing job losses in recent decades were not inevitable, but rather the result of misguided public policies. This fact sheet briefly examines one of the most destructive of these policies: federal support for compulsory unionism. It also discusses how Right to Work laws now on the books in 22 states mitigate the economic harm inflicted by federal labor policies that prop up forced unionism.

Since the 1930's, Congress has authorized and promoted a labor-law system under which the individual worker may be compelled to accept an unwanted union as his or her "exclusive" (monopoly) bargaining agent. Compounding this injustice, federal labor laws also authorize and promote the firing of workers who refuse to join or pay dues or "fees" to an unwanted union monopoly-bargaining agent.

The U.S. Supreme Court has acknowledged that laws forcing millions of workers either to join or bankroll a union against their will constitute "a significant impingement upon First Amendment rights"<sup>3</sup> – but has up to now failed to strike down forced unionism on constitutional grounds.

As National Institute for Labor Relations Research staff members and affiliated scholars have previously argued, federally-imposed compulsory unionism is both morally wrong and contrary to the principles of limited government and delegated powers.<sup>4</sup>

Furthermore, compulsory unionism hurts workers economically in a variety of ways. Here we focus on the incontestable fact that manufacturing workers who are subject to compulsory unionism have, over the past decade, suffered net job losses far more severe than those endured by union-free manufacturing workers.

Between 1994 and 2004, the number of unionized manufacturing jobs in the U.S. plummeted from 3.819 million to 2.202 million, a 42.3% decline. In percentage terms, the 12.5% decline in nonunion manufacturing jobs over the same period was less than one-third as severe.<sup>5</sup>

Furthermore, during extended periods over which the number of union-free manufacturing jobs has *grown*, the number of unionized manufacturing jobs has fallen substantially. Between 1994 and 1999, nonunion jobs increased by 4.0%, but unionized jobs suffered a 15.4% decline.<sup>6</sup>

### **Counterproductive Big Labor Work Rules Render Employees Uncompetitive, Wipe Out Jobs**

The auto industry illustrates why job losses are so much worse in unionized manufacturing.

Why are the transplants expanding their American factories and building new ones even as the Big Three shut assembly plants down? Wage rates aren't a factor. As *Detroit Free Press* business

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<sup>3</sup> *Ellis v. Railway Clerks*, 466 U.S. 435, 455 (1984).

<sup>4</sup> See, e.g., 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>5</sup> Barry T. Hirsch and David A. Macpherson, *Union Membership and Earnings Data Book* (2005 Edition), Bureau of National Affairs, Washington, D.C., 2005, pp. 48-49, 130-131.

<sup>6</sup> *Ibid*, pp. 89-90, 130-131.

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writer Jamie Butters has pointed out, “after a one- to three-year training period, assembly workers at the transplants tend to earn about as much as their UAW [United Auto Workers union] counterparts . . . .”<sup>7</sup> (Actually, since the cost of living is generally lower where the transplant factories are located, union-free autoworkers’ *real* compensation is higher than that of UAW-“represented” workers.)

Genuine factors behind the transplants’ success in increasing their auto sales and their payrolls relative to the Big Three include more efficient manufacturing systems and better labor relations. As of 2003, Chrysler, Ford and GM took an average of eight more hours to make a vehicle at their North American plants than did Honda, Nissan and Toyota. Extra manufacturing time alone added a cost of \$300 to \$500 a vehicle for the Big Three.<sup>8</sup>

UAW-negotiated contracts require rigid job classifications that waste time and money, ultimately to the detriment of workers’ paychecks and job security. Under the UAW contract, a “skilled tradesman” may be required to change a fuse in an assembly-line machine, although virtually any assembly-line worker could be trained to do the job. Furthermore, managers cannot assign additional work to employees who have begun working faster after mastering a task without entering into a potentially lengthy “consultation” with a UAW official.<sup>9</sup>

Over the years, UAW officials have also wielded their monopoly-bargaining privileges to put in place and perpetuate inefficient health-insurance and pension systems whose high costs eat up revenues that the Big Three need to be investing in research and development of new products.

While the medical coverage received by active Big Three employees and their family members isn’t measurably better than the coverage of transplant employees and family members, the Big Three pay much more, per active employee, for health benefits.<sup>10</sup> And the pension plans of the Big Three and unionized auto-parts companies are currently underfunded by \$45 to \$50 billion. That means unionized autoworkers and their families will likely get much smaller benefits than they’ve been promised once they retire.<sup>11</sup>

### **Right to Work Laws Puncture Big Labor’s Monopoly Over Individual Employee’s Aspirations**

No state law may override or regulate union officials’ power under federal law to bargain over the pay, benefits and working conditions of employees who don’t wish to join a union as well as of voluntary union members. However, states may restrict or prohibit the firing of employees for refusal to join or pay “fees” to a union they don’t want.<sup>12</sup> Congress expressly recognized states’ prerogative to pass laws protecting the employee’s personal right not to belong to a union, commonly known as Right to Work laws, in Section 14(b) of the 1947 Taft-Hartley Act.

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<sup>7</sup> Jamie Butters, “Migration from the Motor City: Southern Plants Threaten UAW,” *Detroit Free Press*, August 27, 2003.

