“Right to Work” vs. The Rights of Workers

A report from the Higgins Labor Studies Program
University of Notre Dame
March 2011

"RIGHT TO WORK" VS. THE RIGHTS OF WORKERS
ABSTRACT

The long-running battle over "right-to-work" (RTW) legislation reappeared recently in Indiana. The Indiana Chamber of Commerce, in a recent report, contends that the growth of real personal income in RTW states has been higher than in non-RTW states. Their argument is that RTW laws lead to lower wages in RTW states, which attracts businesses to locate in those states. The increased business presence leads to higher income growth, which in turn leads – in the long run – to higher productivity and higher wages in the state.

We find the Chamber's arguments unpersuasive. Obviously there are businesses that are attracted to low-wage areas, but in our current global economy it is a risky strategy for a state to think it can compete with workers in developing countries who are paid much less. Moreover, many companies reject the "low-road" approach of low wages and make location decisions on other criteria, like the quality of the work force, infrastructure, and quality of life.

Could low wages bring about high wages? The Chamber's argument is that increased business investment will lead to higher productivity and eventually higher wages. But businesses that use large numbers of low-wage, unskilled workers are unlikely to see an increase in productivity. And even if productivity did increase, what is to say that those productivity gains would be shared with workers? Wages and compensation of workers have consistently lagged the growth of productivity since the 1970s.

The Chamber's arguments are weak, and so is its data analysis. To prove its link between RTW states and higher income growth, it inexplicably uses data from only two years, 1977 and 2008. An examination of income growth data for all years between 1947 and 2009 finds that the growth rates of income for RTW states in the years after passage of RTW legislation is nearly identical to the growth rates before passage. So RTW laws seem unlikely to have led to a significant increase in income.

The Chamber also lumps all RTW states together, avoiding mention of the vast discrepancies in economic performance among RTW states. It also relies exclusively on growth rates, which show only change, not current levels of economic welfare. It focuses on average income, which obscures the effects of how the total income pie is distributed. An analysis for individual states of median household income in 2009, which avoids all three of these problems, shows that only 4 of the 22 RTW states are above average, while 18 are below average.

The battle over RTW legislation is a continuation of the campaign against workers and unions that has been waged in this country for the past thirty years. That campaign has led to stagnating wage levels and deteriorating conditions for workers.

The Higgins Labor Studies Program at the University of Notre Dame thinks that is it possible to find a better way. In this endeavor we look to the wisdom of the man for whom the Higgins Program is named, Monsignor George G. Higgins. His view was that denying the right to organize is tantamount to attacking human dignity itself.

“RIGHT TO WORK” VS. THE RIGHTS OF WORKERS
A Report From The Higgins Labor Studies Program
at the University of Notre Dame[1]

Introduction

The long-running battle over “right-to-work” legislation reappeared recently in Indiana. To people unfamiliar with the term, it might seem that “right to work” means the right to a job that enables a worker to support himself or herself in dignity. After all, Article 23 of the United Nations’ Declaration of Human Rights says that “Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment,” and “Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity” (United Nations, 1948). Religious and moral leaders have also raised their voices in support of such a right. As the Catholic Bishops said in *Economic Justice for All*, “people have a right to employment. In return for their labor, workers have a right to wages and other benefits sufficient to sustain life in dignity” (U.S. Catholic Bishops, 1986, paragraph 103).

However, the right to work has a different meaning in the “right-to-work” laws that exist in twenty-two states and in the bills recently introduced in the Indiana legislature. In these bills, the “right to work” means that employers cannot require workers to pay any fees or other charges to cover the costs of unions that represent employees in collective bargaining, grievance procedures, and other matters.

“Right-to-work” legislation creates a situation analogous to citizens driving on public roads or calling the public fire department to save burning houses, yet refusing to pay the taxes necessary for these public services. It reduces financial resources for unions and the ability of unions to effectively represent workers and bargain for higher wages and benefits.

To fully understand the effort to make Indiana a “right-to-work” state, one must appreciate the broader historical context of the past half century. Beginning in 1947, when Congress overrode President Harry Truman’s vehement veto to pass the Taft-Hartley Act, individual states were permitted under federal labor law to prohibit collective bargaining agreements requiring all workers to contribute to the cost of representation by a union, regardless of membership status. Because American labor law required (and still does) that a union representing a bargaining unit must represent all

---

[1] This report was written by Higgins Labor Studies Program Director Marty Wolfson, with important contributions from Associate Director Dan Graff and Valerie Sayers. All three are faculty members at the University of Notre Dame and teach economics, history, and English, respectively. For additional helpful input to the report, we thank (without implicating) Higgins Labor Studies Program Coordinator Karen Manier and Higgins faculty members Robert Fishman (sociology), David Hachen (sociology), Ben Radcliff (political science), and David Ruccio (economics). This is a slightly revised version of the report that was released on March 3, 2011.

workers whether they are union members or not (that is, everyone gets the same benefits of employment under the contract, from health care coverage to due process to prevent arbitrary individual mistreatment), unions negotiated for contracts whereby every worker would contribute to the cost of representation (these are often called “fair share” arrangements).

By 1947, twelve states had passed what became called “right-to-work” laws, so named not because they gave any American a right to employment, but because they gave individuals the right to work at a job with the benefits of a collective bargaining agreement without having to contribute to the cost of those benefits. The result was the creation of two competing labor law regimes within the United States, one (primarily in the Northeast, the Midwest, and on the West Coast) that permitted “fair share” representation clauses in contracts and thus encouraged stable unions, higher wages, and better benefits for workers, and another (largely in the South and the Great Plains) that outlawed “fair share” agreements and thus inhibited the growth of unions and their positive effects for workers (Dixon, 2007).

The Chamber of Commerce Study on “Right to Work”

In January of 2011, the Indiana Chamber of Commerce released a study on “right to work” (Vedder, Denhart, and Robe, 2011). In that study, the authors argue that “right-to-work” (RTW) states have experienced higher growth of personal income and personal income per capita than non-RTW states. The authors argue that, because Indiana does not have a RTW law, its economic performance has suffered: “*over two-thirds of the difference between the Indiana and national rates of economic growth in modern times is explainable by Indiana’s lack of a RTW law*” (Vedder, Denhart, and Robe, 2011, p. 14, emphasis in original).

