· WISCONSIN POLICY RESEARCH INSTITUTE ·

WPRI REPORT

Volume 28 Number 1 · February 2015

The Economic Impact *of a* Right-to-Work Law *on* Wisconsin

by Richard Vedder, Joseph Hartge, and Christopher Denhart

The Economic Impact of a Right-to-Work Law on the Wisconsin Economy

by Richard Vedder, Joseph Hartge, and Christopher Denhart

President's Notes

In 2012, Indiana and Michigan became the 23rd and 24th states to adopt right-to-work legislation that makes it illegal to require workers to join a union as a condition of employment.

In an effort to determine whether Wisconsin should consider similar legislation, the Wisconsin Policy Research Institute decided last fall to undertake two different lines of research: a poll of public opinion and an analysis of potential economic impacts.

In January, the 2015 WPRI Poll of Public Opinion determined that approximately twice as many Wisconsinites would vote in favor of right-to-work legislation as would vote against it (62% to 32%). Over three-quarters of respondents (77%), meanwhile, said they think no Americans should be required to join any private organization, such as a labor union, against his or her will.

In addition, a plurality of the 600 respondents, said they believe a right-to-work law will be economically beneficial for the state. Four in 10 (40%) said such laws will "improve economic growth in Wisconsin," 29% said they believe the laws "will not affect economic growth" and 27% said such laws will "reduce economic growth."

This paper (the second vein of WPRI inquiry on the issue) shows that what a plurality of state residents intuitively believes – that right-to-work laws are economically beneficial – is backed up by statistical analysis.

WPRI commissioned this paper by one of America's foremost experts on right-to-work, Ohio University economist Richard Vedder, months ago. Dr. Vedder and his colleagues, Joe Hartge and Christopher Denhart, happened to be finishing it up just when legislative leaders decided to bring a right-to-work bill to the floor this week. While he did not see the bill prior to conducting this analysis, right-to-work is a straightforward concept that varies little from state to state. As a result, we believe this paper – by comparing economic growth in states that have had right-to-work to those that have not and calculating the potential impact in Wisconsin – provides the best, most nuanced and most accurate analysis that has been done in the Badger State.

It is our hope that legislators, as they engage in debate in the coming days, will consider both Dr. Vedder's findings and the fact that a majority of Wisconsinites support right-to-work as an issue of fundamental personal freedom.

Mike Nichols
President
Wisconsin Policy Research Institute

Table of Contents

Executive Summary

Over the last 30 years, states with right-to-work (RTW) legislation have experienced greater per capita personal income growth than other states. And that positive correlation between right-to-work and higher incomes remains true even after controlling for other important variables (such as tax rates in various states) that might have had a simultaneous impact.

Our statistical results suggest that, in fact, the presence of a RTW law added about six percentage points to the growth rate of RTW states from 1983 to 2013. With such a law, Wisconsin's per capita personal income growth of 53.29% would have been, instead, about 59.29%. Wisconsin would have gone from having economic growth below the national average over those three decades to having slightly above average growth – enough above average that it would have erased the current income per capita deficit between Wisconsin and the nation as a whole.

Wisconsin's per capita personal income received from all sources in 2013 was $43,244, according to the Bureau of Economic Analysis – $1,521 less than the national average of $44,765.

Our regression analysis suggests that had Wisconsin adopted a RTW law in 1983, per capita income would have been $1,683 higher in 2013 than it actually was – and would have brought the state slightly over the national per capita personal income average.

There are some caveats that apply to all such analysis. Although the results are strong, the reader is urged to be very cautious in using the precise estimation. Some possible determinants of economic growth are very difficult or impossible to measure, such as the extent of statewide environmental regulations, and there may be a significant "omitted variable bias" in this simple regression model. At the same time, it is unlikely the inclusion of other variables would materially alter the estimations with respect to RTW.

Finally, the results in question look at the past – the 1980s through 2013. Labor unions today have a smaller presence than they used to, so the effects of a RTW law might reasonably be expected to have a somewhat smaller impact in the future – especially in Wisconsin where Act 10 is already having an economic impact.

That said, it is a fact that Wisconsin has fallen behind. As this study indicates, Wisconsin's role in the national economy has shrunk with the passage of time. Our analysis suggests that passage of a RTW law likely would slow and possibly reverse this trend.

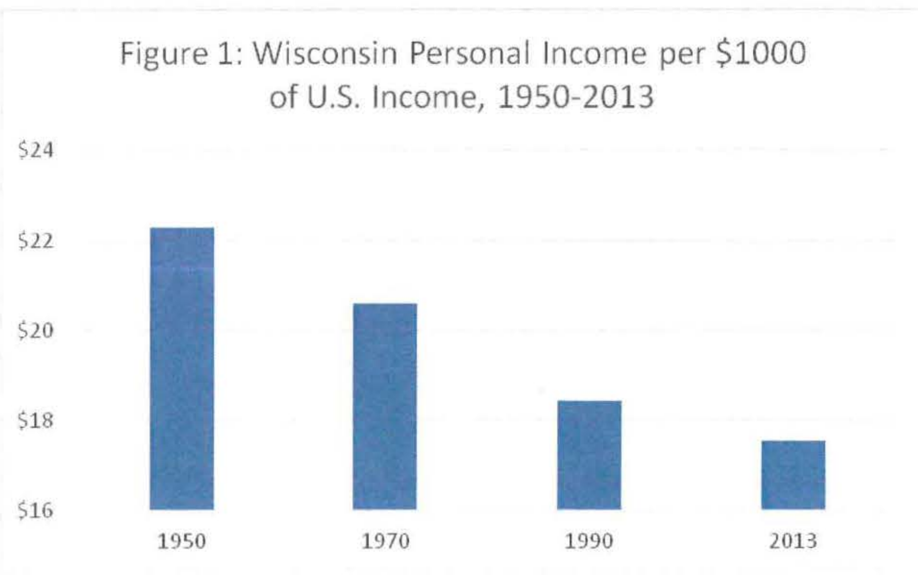
Introduction

Residents of Wisconsin are among the luckiest people on earth, since living in the United States means they share in the fruits of American prosperity. By world and historical standards, those living in the Badger State today typically have high standards of living with a long life expectancy. Yet not all is good – by some measures, the state has not fully maximized its economic potential.