<sup>8</sup> Daren Fonda, “Why the Most Profitable Cars Made in the U.S.A. Are Japanese and German,” *Time* (Special Bonus Section), June 2003.

<sup>9</sup> *Ibid.*

<sup>10</sup> Eric Mayne, “UAW Tested by Giveback Demands,” *Detroit News*, April 13, 2005.

<sup>11</sup> “United We Stand” (editorial), *Wall Street Journal*, May 12, 2005.

<sup>12</sup> See *Algoma Plywood v. Wisconsin Bd.*, 336 U.S. 301 (1949) and *Lincoln Federal Labor Union v. Northwestern Iron & Metal Co.*, 335 U.S. 525.

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Today 22 states, including 11 in the South and 11 in the Great Plains and Rocky Mountain regions, have Right to Work laws on the books.<sup>13</sup> State Right to Work laws' immediate purpose is to protect the employee's liberty to the greatest extent possible short of repealing the monopoly-bargaining provisions in federal law. But Right to Work laws also have a substantial economic impact.

In a 2002 study, economist William T. Wilson of the Midland, Mich.-based Mackinac Center for Public Policy focussed on how Right to Work laws can push union contract negotiators to accept productivity incentives and malleable job classifications that they would otherwise probably reject:

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.<sup>14</sup>

The direct effect cited here by Wilson is significant, but the indirect effects of Right to Work laws are even more important, since they help shape the overall business climate in which both unionized and union-free businesses and employees must operate.

To pass a Right to Work law, or to keep one on the books, a state's voters must elect a large contingent of legislators, and perhaps executive officials as well, who are willing to stand up to Organized Labor. And politicians who have the stomach to oppose union lobbyists on the Right to Work issue tend overwhelmingly to oppose union officials' objectives on other economic issues as well. To be blunt, these objectives consistently include higher taxes, more government spending, and straitjacket regulation of business.

As Bob Brown, a former Montana secretary of state, a lifetime AFL-CIO member, and a candidate in the state's 2004 GOP gubernatorial primary, recently acknowledged, the government union officials who today wield "exclusive" bargaining power over roughly half of Organized Labor's rank and file are often contemptuous of private enterprise:

[F]or the very reason that the public sector is dependent on taxes collected by government, public sector [union officials] usually support higher taxes. They are generally indifferent to increased regulations. High taxes and costly regulations can hurt business, ultimately cutting both productivity and profitability, and thus weakening the private sector's ability to support the public sector.<sup>15</sup>

That's why it's not surprising that, according to a wide array of tax and regulatory indices such as the U.S. Economic Freedom Index, created by San Francisco's Pacific Research Institute (PRI) with the help of two economists, Right to Work states tend overwhelmingly to have superior business climates.

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<sup>13</sup> Go to [www.nrtwc.org/rtws.php3](http://www.nrtwc.org/rtws.php3) to view a U.S. map highlighting all the Right to Work states.

<sup>14</sup> William T. Wilson, *The Impact of Compulsory Unionism on Economic Development*, Commonwealth Foundation, Harrisburg, Pa., 2002, pp. 19-20.

<sup>15</sup> Bob Brown, "AFL-CIO Must Reconcile Public-Private Worker Issues" (guest opinion), *Billings (Mont.) Gazette*, May 16, 2005.

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## **Automakers Are Investing Heavily in Right to Work States**

According to the latest PRI index, which evaluates 143 variables for each state, 15 of the 20 states that rank highest in economic freedom have Right to Work laws. But 19 of the 20 ranking lowest are forced-dues states.<sup>16</sup>

And the validity of surveys like the PRI's is regularly confirmed by business investment decisionmakers whose careers hinge on making the right calls. The auto industry, once again, is an excellent example. As one economic development expert recently noted: "Every foreign automaker that has built a major auto or truck plant in this country in the past 10 years has chosen a Right to Work state."<sup>17</sup>

Examples include Mercedes (Alabama), Nissan (Tennessee and Mississippi), BMW (South Carolina), Honda (Alabama), and Hyundai (Alabama). And next spring Toyota is opening yet another new plant in Right to Work Texas.

While federal preemption prevents state Right to Work laws from banning union monopoly bargaining and thus completely eliminating the economic problems fostered by compulsory unionism, such laws are obviously already doing a great deal to help American employees remain competitive in the international marketplace.

The record indicates that, by adopting national Right to Work legislation that is now pending (as H.R. 500 and S. 370) in both the U.S. House and Senate, Congress would help preserve and create millions of good domestic manufacturing jobs and brighten America's economic future.

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<sup>16</sup> Pacific Research Institute, "U.S. Economic Freedom Index 2004" ([www.pacificresearch.org/pub/sab/entrep/2004/econ\\_freedom/00\\_summary.html#table1](http://www.pacificresearch.org/pub/sab/entrep/2004/econ_freedom/00_summary.html#table1)).

<sup>17</sup> Lee Burlett, "Right to Work: It's All About Freedom," *SouthernAutoCorridor.com* ([www.southernautocorridor.com/Issues/Winter2005/features/Right\\_to\\_Work](http://www.southernautocorridor.com/Issues/Winter2005/features/Right_to_Work), registration required).