How would a RTW law improve Indiana’s economic growth and income so dramatically? There are four steps in the Chamber’s reasoning:
1) A RTW law would undermine unions and lower workers’ wages
2) Businesses would locate in Indiana because of the lower wages
3) The businesses attracted by RTW would raise total income for Hoosiers
4) In the long run, workers’ wages would also increase

We will examine each of these ideas in the next sections of this report.

Should Indiana Pass a “Right-to-Work” Law in Order to Lower Workers’ Wages?

The first major problem – and glaring inconsistency – is the argument that Indiana will be better off if the wages of its workers are reduced. The Chamber’s report says “Historically, there is some evidence that the short run effect of unionization is to raise wages, perhaps 10 percent or more from what would otherwise exist. To the extent that unionization increases labor costs, it makes a given location a less attractive place to invest new capital resources” (Vedder, Denhart, and Robe, 2011, p.6).

The Chamber then links the existence of a RTW law with the possibility of unionization. It considers a firm trying to decide whether to locate its business in southern Indiana, which does not have a RTW law, or in nearby Tennessee, which does. It says, "Suppose, however, the firm considers the possibility of unionization to be high in Indiana, but low in Tennessee, and that unionization will add at least 10 percent to labor costs . . . encouraging the firm to locate in Tennessee rather than Indiana" (Vedder, Denhart, and Robe, 2011, p.6).

The idea that the residents of Indiana would be better off if workers in Indiana received lower wages is seemingly so contradictory that it is surprising that it is even taken seriously. Are not workers residents of Indiana? How are they better off if they are receiving lower wages and benefits?

Of course the idea is rationalized by theories of economic development that say that the lower wages will bring more jobs and economic growth, and that the benefits of that growth will eventually trickle down to workers. We will examine these theories later in this report.

Right now it is important to note two points. First, the Chamber thinks of a RTW law as a direct attack on the very existence of unions. The most obvious direct result of a RTW law is that unions have fewer financial resources with which to negotiate on behalf of workers in the bargaining unit. This would be a reason for why workers' wages would decline. But the Chamber report ignores this point and makes its argument directly on the very existence of unions: it says that the possibility of unionization is high in non-RTW Indiana but low in RTW Tennessee. So perhaps it is not surprising that the campaign for RTW laws we are currently seeing has been accompanied by a coordinated and vigorous attack on collective bargaining and the ability of unions to even survive.

Second, it is correct that RTW laws have led to lower wages and benefits, for both union workers and non-union workers. A thorough and extensive examination of this question was recently released, on February 17, 2011: "The Compensation Penalty of 'Right-to-Work' Laws" (Gould and Shierholz, 2011). After controlling for a large number of demographic and economic variables, the researchers concluded that workers in RTW states receive wages that are 3.2% less than those in non-RTW states. This wage penalty translates into $1,500 less on an annual basis. Furthermore, workers in RTW states receive lower levels of health insurance and pension benefits than workers in non-RTW states.

Would Businesses Locate in Indiana Because of Lower Wages?

The Chamber here takes sides in a long-ranging and contentious debate about economic development. The argument in the Chamber's report is that economic development in a state is best promoted by attracting new businesses to the state, and that the best way to attract new businesses is to give the businesses a bigger boost to profitability than they could get in other states.

The Low-Road Approach to Attracting Business Investment

This means, then, keeping workers' wages low and discouraging unions. It means giving businesses tax subsidies for locating in the state. It means more lenient worker safety and environmental laws and enforcement. And, of course, it means passing RTW legislation. It means filling in the blank in the following sentence with any one – or all – of the above policies: "Unless our state does [blank], site location consultants will cross our state off their lists and businesses will not locate in our state." This all adds up to what many have termed the "low-road" approach to attracting business investment.

Ironically, the Chamber study justifies this approach by an appeal to "economic theory." The authors say that a step that Indiana could take to foster and sustain economic growth would be to "adopt a right to work (RTW) law that protects workers from compulsory union membership as a requirement of employment" because "economic theory suggests that any restriction on individuals' ability to engage in market transactions will likely result in below optimal economic outcomes" (Vedder, Denhart and Robe, 2011, p.1).

This is ironic in two respects. First, the very act of passing a RTW law is a restriction on the market transactions that unions and employers arrive at as a result of collective bargaining negotiations. Likewise, the tax subsidy deals and other inducements that a state undertakes to lure businesses are interventions in the market process to tip the scales in its direction. Indeed, they are interventions that change the relative bargaining power between corporations and workers in the direction of the corporations.

Second, similar interventions in the market changed the rules for financial institutions in the US in the 1990s and 2000s. Although justified by a "free-market" ideology, these interventions, like RTW laws and tax subsidies, tilted the playing field in the market in the direction of large banks and other financial institutions like hedge funds. The interventions enabled the financial institutions to use predatory lending and complicated financial products to take advantage of subprime and other borrowers. It led to a fattening of the banks' bottom line, but unfortunately also to a crash of the financial system and a deep and painful recession. So it is certainly questionable to use the same "economic theory" to justify RTW laws that led to such disastrous results in the financial system.

Issues in the Location Decision of Business Firms

Clearly some businesses are attracted to low-wage areas. However, there are other considerations that are important to businesses in the location decision. Summarizing the results of "hundreds of studies that have examined why firms locate where they do," economics professor Robert G. Lynch listed a number of key issues that are central to the business location decision:

- "the cost *and* quality of labor;
- proximity to markets for their products (particularly for service industries);
- access to the raw materials and supplies that firms need;

- access to quality transportation networks and infrastructure (specifically, good roads, highways, airports, railroad systems, and sewage systems);
- quality of life characteristics (e.g., good schools, health services, recreational facilities, low crime rates, quality housing, and weather);
- the cost and reliability of utilities."

(Statement by Robert G. Lynch, in Mishel, 2001, p. 6.)

Robert Ady was a longtime executive of Deloitte & Touche / Fantus Consulting, a leading site location firm. He is said to have assisted more site locations than any living person. He concludes that it is the quality of the work force, not low wages, that is decisive in the site location decision: "The single most important factor in site selection today is the quality of the available work force. Companies locate and expand in communities that can demonstrate that the indigenous work force has the necessary skills required by the company or that have the training facilities to develop those skills for the company" (Ady, 1997, p. 81).