In 1950, over \$22 of every \$1,000 in personal income generated in the United States was earned by Wisconsin residents (see Figure 1). That figure fell steadily to only \$17.55 by 2013 – a decline of over 20%. Most of this reflects relatively slow population growth; Wisconsin has not attracted the in-migrants, including immigrants, typical in the nation as a whole, which, in itself might reflect a perception that Wisconsin is not a particularly attractive place to live. Secondarily, income growth for residents over the 1950-2013 period was modestly below the national average. In 1950, per capita income in Wisconsin was 1.63% below the national average; in 2013, the income deficit was more than double that.

Why is this? There are probably dozens of factors that help explain a state's economic performance relative to other states. Taxes, the proportion of the population in manufacturing or agriculture, educational attainment levels of the population, variations in the demographic characteristics of the population, natural resource availability, state regulatory policies, even the climate of the state – these are some of the factors often cited. But since goods and services are produced primarily from the use of labor, labor laws and regulations are potentially very important. In particular, this study focuses on right-to-work (RTW) laws. Wisconsin and 25 other states have no RTW law, but 24 states do. Does the absence of a RTW law in Wisconsin help explain why its per capita income remains below the national average?

This study analyzes the impact of right-to-work laws on economic behavior. Do states with such laws fare better as a consequence of their adoption? Is the impact of a RTW law small or large? We conclude that Wisconsin would have fared better over the past several decades had it passed such a law. The implication is strong that the adoption of a RTW law in Wisconsin would stimulate economic activity, probably largely eradicating the gap in per capita income currently existing between Wisconsin and the rest of the nation. Econometric analysis is not error free, nor is future behavior necessarily going to precisely emulate that of the past. Nonetheless, the statistical results here are strong enough to suggest with a fairly high level of certainty that Wisconsin would benefit from having a right-to-work law.



Source: U.S. Bureau of Economic Analysis, authors' calculations

Organized Labor and "Right-to-Work" Legislation in the United States

The earliest record of an organized labor strike dates back well before New Deal era legislation strengthened collective bargaining. Indeed, in 1768, New York journeymen tailors protested wage reductions. In 1794 (only seven years after the Constitution of the United States was drafted[1]), the Federal Society of Journeymen Cordwainers was formed in Philadelphia.[2] From here, organized labor took the form of local craft unions, which would publish prices for goods as a way to ensure high wages in the face of cheap labor influx.

In *Commonwealth v. Hunt* (1842), Chief Justice Lemuel Shaw opined that "A labor combination to raise wages is not inherently illegal," providing the legal basis for organized labor and collective bargaining. Business management would fight unionization by the use of blacklists to target agitators or pro-union laborers. However, with the high ratio of laborers to management, it was eventually inevitable that unionization would gain some traction. The National Labor Union was founded in 1866 by William Sylvis. While it was quickly dissolved, it was the first national labor federation in the United States, gave national attention to locally unionized labor and fought for higher wages and shorter hours.[3] As the NLU declined, the Noble Order of the Knights of Labor took up the mantle. In 1869, the Knights of Labor was founded, accepting all wage workers, including African-Americans and women, skilled and unskilled, into its ranks. The Knights favored an eight-hour workday, equal pay for equal work, the abolition of child and convict labor, and public ownership of utilities. Despite rapid growth in the mid-1880s, Knights members were tarred as radicals as a result of the Haymarket riots in Chicago in 1886. In that year, the American Federation of Labor (AFL) was organized and Knights of Labor membership deteriorated.[4] While membership grew, unions remained relatively weak until the 1930s.

The Norris-LaGuardia Act, signed by President Herbert Hoover in 1932, made agreements with management enforceable in federal court, restricted the use of court injunctions to stop strikes, and exempted unions from antitrust laws. Union activity expanded, as did the number of work stoppages, in the years to follow.[5]

But by far the most consequential step on this path to increased unionization came in 1935, when President Franklin Roosevelt signed the National Labor Relations Act (the Wagner Act). The Wagner Act, which granted collective bargaining rights to private-sector workers but not public-sector workers, allowed for elections to determine whether workers would be represented by a union and, if the majority voted in favor, allowed the union to arrange union security provisions within a firm. These provisions started with a "closed shop," which required workers to be unionized as a precondition of employment, but also included the "union shop," which allowed hiring of non-union workers so long as they became unionized within a given time period (often 30 days), as well as the "agency shop," which allowed unions to collect dues from all workers but did not require all workers to become members.

Union membership swelled from 13.2% of non-agricultural workers in 1935 to 28.9% in 1939 following the passage of the Wagner Act. The Wagner Act granted monopoly power in labor supply to unions by allowing them to coerce workers to join or financially support their activities.

