Fast Facts

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"Right-to-Work" Won't Boost West Virginia's Economy

by Ted Boettner

"Right-to-Work" laws do not guarantee jobs for workers. Instead they prohibit unions and employers from including a provision in contracts that requires employees who benefit from union representation to pay for their fair share toward those costs.

Some state lawmakers argue that if West Virginia adopted a so-called "right-to-work" (RTW) law it would boost job growth, workforce participation and manufacturing in the state. But that theory is built on relationships that do not exist and a misunderstanding of the evidence. The most rigorous analysis shows RTW laws have no significant impact on state economic growth but do lead to lower wages, less benefits, and a decrease in unionization.

Fact #1: Making faulty comparisons to assess the impact of RTW laws on economic growth are deceptive and fundamentally flawed.

Some proponents of RTW in West Virginia claim that it will boost economic growth because RTW states have better economic performance than non-RTW states. The WV Chamber of Commerce, for example, asserts that RTW means a faster-growing workforce because Virginia (a RTW state) "experienced a workforce increase from 2008 to 2011 even as our workforce declined."[1] Eric Fruits with the Cardinal Institute for West Virginia Policy argues in favor of making West Virginia a RTW state by pointing out that RTW states "saw employment grow by 43 percent" since 1980 while employment growth was slower (18 percent) in non-RTW states.[2]

Crude correlations between two variables do not mean one causes the other. In fact, these spurious correlations prove virtually nothing because false relationships are easy to find. For example, residents of RTW states live, on average, about a year less than residents of non-RTW states.[3] Does this mean passage of RTW will shorten lives in West Virginia? It's highly unlikely. This type of analysis does not control for other factors that influence economic growth such as the skills of the workforce, climate, energy prices, taxes, economic recessions, federal policy, proximity to markets and suppliers, public infrastructure, access to raw materials, and more.

Fact #2: Rigorous studies show RTW laws do not boost job growth.

While it is difficult to untangle the economic effect of RTW laws because there are many dynamics that affect a state's economy (see above), the most rigorous studies that have isolated the numerous factors at play have found little to no evidence that RTW laws significantly boost economic growth.

The most rigorous study to date, which was co-authored Heidi Shierholz, who is currently chief economist at the U.S. Department of Labor, and Elisa Gould at the Economic Policy Institute, controlled for 42 variables and found that "the evidence is overwhelming" that "right-to-work laws have not succeeded in boosting employment growth in the states that have adopted them."

While some studies have shown a positive impact of RTW laws on economic growth, especially manufacturing growth, they often failed to control for other important factors, and when other scholars included these other factors, the results often disappeared.[4] For example, a 2009 study by Hofstra University economist Lonnie Stevans that controlled for a broad range of economic variables, found that being a "right-to-work" state "yields little or no gain in employment and real economic growth."[5] Stevans concluded that while "right-to-work states may be more attractive to business, this does not necessarily translate into enhanced economic verve in the right-to-work state if there is little "trickle-down" from business owners to the non-unionized workers."

A more recent study by Gordon Lafer and Sylvia Allegretto that examined the impact of RTW on Oklahoma – a state that became a RTW state in 2001 – found no impact at all on employment.[6] The study found that employment growth in Oklahoma was better in the years preceding passage of RTW than it was after RTW was enacted, when compared to its neighboring states.

The one lesson that can be gleaned from the history of RTW studies and is that the more scholars are able to "hold everything equal" and control for numerous factors, the less likelihood that RTW has a positive impact on a state's job growth.

Fact #3: Low workforce skills are a cause of slow economic growth in neighboring Kentucky, not lack of RTW.

In 2008, the Center for Business and Economic Research at the University of Kentucky published an in-depth study exploring the root causes for why Kentucky was experiencing slower economic growth compared to its southern neighbors in Alabama, Georgia, Tennessee, and North Carolina.[7] The study examined 18 state-level factors, including stock of knowledge, state infrastructure, size of government, demographic changes and business climate (RTW was one of four factors in this category). The study found that the most important factor in Kentucky's plight was the shortage of skilled workers and that RTW laws had no statistically significant impact in explaining its relatively poor economic performance.

The authors' interviews with site consultants and economic development officials supported the statistical findings of the report: "every economic development official in the competing states with whom we spoke indicated the single most important reason for their economic growth over the previous three to four decades was an emphasis on education and workforce development." The site consultants also said that the lack of training and education in Kentucky, especially in the rural areas, was the primary reason the state was not chosen by businesses for location.