The High-Road Approach to Attracting Business Investment

An alternative approach, referred to as the "high-road" approach, builds upon the observations of Lynch and Ady. This approach seeks to build up the workforce rather than tearing it down. It recognizes that companies can compete on the basis of a quality product and that productivity can increase based upon an experienced and knowledgeable workforce. It recognizes that tax money given away to lure companies to a state is money that isn't used to expand worker training programs, libraries, and the quality of life in a community. It recognizes that workers with reduced wages reduce their spending in the local community and hurt the prospects of other businesses dependent on that demand. It recognizes that it is better to treat workers as assets that can help the company than as expenses whose wages need to be minimized.

Of course, there are companies that are attracted by the prospect of lower wages (Cowie, 1999). Many of these companies may have been attracted by the lower wages of RTW states. However, much migration from non-RTW to RTW states has already taken place. To think that Indiana, by converting to a RTW state, would see an influx of companies chasing after low-wage workers is probably illusory. Companies looking for low-wage workers are much more likely to locate in China or other low-wage countries than in Indiana. In fact, states that have attracted companies in the past on the basis of low wages now find these same companies leaving their states for the prospects of even lower wages abroad.

Can "Right-to-Work" Laws Increase Income in Indiana?

Much of the Chamber study is devoted to attempting to prove the proposition that RTW states have seen stronger growth in income than have non-RTW states. However, there are major problems in the way that the study goes about trying to prove this proposition.

Problems of Data Analysis in the Chamber Study

The Chamber study's central conclusion is that, comparing the years 1977 and 2008, RTW states had stronger growth in real (inflation-adjusted) personal income (and real personal income per capita) than did non-RTW states. A chart in the study asserts that real personal income grew in RTW states by 164.4%, whereas it grew in non-RTW states by only 92.8%.

There are a number of problems with this approach. First, the two dates, 1977 and 2008, are asked to shoulder the main results of the study. Why were these dates selected? The authors do not say. Why was the data from all other years ignored? The authors do not say.[2]

Using this approach groups Oklahoma with the current RTW states, even though Oklahoma was not a RTW state before 2001. A more accurate approach would treat Oklahoma's results as a RTW state beginning in 2001, but group Oklahoma with the non-RTW states before 2001. Indeed, data before 1977 should be used and all states should be treated this way.

We created our own data set, which calculated rates of change of real personal income using data for every state for every year, going back to 1947, the date of the Taft-Hartley Act, and continuing through the most recent data point, 2009.[3] We attributed a state's performance to either the RTW states' group or the non-RTW states' group, depending on whether or not the state was actually a RTW state in that year.[4]

Taking the average of yearly growth rates for RTW states and non-RTW states – *and separating the performance of RTW states for those years before and after they became RTW states* – provides a more accurate measure of the growth of real personal income between the two groups. The results are shown in Chart 1.

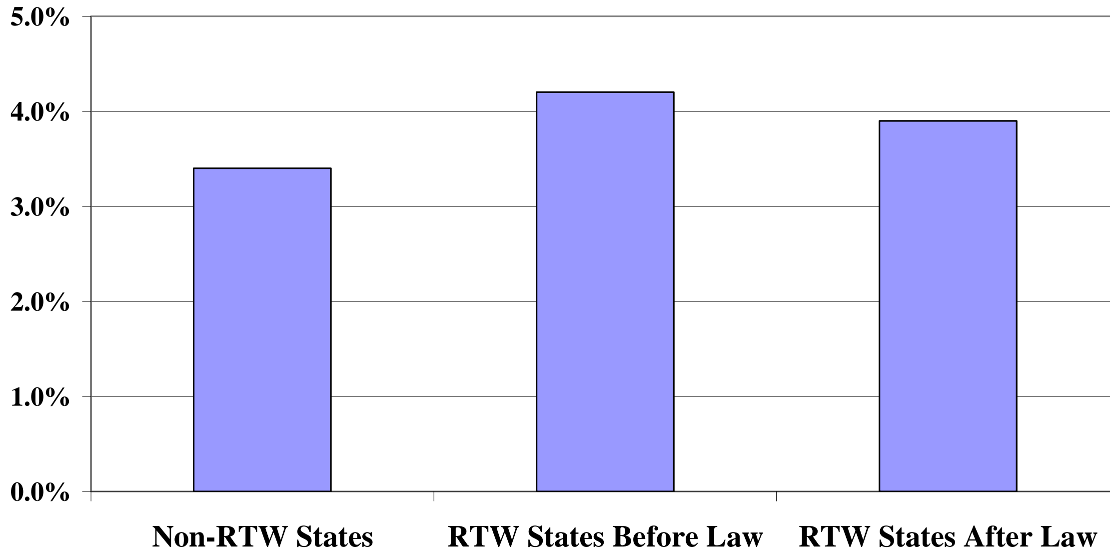
---

[2] The authors also do not say how they calculated the "growth" in real personal income. There are different ways to calculate a growth rate. We assume that they used a simple rate of change, which takes the difference between two numbers, divides by the first number, and expresses the result as a percentage. Also, the authors do not give the source of their data, aside from the generic phrase, "Bureau of Economic Analysis."

[3] The personal income data are from the Bureau of Economic Analysis Regional Economic Accounts, Series SA1-3, State Annual Personal Income. The nominal data are deflated by the Personal Consumption Expenditures deflator in Table 1.1.9, Implicit Price Deflators for Gross Domestic Product, National Income and Product Accounts, Bureau of Economic Analysis. The rate of change is calculated as described in the previous footnote.

[4] By 1947, twelve of the twenty-two states had passed RTW laws: Arizona, Arkansas, Florida, Georgia, Iowa, Nebraska, North Carolina, North Dakota, South Dakota, Tennessee, Texas, and Virginia. The other RTW states (and dates of enactment) are Nevada (1951), Alabama (1953), Mississippi (1954), South Carolina (1954), Utah (1955), Kansas (1958), Wyoming (1963), Louisiana (1976), Idaho (1986), and Oklahoma (2001). (Dixon, 2007, p. 319)

Chart 1: Growth of Real Personal Income
Non-Right-to-Work States and Right-to-Work States
Before and After RTW Status



With this more detailed analysis, it turns out that the RTW states did have a higher average rate of growth of real personal income than did the non-RTW states. However, the more accurate calibration of the performance of RTW states before and after they became RTW provides an interesting conclusion: the growth rate for RTW states before they became RTW states is actually higher than the growth rate for these states after they achieved RTW status (4.2% before becoming a RTW state, 3.9% afterwards).