By 1947, the public had grown more skeptical of the unchecked power of the large national unions. The previous year, the nation suffered through a record volume of strikes, including in critical industries such as coal, and public sentiment toward unions cooled sharply from the 1930s. Accordingly, Congress passed (and overrode President Harry Truman's veto of) an amendment to the Wagner Act known as the Taft-Hartley Act.[6] Taft-Hartley outlawed closed shop arrangements, though union and agency shop provisions lived on. Section 14(b) of Taft-Hartley allows individual states to pass legislation to override union and agency shop provisions, thus giving legal foundation for them to adopt right-to-work legislation.

1947 was not, however, the first instance of RTW laws. In 1944, Florida and Arkansas adopted RTW laws, followed by Arizona, Nebraska and South Dakota in 1946. In 1947, Georgia, Iowa, North Carolina, Texas, Tennessee and Virginia adopted RTW laws. These laws were challenged in court by union leaders in Arizona, Nebraska and North Carolina, which ultimately led to the 1949 U.S. Supreme Court case *Lincoln Federal Labor Union v. Northwestern Iron and Metal Co.*, 335 U.S. 525 (1949). In this case, the court upheld the constitutionality of RTW laws.[7]

RTW states have grown from two in 1944 to 24 today and have seen large growth in the proportion of American population, from only 29% as late as 1970 to 46% today.[8] States that have RTW laws also have slightly higher fertility rates and considerable net migration from non-RTW states over time.

Union membership has been declining in relative terms since the 1960s, and while RTW legislation is a contributing factor in some places it is not the leading one. In the 1930s and '40s, the proportion of Americans working in large industrial environments was much greater than today. Workers were less likely to work in managerial, technical or professional jobs, women made up a much smaller portion of the workforce and educational attainment was much lower. Additionally, public (e.g., Social Security, worker's compensation, unemployment insurance, Supplemental Nutrition Assistance Program, etc.) and private (e.g., private pension plans, 401(k) accounts, IRAs, etc.) forms of income security were less available. Over time, fewer people as a percentage of the labor force have worked in large corporations, decreasing the communication chain between management and laborer, making it easier to quickly settle disputes.[9]

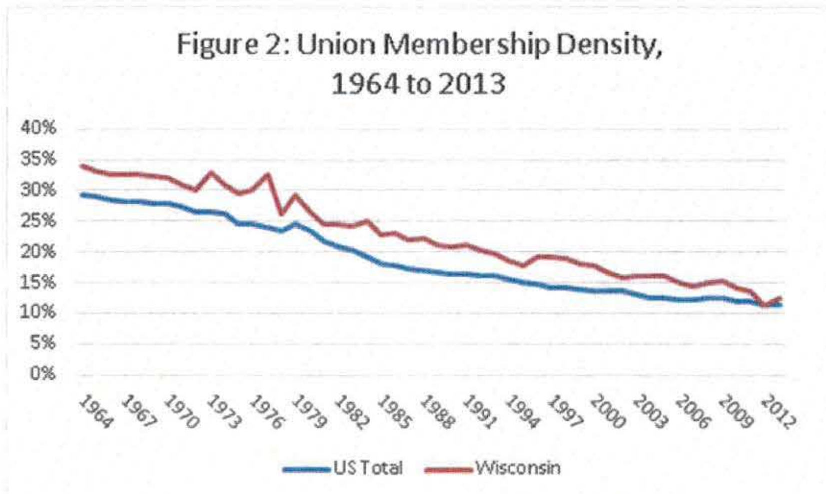
The rise of the global economy and globalization has further diminished the monopoly power of national labor unions to hold wages above a competitive market rate. Therefore, the relative decline in American labor-intensive industry (e.g., automobiles and manufacturing) is attributed in large part to American labor pricing itself out of competition through labor agreements dating to before the era of international labor competition. All of these factors reduce the attractiveness and strength of unions.[10]

Unionism in Wisconsin

Wisconsin has a long history of higher than average union density. As shown in Figure 2, union membership in Wisconsin has accounted for a larger percentage of non-farm laborers than typical in all states in every year since at least 1965, excepting 2012.

The strong union tradition in Wisconsin stretches back much further than that, however.

Unionization in Wisconsin began in 1847, when bricklayers formed a union in Milwaukee. Carpenters in 1848, and dock workers, warehouse laborers and others followed suit. Over the next century, unions and workers helped transform the workplace. In the 1880s, labor unions in Milwaukee lobbied to reduce daily work to eight hours. In 1911, the state Legislature passed the nation's first worker's compensation laws. These required employers to financially compensate and provide medical attention for loss of life and limb. In 1932, unemployment compensation was passed in Wisconsin, followed by the important 1937 Wisconsin Employment Relations Act, which added state support to workers' right to organize.[11] Wisconsin ushered in collective bargaining rights for public employees in 1959.



Source: Barry T. Hirsch, David A. Macpherson and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, 124 (7), July 2001, 51-55; U.S. Department of Labor, authors' calculations