This study bears many lessons for policy makers that believe RTW laws will boost West Virginia's economy. West Virginia faces many of the same economic and social problems as Kentucky and both are located in a similar region in the United States. Both are relatively poor and unhealthy, with highly undereducated workforces and low labor force participation rates, and much of their populations lives in rural areas.

Fact #4: RTW laws weaken labor unions.

While it is difficult to untangle the impact of RTW rules on a state's economy, there is very broad agreement in the academic literature that RTW laws reduce private-sector unionism. According to the conservative Mackinac Center for Public Policy, "a large body of empirical research …offers a fairly clear conclusion that right-to-work legislation reduces measures of private-sector unionization and union-related activities such as organizing."[8] This was recently confirmed again by an econometric study that found the adoption of RTW in Idaho and Oklahoma lowered union coverage.[9]

Declining rates of unionization in West Virginia could mean worse economic outcomes because unionization is associated with higher economic mobility, less income inequality, higher wages, safer working conditions and better benefits such as health insurance, pensions, and time off.[10]

Fact #5: RTW could lower wages even more in West Virginia.

West Virginia is a low wage state. In 2014, its median wage was just $15.25 an hour, about $1.64 less than the national median. The median wage for the state's union workers was $20.16 and $14.89 for non-union workers, a difference of $5.27 per hour. Wages have declined for decades, with median wages $1.73 lower in 2014 than in 1979, after adjusting for inflation.[11]

By reducing union resources in West Virginia through RTW, it could get even worse. According to the above-mentioned Gould and Shierholz study, wages and benefits are lower in RTW states:

- A full-time, full-year worker in a RTW states makes about $1,500 less annually than a similar worker in a non-RTW state.
- The rate of employer-sponsored pensions and healthcare is also lower, 4.8 and 2.6 percentage points lower in RTW work states compared with non-RTW states.

Endnotes

1 Chris Dickerson, "State Chamber likes idea of right-to-work legislation," West Virginia Record, February 8, 2012. Retrieved from http://wvrecord.com/stories/510602202-state-chamber-likes-idea-of-right-to-work-legislation

2 Eric Fruits, "Right to work is right for West Virginia," Charleston Daily Mail, February 19, 2015. Retrieved from http://www.charlestondailymail.com/article/20150219/DM04/150219277

3 Bruce Thompson, "Will Right-to-Work Cause Sickness and Death?," Urban Milwaukee, March 6, 2015. Retrieved from http://urbanmilwaukee.com/2015/03/06/data-wonk-will-right-to-work-cause-sickness-and-death/

4 Gordon Lafer and Sylvia Allegretto, "Does 'Right-to-Work' Create Jobs? Answers from Oklahoma," Economic Policy Institute, February 28, 2011. Retrieved from http://www.epi.org/publication/bp300/.

5 Lonnie Stevans, "The Effect of Endogenous Right-to-Work Laws on Business and Economic Conditions in the United States: A Multivariate Approach," Review of Law and Economics, Vol. 5, No.1, pp. 595-614, 2009. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1027987

6 Gordon Lafer and Sylvia Allegretto, "Does 'Right-to-Work' Create Jobs? Answers from Oklahoma," Economic Policy Institute, February 28, 2011. Retrieved from http://www.epi.org/publication/bp300/.

7 Christopher Jepsen, Kenneth Sanford, and Kenneth Troske, "Economic Growth in Kentucky: Why Does Kentucky Lag Behind the Rest of the South?" Center for Business and Economic Research, Gatton College of Business and Economics, University of Kentucky, January 2008. Retrieved from http://cber.uky.edu/Downloads/CBER_Econ_Develop_Report_final_Jan2008.pdf.

8 Michael J. Hicks and Michael D. LaFaive," Research on the Economic Effects of Right-to-Work," Mackinac Center for Public Policy, August 27, 2013. Retrieved from https://www.mackinac.org/19059

9 Ozkan Eren and I. Serkan Ozbeklik, "Right-to-Work Laws and State-Level Economic Outcomes: Evidence from the Case Studies of Idaho and Oklahoma Using Synthetic Control Method," Working Papers from University of Nevada, Las Vegas, February 2011. Retrieved from http://econweb.umd.edu/~davis/eventpapers/OzbeklikRight.pdf

10 See Lawrence Mishel, "Unions, inequality, and faltering middle-class wages," Economic Policy Institute, August 29, 2012; David Madland and Nick Bunker, "Unions Boost Economic Mobility in the U.S. States," Center for American Progress Action Fund, September 20, 2012.

11 Economic Policy Institute analysis of Current Population Survey data.