So, for a variety of reasons, the RTW states had higher rates of growth of real personal income than did the non-RTW states. However, apparently status as a RTW state did not contribute to these growth rates.

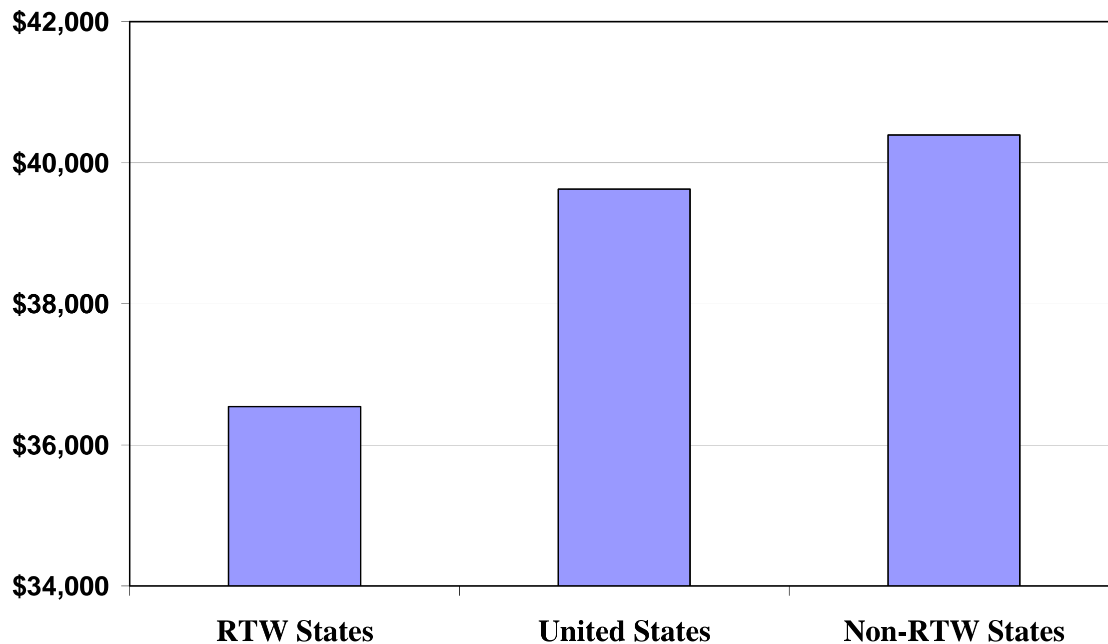
Growth rates can provide useful information, but by themselves they are an incomplete measure of economic performance. The Chamber's complete reliance on growth rates is a second source of problems with its analysis.

As an example of the incomplete story that growth rates provide, consider growth rates of per capita personal income in 2006, the last year of strong economic growth before the beginning of the recent recession in 2007. The state of Louisiana, a RTW state, had a growth rate of 12.3%. This was an impressive performance, which translated into an increase in per capita personal income of $3,690. On the other hand, Connecticut, a non-RTW state, had a growth rate of only 8.8%. But its increase in per capita personal income was $4,266.

As illustrated by this example, states with higher incomes can add more to their incomes than can states with lower incomes, even though the states with lower incomes are growing more quickly. In the example, the absolute income advantage of non-RTW state Connecticut over RTW state Louisiana continued to grow, even though Louisiana had a higher growth rate.

Indeed, the advantage of the non-RTW states over the RTW states holds up across states. Chart 2 shows average personal income per capita for 2009 (the most recent year for which data are available), averaged for RTW states and non-RTW states. It is clear that average per capita income in the non-RTW states is higher than that in the non-RTW states.

Chart 2: Average Personal Income Per Capita, 2009



Thus far we have been following the Chamber's procedure of grouping RTW states together and grouping non-RTW states together. The impression one gets is that the performance of all states in these groups is the same: if RTW states have a higher growth rate, then all RTW states must have a higher growth rate than all non-RTW states. But this is not the case, as pointed out in a recent report by Gordon Lafer, who shows growth in per capita personal income by state between the years 1977-2008 (those analyzed in the Chamber study). As he notes, "Ten non-'right-to-work' jurisdictions (nine states plus the District of Columbia) all enjoyed income growth over this period that was greater than 17 of the 22 'right-to-work' states" (Lafer, 2011, p. 3).

This obscuring of individual differences among RTW and non-RTW states is a third problem with the Chamber's data analysis. A fourth is its exclusive use of averages of

income data. Use of simple averages obscures issues in the distribution of income. For example, suppose we had a group of seven people. Two people have an annual income of $10,000, two have an income of $20,000, two have an income of $30,000, and the seventh is a Wall Street hedge fund manager with an income of $5 billion. To arrive at the average income of this group of seven people, we would add up their total incomes and divide by seven. Thus the average would be $5,000,120,000 divided by 7, or $714,302,857.

It seems like this group of people, with more than 700 million dollars in average income, is doing quite well. However, in reality, only one person is doing well; all the rest are struggling.

A better way to understand the fortunes of this group is to use the median instead of the average (or mean). The median is the middle number. If we arranged the seven people in order of income, the median would be the fourth person. In this case, the median income for this group is $20,000. It seems that $20,000 is a more realistic estimate of the fortunes of this group of people than is $714,302,857.

Table 1 shows real median income by states for 2009.[5] It shows the diversity among states. Interestingly, only 4 of the 22 RTW states are above the average median income for the United States as a whole; 18 of the 22 RTW states are below average. Table 1 provides a much different understanding of the economic outcomes of RTW states than do the average growth rates for RTW states as a group used in the Chamber study.

Trying to Prove a Link between Right to Work and Economic Outcomes

As Gordon Lafer points out, correlation is not causality. Even if there were an association between RTW states and better economic outcomes – which the Chamber study does not prove -- this would not demonstrate that the better economic outcomes were due to the status of the states as RTW states. Lafer (2011, p. 4) provides the following example: average job growth during 2000-2009 was nine times higher in states whose names start with the letters N-Z than in states whose names start with the letters A-M. But changing Indiana’s name to Tindiana would not improve its job growth.