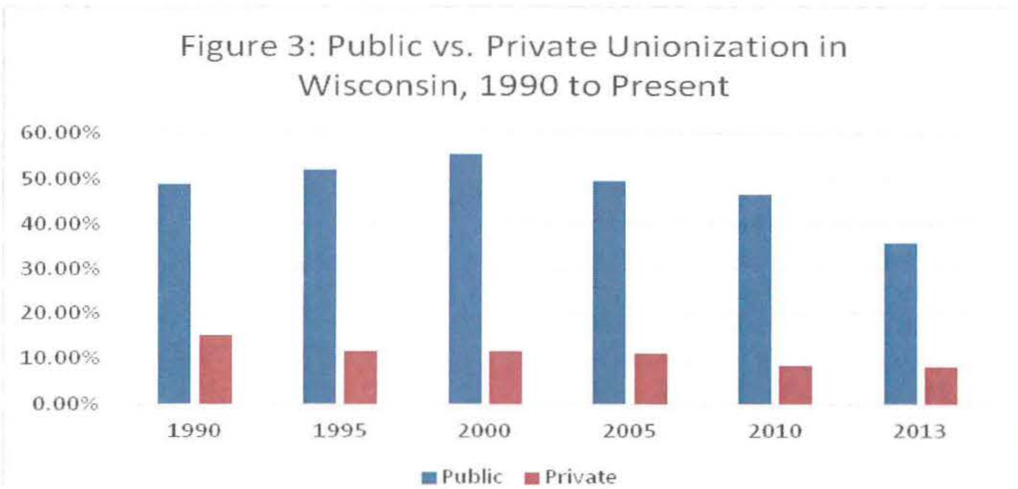
Public Unionization in Wisconsin

Similar to most of the rest of the United States, Wisconsin has seen a decline in both private-sector and public-sector unionization. Public-sector members in 2010 (pre-Act 10) made up 49.6% of all union members in Wisconsin. By 2013, that figure had fallen to 43.6%.

Interestingly, though, the decline began long before legislative changes in state labor law instituted during the administration of Gov. Scott Walker. Since 2000, union representation among public-sector employees has fallen from 55% to 36%, wiping out just over one-third of union membership (see Figure 3). In that same period, Minnesota and Michigan have seen their percentage of public-sector employees in unions hold steady and rise, respectively.[12]

The union membership rate in Wisconsin for both the public and private sector is about 11.7% and in the private sector alone it is slightly less than 7%, according to the federal Bureau of Labor Statistics.

However, the numbers of workers and businesses impacted is still large. There are still 306,000 workers in Wisconsin's public and private sectors who are union members, according to 2014 Bureau of Labor Statistics figures. And when you include workers who are not union members but are represented by a union contract — whether they want to be or not — that figure grows to 327,000 — 12.5% of the working population.



Source: Barry T. Hirsch, David A. Macpherson and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, 124(7), July 2001, 51-55, U.S. Department of Labor, authors' calculations

Right-to-Work Laws, Human Behavior and Economic Growth[13]

Since the first RTW law was passed over two-thirds of a century ago, economists have studied its impact on human behavior and economic growth. A wealth of research suggests that RTW laws are an important factor in explaining state variations in industry location, human migration and economic growth.

It is the goal of labor unions to increase wages and benefits for their members. A union that does not raise wages for workers above what exists in a non-union environment would rightly be perceived as being unsuccessful by its membership – particularly since workers have to pay dues to employ the union leadership that negotiates and administers labor contracts. Historically, there is some evidence that the *short-run* impact of unionization is to raise wages, perhaps by as much as 10% or more from what otherwise would exist.[14]

To the extent unionization increases labor costs, it makes a given location a less attractive place to invest new capital resources. Thus, other things being equal, capital will tend to migrate away from non-RTW states such as Wisconsin, where the perceived costs of unionization are relatively high. Over time, this works to lower the ratio of capital to labor in non-RTW states relative to ones with RTW laws. Since labor productivity is closely tied to the capital resources (machines and tools) that workers have available, labor productivity should grow more in RTW states, stimulating economic growth, including the growth in wages and employment. Thus, the long-term RTW/wage relationship is likely quite different than that observed based on initial unionization efforts.

Right-to-Work Laws and Economic Growth: Some Empirical Evidence

To the average citizen, the real issue is: Will a RTW law have a positive effect on my material welfare, my income? If the answer is yes, and if the cost of implementing such a law is essentially zero, then economic welfare is enhanced by having such a law. Therefore, the true "bottom line" question is: Do RTW laws promote the growth of incomes over time?

It's clear that RTW states have experienced greater growth than non-RTW states over time. We took personal income in the 22 RTW states that had laws for all or a significant portion of the period from 1970 and 2013, and compared their personal income growth, adjusting for inflation by the authoritative CPI-U price index of the Bureau of Labor Statistics, with that of the 28 non-RTW states (Indiana and Michigan adopted laws at the very end of the period that had not even survived court tests in 2013, so they are counted as non-RTW states for this calculation). The results, in Figure 4, reveal that the income growth rate was nearly twice as large in RTW states as in the other jurisdictions. Put differently, these 22 RTW states produced 28.75% of America's personal income in 1970, but over eight percentage points more, 37.32%, in 2013.

But this sort of analysis does not suffice in telling us about right-to-work's impact on the growth in states that already have adopted it. In fact, most of the more rapid income growth in RTW states is the result of much greater growth in population. The population of the 22 RTW states nearly doubled, compared with less than a 40% growth in the non-RTW states.

The simple descriptive analysis presented in Figures 4 also fails to control for other factors that might help or hinder economic growth: climate, tax levels, more or less emphasis on manufacturing employment, for example. We might be attributing too much to RTW if we do not control for these other factors through regression analysis.