Only a detailed institutional and historical analysis, or a careful econometric study that controlled for other possible causal variables, could suggest a causal relationship between the right-to-work status of a state and its economic performance. The Chamber study attempts an econometric analysis, but it is plagued by all the data problems discussed above. It continues to use only two years of data (1977 and 2008), to use averages instead of median values, and to rely exclusively on rates of growth.

---

[5] The data are from table B19013, Median Household Income in the Past 12 Months (In 2009 Inflation-Adjusted Dollars), from the 2009 American Community Survey 1-Year Estimates, U.S. Census Bureau.

Table 1: Real Median Household Income, 2009, by State

Right-to-Work States in Capital Letters

Rank	State	Median Household Income (Dollars)	Rank	State	Median Household Income (Dollars)
Above-Average States			**Below-Average States**		
1	Maryland	69,272	22	Wisconsin	49,993
2	New Jersey	68,342	23	Pennsylvania	49,520
3	Connecticut	67,034	***24***	***ARIZONA***	***48,745***
4	Alaska	66,953	25	Oregon	48,457
5	Hawaii	64,098	***26***	***TEXAS***	***48,259***
6	Massachusetts	64,081	***27***	***IOWA***	***48,044***
7	New Hampshire	60,567	***28***	***NORTH DAKOTA***	***47,827***
8	***VIRGINIA***	***59,330***	***29***	***KANSAS***	***47,817***
9	District of Columbia	59,290	***30***	***GEORGIA***	***47,590***
10	California	58,931	***31***	***NEBRASKA***	***47,357***
11	Delaware	56,860	32	Maine	45,734
12	Washington	56,548	33	Indiana	45,424
13	Minnesota	55,616	34	Ohio	45,395
14	Colorado	55,430	35	Michigan	45,255
15	***UTAH***	***55,117***	36	Missouri	45,229
16	New York	54,659	***37***	***SOUTH DAKOTA***	***45,043***
17	Rhode Island	54,119	***38***	***IDAHO***	***44,926***
18	Illinois	53,966	***39***	***FLORIDA***	***44,736***
19	***NEVADA***	***53,341***	***40***	***NORTH CAROLINA***	***43,674***
20	***WYOMING***	***52,664***	41	New Mexico	43,028
21	Vermont	51,618	***42***	***LOUISIANA***	***42,492***
	United States	50,221	***43***	***SOUTH CAROLINA***	***42,442***
			44	Montana	42,322
			45	***TENNESSEE***	***41,725***
			46	***OKLAHOMA***	***41,664***
			47	***ALABAMA***	***40,489***
			48	Kentucky	40,072
			49	***ARKANSAS***	***37,823***
			50	West Virginia	37,435
			51	***MISSISSIPPI***	***36,646***

Moreover, its five control variables – the ones that are designed to capture other influences on the dependent variable (growth in real per capita income) so as to isolate the effects of the RTW variable, are too few and too far afield to demonstrate a causal connection. One of the control variables is "Age of State," the date at which the state joined the Union. Of course, the first states joined the Union in the 18th century. What is the relationship of this variable to "right to work" and what is the reason it is included as a control variable? The Chamber study does not say. A recent econometric investigation (Stevans, 2009), which uses a broader set of control variables, concludes that there is no significant difference in capital formation or employment rates between RTW and non-RTW states, but that per capita personal income and wages are both lower in RTW states.

Can Lower Wages Lead to Higher Wages?

Perhaps the reason the Chamber study uses only average income rather than median income, and growth rates of income rather than income levels, is to shift attention away from the basic causal relationships in its analysis: "right-to-work" laws lead to lower wages, and it is lower wages that are said to attract businesses to a state. The reliance on per capita income growth rates obscures how the income pie is divided amongst a state's residents.

Trickle-Down Economics Once Again

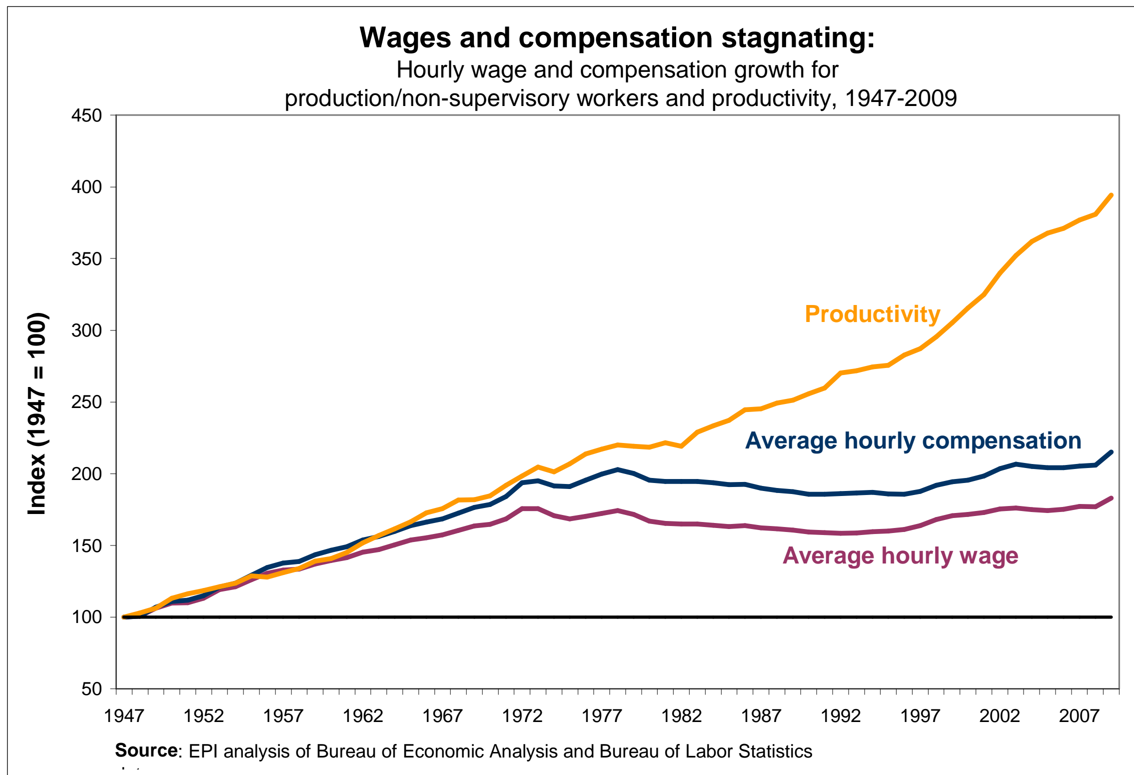
Perhaps the authors of the Chamber study recognize that they have placed themselves in an uncomfortable box: how can a policy that lowers wages be said to benefit the economic fortunes of state residents? What good does it do to attract businesses to a state if the businesses are not paying their workers enough to live on?

The authors try to escape from this uncomfortable situation by arguing that low wages will, in the long run, lead to higher wages. Their theoretical argument is that lower wages, by attracting businesses to a state, will increase the ratio of capital to labor in RTW states. "Since labor productivity is closely tied to the capital resources (machines and tools) that workers have available, labor productivity will tend to grow more in the RTW states, stimulating economic growth, including growth in wages and employment" (Vedder, Denhart, and Robe, 2011, p. 7).

This theoretical argument is questionable. First of all, as discussed above, it is not necessarily true that low wages will lead to greater business investment in a state that adopts a RTW law, especially in the global economy of 2011. Second, it is not necessarily true that greater business investment will lead to an increase in the ratio of capital to labor in a RTW state. A higher rate of investment by companies using large numbers of low-wage, unskilled workers could actually lower the capital-labor ratio and lower productivity in the state.

Finally, it is not necessarily true that higher productivity leads to higher wages. This has not been the experience in the United States since the 1970s. Chart 3 plots average hourly wages and average hourly compensation for production/non-supervisory workers

Chart 3: The Divergence of Wages from Productivity



and productivity from 1947 to 2009 (Economic Policy Institute, 2011a). It shows that, since about 1973, wages and compensation have not kept pace with productivity.

So none of the theoretical arguments holds up. Empirically, the argument that RTW laws will, in the long run, lead to higher wages is not accurate either. Since the Taft-Hartley Act was passed in 1947, and since 18 of the 22 RTW states had passed RTW laws by 1955, the long run should have already arrived. But the evidence indicates, as noted above (Gould and Shierholz, 2011), that wages and benefits today are lower for union *and* non-union workers in RTW states than in non-RTW states.

If the Chamber's argument seems familiar, it is because it is the same "trickle-down" approach that has been used repeatedly in the past thirty years. We have been told that, if we give large tax cuts to the wealthy, they will save and invest so that the non-wealthy will eventually benefit. We have been told that, if we bail out large banks while asking for little in return, the banks will eventually lead us to prosperity.

But it hasn't worked. The wealthy and the banks have benefitted from the taxpayers' largesse, but the benefits have not trickled down to the rest of society. Income and wealth inequality have increased dramatically in the United States in the past thirty years. The banks are still taking outsized risks, but now they are larger and more powerful.

The "Race to the Bottom"

As we have seen, the Chamber's trickle-down agenda, to reduce wages so as to boost corporate profitability and lure businesses to a state, does not work. In fact, all it leads to is what many have called a "race to the bottom." As states and localities find themselves in competition with each other to attract business investment, corporations know that they can play one locality off against another to get the best deal. Each locality is forced to bid lower to get the business. What happens is that wages and living standards are pushed down further and further; it is only the locality that can bid the lowest that will get the business.

As wages fall, workers' demand for other goods and services in the locality fall as well. As tax revenues are depleted with corporate tax subsidies, the ability of the locality to spend on worker training, education, infrastructure, etc. – all the things that can improve a locality and provide a welcoming environment for business growth as well – is reduced. The health and wealth of the locality become depleted.

And, finally, the whole exercise is self-defeating. Corporations that locate to one locality to get a good deal will often have no hesitation about relocating to the next locality that will give them a better deal. In the context of today's global economy, localities in the U.S. find that they can't compete on the basis of low wages when a corporation can relocate to a developing economy to pay a fraction of the wages it was paying in the U.S.

T*he Meaning of Economic Development*

We need to rethink this whole approach. The Chamber's implicit assumption is that economic development is simply the process of attracting businesses. If localities can use low wages and tax subsidies to successfully attract business, then they have succeeded at economic development.

But this is not economic development. A company building a new facility is an example of business investment. Investment, in turn, is a component of economic growth. But even economic growth is not economic development.

Economic growth is simply a measure of the growth of total income produced by a locality or society. It says nothing about how that income is distributed. But economic development is different: economic development is the process of increasing opportunities and living standards for *all* residents of an area.

This means that successful economic development is not compatible with falling wages and benefits for workers. It means that we need to put in place policies that support workers' wages and, yes, policies that support the organizations that workers have formed – unions – to successfully bargain collectively for better wages and benefits.

The History of Declining Wage Standards and the Campaign Against Unions

Unfortunately, that is not what has happened in the United States in the past thirty years. Corporations have increasingly adopted the "low-road" approach of competing on the basis of low wages. Public policy has, for the most part, been supportive of this approach.

This approach contrasts sharply with the dominant approach to labor relations and public policy in the post-World War II period (mid-1940s through late-1970s). During that time, the union-friendly states of the Northeast, the Midwest, and the West Coast led the nation in the construction of a modern middle-class society, one marked by rising standards of living, increasing home ownership and educational opportunities, and generational upward mobility (although the RTW states of the South and the Plains lagged behind in all these indicators (Zieger and Gall, 2002, 182-213; Dubofsky, 1994, 197-232)).[6]

In the late 1970s and early 1980s, though, corporations increasingly adopted the low-road approach in order to boost declining profitability (Gordon, 1995). They pushed for an increasingly open, "free-market" global economy and for trade deals like NAFTA that would give them access to low-cost labor in developing countries. They closed down manufacturing facilities in the U.S. and moved them abroad. They asked for "give-backs" from workers and took an increasingly hostile attitude towards unions and collective bargaining. The attack on collective bargaining that we are experiencing today has been building for more than thirty years.