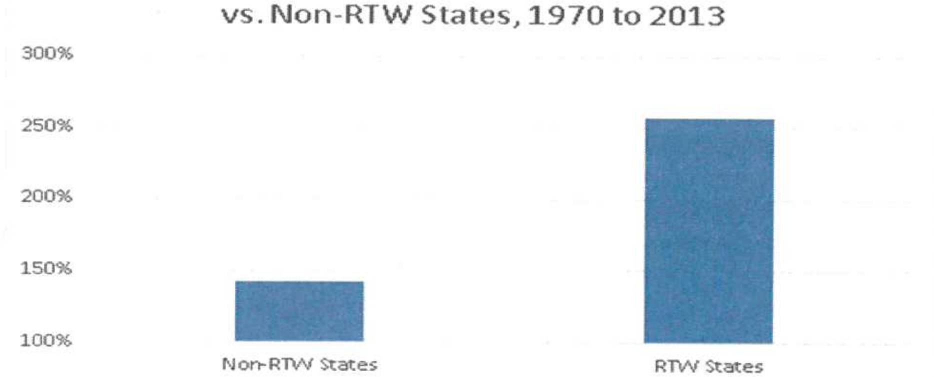
Regression Analysis

Accordingly, we used a multivariate form of analysis, ordinary least squares regression, to examine the relationship between RTW laws and income growth. We examined a large number of independent variables (introduced to control for non-RTW causes of variations in income growth between states) in various combinations. We most often examined the 48 contiguous states, since Alaska and Hawaii, in addition to being geographic outliers, had values on several independent variables dramatically different than those found in the contiguous states.

One of the many models examined is exhibited in Table 1. The model explains variations in per capita personal income (the most relevant variable from the standpoint of the economic welfare of the population) over the 30-year period from 1983 to 2013 in terms of eight explanatory variables, one of which was the presence of a RTW law (Indiana and Michigan are considered non-RTW states for the purpose of this analysis, since RTW laws in those states had not yet passed judicial review and become effective). In addition to the RTW variable, some seven other control variables were introduced. By introducing these variables into the model, we more closely approach the desirable condition of taking into account other factors that might have explained variations in economic growth.

The model explains nearly two-thirds of the considerable variation in state economic performance. The findings show that the presence of a RTW law was associated with about a 6.7 percentage point higher rate of economic growth, and that finding was statistically significant at the 5% level (we are at least 95% confident that the positive RTW/income growth relationship did not occur by chance). Taking into account the caveats cited below, this implies a very sizable positive income impact.

Figure 4: Growth in Real Personal Income: RTW vs. Non-RTW States, 1970 to 2013



Before more fully assessing the RTW results, it is worth commenting on some of the seven control variables introduced into the model.

Of particular interest to policy-makers is the *AvgTaxRt* variable, showing a strong negative relationship between the average rate of state and local taxation (based on averaging the rates for the beginning and ending dates in the period) as a percentage of personal income and per capita income growth. The results confirm what voluminous numbers of studies have shown: States with high tax burdens, controlling for other variables, have lower rates of economic growth.[15]

Of interest as well are the results with respect to *ChgUnionDens* (the change in the proportion of workers belonging to labor unions). That variable generally had a negative sign (falling proportion of workers in unions) throughout the states (as discussed earlier), but the results show that where union membership decline was smallest, there were higher rates of economic growth.

Two observations about that conclusion are in order. First, the magnitude of the impact of the change in union density factor was small in size relative to the RTW variable. A state that adopted a RTW law and had a resulting decline in union membership from, say, from 13% to 10% of the labor force (a plausible but rather large proportion), still would have a strong overall positive growth effect, since negative growth effect of the union density decline would have been less than half the positive growth effect of the introduction of the RTW law. One possible perspective on this: When right-to-work laws combined with other factors such as low taxes cause an economy to grow, union density eventually can grow as well. There can be a correlation, then, between growing union density and per capita income growth – albeit a correlation that is not as significant as the correlation between RTW and per capita income growth.

The *HDDays* variable measured the number of heating degree days reported by state. A high number of heating degree days, such as is the case in Wisconsin (over 8,000), implies relatively colder climates – the number of heating days in Hawaii (zero) reflects its always warm temperatures. There is weak support that colder climate states such as Wisconsin, controlling for other variables in the model, had modestly higher rates of economic growth.

The *GrwthPop* variable suggests that states with high levels of population growth had their growth in per person income reduced as a consequence.

Three variables – *ChgCollAttain* (the growth in the proportion of the adult population with college degrees), *ChgManu* (the change in the proportion of state output generated in manufacturing) and *ChgEmpPopRatio* (the change in the proportion of the population over age 16 who were employed) – were not statistically significant. This is not to say that college attainment, the percentage of output generated through manufacturing and the percentage of the population working are unimportant factors in economic growth. It merely indicates that the impact of the *change* in them over the time of our analysis was not significant.

The Meaning of the Results: Right-to-Work and Wisconsin's Future

The analysis in Table 1 was replicated in other models, changing control variables to see if they materially altered the observed relationship between the presence of a RTW law and economic growth. We were gratified that the alternative model specifications only very modestly altered the observed RTW-growth relationship. Without exception, a positive relationship between RTW and growth was observed, in some cases statistically significant at the 1% level. The coefficient on the RTW variable was consistently between 0.05 and 0.08, with the coefficient generally around 0.06 or 0.07, meaning the presence of a RTW law added about six or seven percentage points to the rate of per capita income growth in the period from 1983 to 2013.

Demonstrating a significant statistical relationship between the presence of a right-to-work law and a jurisdiction's income per capita is interesting, but how meaningful is it in an economic sense? How much would the presence in 1983 of a RTW law in Wisconsin have affected the state's subsequent economic growth and the standard of living of Badger State residents?

The statistical results above suggest that the presence of a RTW law added about six percentage points to the growth rate of states from 1983 to 2013. With such a law, Wisconsin's per capita personal income growth of 53.29% would have been, instead, about 59.29%. As Figure 5 demonstrates, Wisconsin would have gone from having economic growth below the national average over those three decades to having slightly above average growth – enough above average that it would have erased the current income per capita deficit between Wisconsin and the nation as a whole.

Wisconsin's actual per capita personal income, income received from all sources, in 2013 was $43,244, according to the Bureau of Economic Analysis – $1,521 less than the national average of $44,765.