The attacks by corporations and the increasingly globalized nature of the economy have put serious pressure on the high-wage, union-built middle-class states facilitating "fair share" collective bargaining agreements, especially because globalization has hit hardest the manufacturing-centered economies of states like Pennsylvania, Ohio, Wisconsin, and Indiana.

But while there is no doubt that corporate policies and global competition have produced real challenges for American workers and their communities, just as important has been the failure of US policymakers to protect and sustain those middle-class communities. The decision by President Reagan to fire the striking members of the Professional Air Traffic Controllers Organization (PATCO) and put in their place permanent replacement workers undermined workers' ability to strike and signaled to corporations that the government supported an attack on unions.

Increasingly influenced by the rising political power of big business-dominated advocacy groups pushing deregulation and regressive taxation as the solution to all policy questions, the federal government since the 1980s has virtually abandoned its sponsorship of a regulated capitalism that once promoted high wages, secure jobs, and widely shared

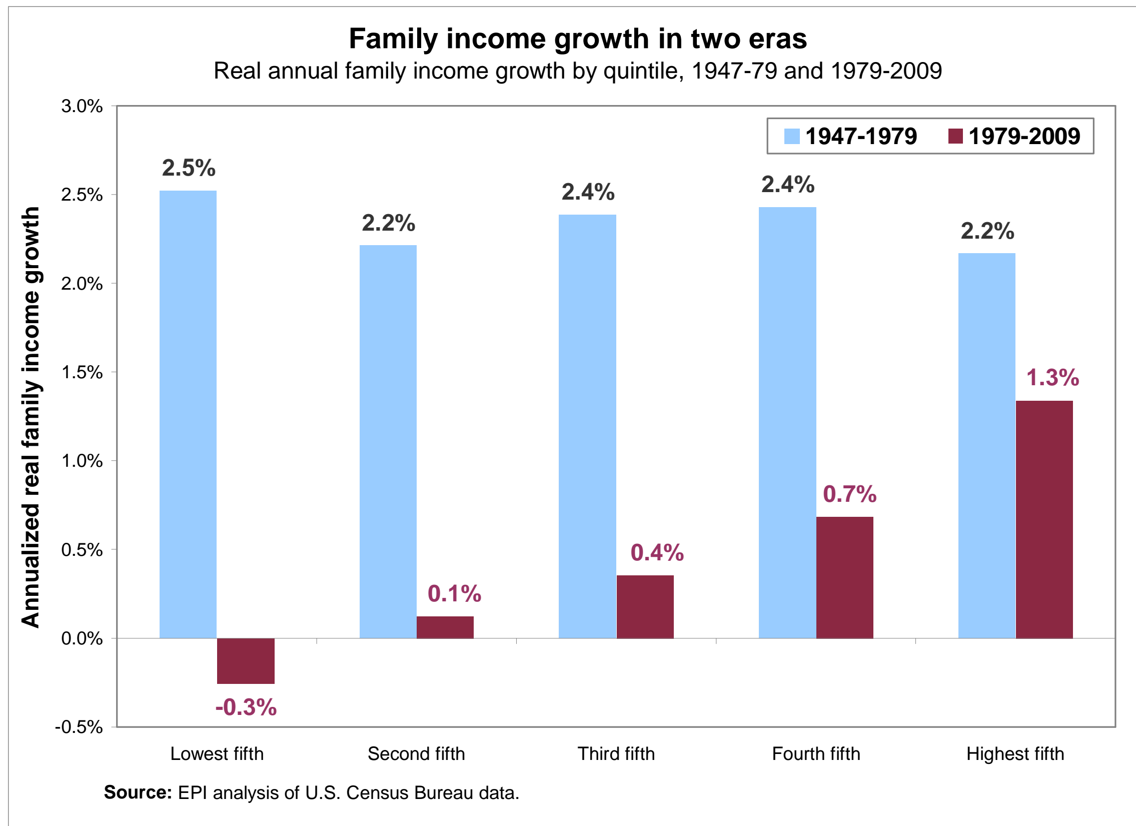
---

[6] There is even evidence that unions increase the life satisfaction of citizens, including both union and non-union members (Flavin, Pacek, and Radcliff, 2010).

economic growth. Beginning in the late 1970s, we have seen a series of policy decisions that have undercut the ability of workers to organize and demand better wages, working conditions, and benefits: the deregulation of the trucking and airline industries with the consequent lowering of wage and work standards, the dismantling of the social safety net, and the evisceration of the National Labor Relations Board as a resource for workers wanting to unionize, to name just a few (Lichtenstein, 2002, 212-45).

The changes in corporate and public policies over the post-World War II period have taken their toll. As Chart 3 indicates, workers' wages and compensation have stagnated since the 1970s. And as Chart 4 shows, income inequality has worsened (Economic Policy Institute, 2011b). In comparison to the 1947-1979 period, when income grew strongly among all sectors of the population, since 1979 overall growth has slowed, and most of the income gains have gone to those at the top of the income distribution.

Chart 4: Increasing Income Inequality



A Vision of Labor Relations that Upholds Human Dignity

Does it have to be this way? Is it possible to re-create labor relations that uphold human dignity? We at the Higgins Labor Studies Program believe that it is possible. In

this endeavor we take our lead from the man for whom the Higgins Program is named, Monsignor George G. Higgins.

Monsignor Higgins (1916-2002) was the former director of the Social Action Department of the National Catholic Welfare Conference and longtime advisor to the U.S. Catholic Bishops on labor and civil rights, poverty, and religious tolerance. In 2001, Monsignor Higgins was awarded the University of Notre Dame's prestigious Laetare Medal for exemplary Catholic public service. Monsignor Higgins pointed out that the "pressure for [right-to-work] legislation does not arise from workers seeking their 'rights.' Proponents are uniformly employers' organizations and related groups." He argued that right-to-work laws "do not provide jobs for workers; they merely prevent workers from building strong, stable unions" (Higgins, 2001).

As Monsignor Higgins frequently noted, Catholic social teaching has consistently affirmed the rights of workers to organize and bargain collectively. In one of the Church's most recent statements (February 16, 2011), Archbishop Jerome Listecki of Milwaukee, speaking on behalf of the bishops of Wisconsin, called on state legislators to act responsibly toward public employees and reminded them that "hard times do not nullify the moral obligation each of us has to respect the legitimate rights of workers." The statement said that it was "a mistake to marginalize or dismiss unions as impediments to economic growth" (Catholic News Service, 2011).