The regression findings in Table 1 suggest that, had Wisconsin adopted a RTW law in 1983, per capita income would have been $1,683 higher in 2013 than it actually was – and would have brought the state slightly over the national per capita personal income average. It would appear that the quality of material life of Wisconsin residents could be improved significantly by the passage of a RTW law.

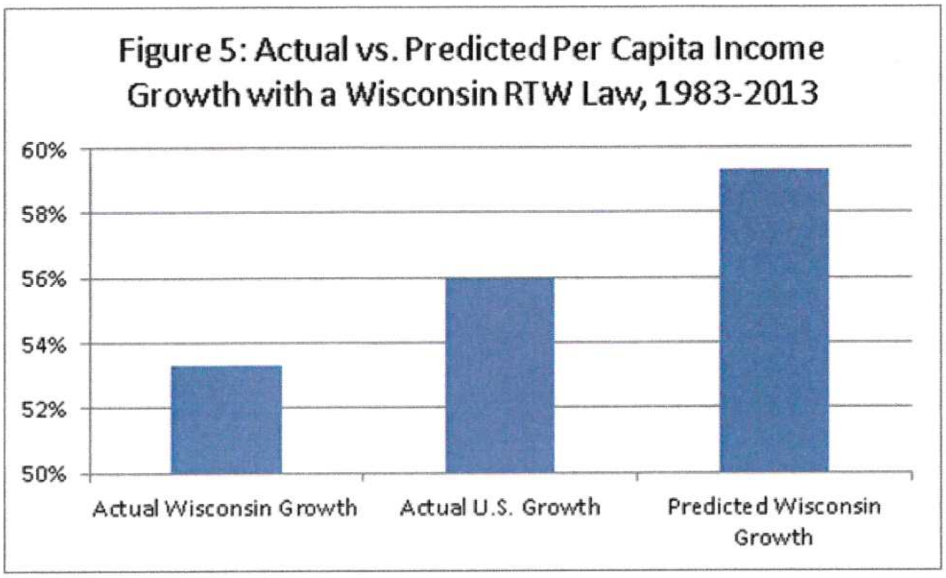
Table 1:
Factors Influencing Growth in Per Capita Personal Income

Variable	Parameter Estimate
Intercept	0.83648*** (0.1696)
RTW	0.06734** (0.0324)
ChgCollAttain	0.85518 (0.7206)
ChgManu	0.37485 (0.4965)
GrwthPop	-0.18466*** (0.0444)
ChgEmpPopRatio	0.00934 (0.0063)
AvgTaxRt	-3.59410** (1.5861)
HDDays	0.00001531* (0.00000825)
ChgUnionDens	0.00954** (0.00367)
Sample	48
R^2	0.6564

Sample includes the 48 contiguous states.
Standard errors are reported in parentheses.
*$p < 0.01$ ***, $p < 0.05$ **, $p < 0.10$ **

Although the above results are strong, the reader is urged to be very cautious in using the precise estimation of growth effects stated above. First, the results in Table 1 explain only about 65% of the variation in growth rates over the period, a large majority to be sure, but another 35% is still unexplained. There may be a significant "omitted variable bias" in this simple regression model. Some possible determinants of economic growth are very difficult or impossible to measure, such as the extent of statewide environmental regulations. It is unlikely the inclusion of other variables would materially alter the estimations with respect to RTW.

Related to that, there are many determinants of economic growth. Although labor laws are important, so are several other factors. Many prosperous states are without RTW laws, particularly in the Northeast, because they have benefited from booms in particular sectors, such as financial services or high technology, where unions never gained a foothold. Similarly, the findings in Table 1 show that tax policy is important to growth. While we are suggesting that right-to-work laws matter, we certainly



Source: Bureau of Economic Analysis, authors' calculations

are not suggesting that they *alone* matter, or even that they are the most important determinant of growth.

The fact that model estimations are susceptible to changes in sample size, the variables considered, the functional form of relationships (e.g., linear vs. nonlinear), data imperfections, etc., means it is inappropriate to claim too much of the results. Moreover, the results in question look at the past – the 1980s through early this decade. Labor unions today have a smaller presence than in some of the period examined, so the effects of labor laws affecting collective bargaining might reasonably be expected to have a somewhat smaller impact in the future – especially in Wisconsin, where Act 10 already is having an economic impact.

That said, the fact that the positive RTW/growth relationship is consistently observed with different model specifications leads us to be reasonably confident that the passage of a right-to-work law would have a positive impact on the Wisconsin economy. Moreover, the costs of implementing a RTW law are very low, so even if the benefits are one-half or even one-fourth of those estimated above, the net impact of RTW enactment would be positive on the Wisconsin economy.

Indeed, the results above imply such a large RTW/income creation relationship that, even if one were to cut them in half, they are still quite large. Instead of increasing annual per capita personal income by $1,683 over 30 years, it would have increased by *only* $840.

Are there any losers from a RTW law adoption? Those who derive their income directly from a union could be affected. But rank-and-file union members should benefit from the higher rate of economic growth as much as non-union residents of Wisconsin.

Conclusions

It is for the citizens of Wisconsin, using the processes of representative government, to decide whether they wish to adopt a right-to-work law. One factor that needs to be considered in deciding whether to adopt such a law is the impact the law would have on the economic well-being of residents of the Badger State. A series of empirical examinations of the impact of RTW laws performed in this study suggest that such laws can have strong positive effects on the creation of income and, thus, on the ability of Wisconsin residents to fund both private and public needs.

Since tax revenues are strongly positively related to income (particularly in Wisconsin with its strongly progressive income tax), one long-term side benefit of RTW law adoption likely would be increased tax revenues. If the goal were to make RTW law adoption revenue-neutral to the state government, passage of such a law ultimately would make tax reduction more possible. Since, as Table 1 and numerous other studies show, economic growth generally expands when taxes are reduced, there are potentially significant positive secondary effects of right-to-work laws. Another such secondary impact relates to incomes of local businesses: Since migrants move to areas with high incomes and employment opportunities, and if RTW laws expand income, they likely will expand population as well, with consequential positive effects on existing commercial enterprises.

As this study indicated in the introduction, Wisconsin's role in the national economy has shrunk with the passage of time. Enactment of a RTW law likely would slow and possibly reverse this trend.

Endnotes

[1]A majority of delegates to the Constitutional Convention approved their draft on Sept. 17, 1787. The document was "laid before the United States in Congress assembled" on Sept. 20, and it was debated for two days on the 26th and 27th. T*eaching with Documents: The Ratification of the Constitution.* National Archives of the United States

[2]History.com Staff, *Labor Movement*, History.com, 2009, www.history.com/topics/labor

[3]Ushistory.org, "Early National Organizations" *U.S. History Outline Textbook*http://www.ushistory.org/us/37c.asp. Accessed Monday, December 15, 2014. (2014)

[4]"Knights of Labor." *Dictionary of American History*. 2003. *Encyclopedia.com*. (December 15, 2014). http://www.encyclopedia.com/doc/1G2-3401802262.html

[5]*Historical Statistics of the United States, Earliest Times to Present, Millennium Edition, Vol. 2, Part B: Work and Welfare* (New York: Cambridge University Press, 2006), p. 2-354.

[6]For the language of the veto see Harry S. Truman: "Veto of the Taft-Hartley Labor Bill.," June 20, 1947. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=12675. For information on the veto override see Nicholson, Phillip, "Labor's Story in the United States," *Temple University Press* (2004).

[7]"Lincoln Federal Labor Union v. Northwestern Iron & Metal Co.," The Oyez Project at IIT Chicago-Kent College of Law, accessed Dec. 12, 2014, http://www.oyez.org/cases/1940-1949/1948/1948_47

[8]Right-to-work states are Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Indiana, Iowa, Kansas, Louisiana, Michigan, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia and Wyoming, and the U.S. territory Guam.

[9]Vedder, Denhart and Robe, 2012

[10]Ibid.

[11]Ibid.

[12]Minnesota saw a very slight decline from 53.7% to 53.1%, while Michigan rose from 53.9% to 54.8% from 2000 to 2013.

[13]This section is substantially derived, with some updating and new empirical analysis, from Richard Vedder, Matthew Denhart and Jonathan Robe, *Minnesota Right-to-Work: How the Freedom of Workers in the Workplace Enhances Prosperity* (Minnesota, MN: Center for the American Experiment, January 2012).

[14]For the pioneering work, see H. Gregg Lewis, *Unionism and Relative Wages in the United States* (Chicago, IL: University of Chicago Press, 1963). For a review of the literature confirming, for the most part, Lewis' observation, see C.J. Parsley, "Labor Union Effects on Wage Gains: A Survey of Recent Literature," *Journal of Economic Literature*, 18 (1), March 1980, 1-31. There is, however, a large distinction, which Lewis himself emphasizes, from the micro effects that unions have on newly organized workers and the broader economic or "macro" effects. See, for example, Lewis' Union Relative Wage Effects: A Survey of Macro Estimates," *Journal of Labor Economics 1* (1), January 1983, 1-27. Others have examined the matter, refining, but not usually refuting, the Lewis conclusions. To cite one example, David Card shows the wage effects are greater among lower-skilled workers and that the attractiveness of unionism varies with the skill background of workers. See his "The Effect of Unions of the Structure of Wages: A Longitudinal Analysis," *Econometrica* 64 (4), July 1996, 957-79.

[15]Let us cite just four examples: Richard K. Vedder, *State and Local Development Strategies: A "Supply Side" Perspective*, Staff Study, Joint Economic Committee of Congress (Washington, D.C.: Government Printing Office, 1981); L. Jay Helms, "The Effect of State and Local Taxes of Economic Growth: A Time-Series-Cross-Section Approach," *Review of Economics and Statistics*, 67 (4), 1985, 654-82; Paul Cashin, "Government Spending, Taxes and Economic Growth," *International Monetary Fund Staff Papers*, 42 (2), 1995, 237-69; and Arthur Laffer, Stephen Moore, Rex Sinquefield and Travis Brown, *An Inquiry into the Nature and Causes of the Wealth of States* (Hoboken, NJ: Wiley, 2014).

[16] Heating degree days are calculated by subtracting the average daily temperature from 65 degrees Fahrenheit. If on a given winter day, temperatures vary between 25 and 35 degrees, averaging 30 degrees, the heating degree days for that particular day will be 30 (65-30). The totals are summed for each day of the year, usually based on averages accumulated from 50 or more years of data.

About the Authors

RICHARD VEDDER is Edwin and Ruth Kennedy Distinguished Professor Emeritus at Ohio University. A graduate of Northwestern University and the University of Illinois, Dr. Vedder is the author of approximately 200 academic studies in journals and edited volumes, as well as the author or editor of seven books, including "Out of Work: Unemployment and Government in Twentieth Century America" (New York U. Press). Dr. Vedder has served at a number of institutions as an economist, including the Joint Economic Committee of Congress, and has served as a John M. Olin Visiting Professor of Labor Economics at Washington University in St. Louis. He has authored a large number of studies on labor issues, including the impact of right-to-work laws. He is well-known for his work on the economics of higher education and directs the Center for College Affordability and Productivity. His articles have been published in many popular media outlets, such as the Wall Street Journal, New York Times, Washington Post, Los Angeles Times, USA Today, Forbes, Chicago Tribune, National Review, etc. He has appeared on "PBS NewsHour," "NBC Nightly News," "ABC World News Tonight," NPR's "Morning Edition" and "All Things Considered," John Stossel's Fox News investigative reports, Neil Cavuto and Lou Dobbs on Fox Business, etc.