The Catholic Church's support for labor unions is longstanding and unequivocal. Indeed, Pope Leo XIII, in his 1891 encyclical *Rerum Novarum*, actively encouraged workers to form unions (Pope Leo XIII, 1891), and papal support for labor unions has been repeatedly affirmed through the twentieth and twenty-first centuries. In his apostolic letter preparing for the Jubilee Year 2000, Pope John Paul II reminded Catholics that the Church is committed to "the safeguarding of human dignity and rights in the sphere of a just relationship between labor and capital" (Pope John Paul II, 1994). In 2009, Pope Benedict's encyclical *Caritas in Veritate* reminded employers and legislators that unions must be "honored today even more than in the past" as an important component of trade at both the local and international levels (Pope Benedict XVI, 2009).

In its 1986 pastoral letter, *Economic Justice for All*, the United States Conference of Catholic Bishops reminded Catholics that the Church "fully supports the right of workers to form unions or other associations to secure their rights to fair wages and working conditions." Furthermore, the bishops argued that fair wages, rest, health care, retirement benefits, and reasonable job security "are all essential if workers are to be treated as persons rather than simply as 'a factor of production'" (U.S. Catholic Bishops, 1986).

Catholic Scholars for Worker Justice, a national organization of academics, has recently issued a statement in "strong opposition to the attacks that are being made on labor unions and collective bargaining today." The statement reminds Catholics of the basic tenets of Catholic teaching on labor:

- Labor unions are “based on the inalienable right of free association” and “defend the vital interests of workers and their families.”
- Workers have the right to bargain collectively for fair wages and benefits.
- Employers who refuse to pay a fair wage have committed a “grave injustice.”
- Governments must not “limit the negotiating capacity of unions” (Catholic Scholars for Worker Justice, 2011).

So-called “right-to-work” laws are a clear attempt to limit the capacity of unions to negotiate and even to survive, and are therefore in clear conflict with Catholic teaching on the dignity of workers. As the U.S. Catholics bishops wrote in *Economic Justice for All,* “No one may deny the right to organize without attacking human dignity itself” (U.S. Catholic Bishops, 1986).

REFERENCES

Ady, Robert. 1997. "Discussion of a paper on The Effects of State and Local Public Services on Economic Development." *New England Economic Review*. March-April, pp. 77-82.

Catholic News Service. 2011. "Wisc. Archbishop: Don't suspend workers' rights," *Catholic Reporter Online*. February 18, 2011. http://ncronline.org/news/justice/wisc-archbishop-dont-suspend-workers-rights

Catholic Scholars for Worker Justice. 2011. "Statement in Support of Labor Unions." http://www.usccb.org/jphd/economiclife/pdf/economic_justice_for_all.pdfhttp://wwwcatholicscholarsforworkerjustice.org/2011%20SOS%20for%20Labor%20Unions.pdf

Cowie, Jefferson. 1999. *Capital Moves: RCA's Seventy-Year Quest for Cheap Labor*. New York: Cornell University Press.

Dixon, Marc. 2007. "Limiting Labor: Business Political Mobilization and Union Setback in the States." *Journal of Policy History* 19(3): 313-44.

Dubofsky, Melvyn. 1994. *The State and Labor in Modern America*. Chapel Hill: University of North Carolina Press.

Economic Policy Institute. 2011a. Wages and compensation stagnating. *The State of Working America*. Washington, D.C.: Economic Policy Institute. Feb. 14, 2011. http://www.stateofworkingamerica.org/charts/view/201

Economic Policy Institute. 2011b. Family income growth in two eras. *The State of Working America*. Washington, D.C.: Economic Policy Institute. Feb. 14, 2011. http://www.stateofworkingamerica.org/charts/view/49

Flavin, Patrick, Alexander C. Pacek, and Benjamin Radcliff. 2010. "Labor Unions and Life Satisfaction: Evidence from New Data." *Social Indicators Research* 98(3): 435-49.

Gordon, David. 1995. *Fat and Mean: The Corporate Squeeze of Working Americans and the Myth of Managerial "Downsizing."* New York: Free Press.

Gould, Elise, and Heidi Shierholz. 2011. "The Compensation Penalty of 'Right-to-Work' Laws." Economic Policy Institute Briefing Paper. February 17, 2011.

Higgins, Mgsr. George G. 2001. "Right to Work Legislation Back in the News," *The Yardstick,* July 30.

Lafer, Gordon. 2011. "What's Wrong with 'Right-to-Work': Chamber's numbers don't add up." Economic Policy Institute Policy Memorandum #174..

Lichtenstein, Nelson. 2002. *State of the Unions: A Century of American Labor.* Princeton: Princeton University Press.

Mishel, Lawrence. 2001. "'Right-to-Work' Laws and Economic Development in Oklahoma." Economic Policy Institute Briefing Paper. August 2001.

Pope Benedict XVI. 2009. *Caritas in Veritate.* Website of the Vatican, http://www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html

Pope John Paul II. 1994. "Tertio Millenio Adveniente." Website of the Vatican, http://www.vatican.va/holy_father/john_paul_ii/apost_letters/documents/hf_jp-ii_apl_10111994_tertio-millennio-adveniente_en.html

Pope Leo XIII. 1891. *Rerum Novarum.* Website of the Vatican, http://www.vatican.va/holy_father/leo_xiii/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum_en.html

Stevans, Lonnie K. 2009. "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* 5(1): 595-612.

United Nations. 1948. "The Universal Declaration of Human Rights." http://www.un.org/en/documents/udhr/index.shtml

U.S. Catholic Bishops. 1986. *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy*. http://www.osjspm.org/economic_justice_for_all.aspx

Vedder, Richard, Matthew Denhart, and Jonathan Robe. 2011. "Right-To-Work and Indiana's Economic Future." Indiana Chamber of Commerce Foundation.

Zieger, Robert, and Gilbert Gall. 2002. *American Workers, American Unions: The Twentieth Century*, 3rd edition. Baltimore: Johns Hopkins University Press.