JOSEPH HARTGE is completing his B.A. in the Honors Tutorial College at Ohio University and will be pursuing a PhD in economics this fall. Mr. Hartge has authored or co-authored several studies and is a research associate at the Center for College Affordability and Productivity in Washington, D.C. Along with the other co-authors, Mr. Hartge authored "Dollars, Cents, and Nonsense: The Harmful Effects of Federal Student Aid" for the Center for College Affordability and Productivity.

CHRISTOPHER DENHART is a graduate of Ohio University in economics. He subsequently has served as administrative director of the Center for College Affordability and Productivity and is now in private consulting with a Washington, D.C., area firm. He has written a number of articles on economic subjects, including a 2014 Wall Street Journal opinion piece with Dr. Vedder.

WPRI
Free-Market Paths to Better Lives

WPRI Poll of Public Opinion
January 2015

Professor William Howell
Harris School of Public Policy
University of Chicago
312-550-3767

Wisconsin Policy Research Institute
633 W. Wisconsin Avenue, Suite 330
Milwaukee, WI 53203
414-225-9940
www.wpri.org

WPRI

Wisconsin's Free Market Think Tank

www.WPRI.org

CONTACT:
University of Chicago Professor and Pollster William Howell, 312-550-3767
WPRI President Mike Nichols, (262) 389-8239

WPRI Poll: Wisconsinites Support Right-To-Work Legislation

A majority of Wisconsinites approve of labor unions and believe they have a positive effect. But nearly twice as many state residents would vote for a right-to-work law as would vote against it, according to a survey of 600 adults conducted for the Wisconsin Policy Research Institute by University of Chicago Professor and Pollster William Howell.

"Though there are important partisan disagreements, Wisconsinites on the whole are pro-labor and see value in unions," said Howell. "What's interesting here is that, at the same time, most state residents — Republicans and Democrats alike — support right-to-work legislation. The argument that workers should not be obligated to join a union in order to hold a job resonates broadly."

The survey asked several different questions about right-to-work laws, which would give all workers the ability to refrain from joining a union, including:

- Some states have passed right-to-work or open shop laws that say each worker has the right to hold his job in a company, no matter whether he joins a labor union, or not. If you were asked to vote on such a law, would you vote for it or against it?

Vote for	62%
Vote against	32%
Don't know or decline to answer	6%

The poll sought opinions about basic arguments for and against such laws. To do so, it randomly assigned respondents to different question types, allowing researchers to evaluate the impact of different kinds of information and appeals on public opinion. One random subsample was told that "those opposed to right-to-work or open shop laws say that when all workers share the gains won by the labor union, all workers should have to join and pay dues to give the union financial support." Half (50%) of this group disagreed with that statement, while 46% said they agreed.

Another subsample was told that “those in favor of right-to-work or open shop laws say that no Americans should be required to join any private organization, like a labor union, against their will.” Over three-quarters (77%) said they agreed with that statement, while 22% disagreed.

A plurality of 600 respondents believe a right-to-work law will be economically beneficial for the state. Four in ten (40%) said such laws will “improve economic growth in Wisconsin,” 29% said the laws “will not affect economic growth” and 27% said such laws will “reduce economic growth.”

“There are lots of ways to frame this debate. Some see it as an issue of individual freedom, some as an economic impact issue; some think the starting point for discussion is whether it’s fair for unions,” said WPRI President Mike Nichols. “In all cases, no matter how the debate is framed or what the starting point is, more Wisconsinites support right-to-work legislation than oppose it.”

When it comes to unions and right-to-work legislation, Republicans appear steadfastly in support, whereas Democrats (and, to a lesser degree, Independents) are conflicted. By overwhelming margins, Republicans oppose unions, support right-to-work legislation, embrace arguments in favor of worker rights and resist arguments about the benefits of union organization. Majorities of Democrats, by contrast, support unions but also support right-to-work legislation, just as they profess to agree with arguments about worker freedoms <u>and</u> arguments about merits of union organization.

The entire poll, all responses, crosstabs and methodology are posted at www.wpri.org.

The Wisconsin Policy Research Institute, established in 1987, is a nonpartisan, not-for-profit think tank working to engage Wisconsinites in discussions and timely action on key public policy issues critical to the state’s future.

WPRI POLL

January 2-4, 2015
N = 600 Wisconsin Adults

1. Have you heard of state laws called "right-to-work" or "open shop" laws?

1. Yes, heard of	66.9%
2. No, have not	33.1
8. Don't know (DO NOT READ)	0.0
9. Refuse (DO NOT READ)	0.0
Total	100.0%

2. Some states have passed right-to-work or open shop laws that say each worker has the right to hold his job in a company, no matter whether he joins a labor union, or not. If you were asked to vote on such a law, would you vote for it or against it?

1. Vote for	62.1%
2. Vote against	32.1
8. Don't know (DO NOT READ)	4.7
9. Refuse (DO NOT READ)	1.1
Total	100.0%

Author Note: Split Sample Q11.

1

3A. Those in favor of right-to-work or open shop laws say that no Americans should be required to join any private organization, like a labor union, against their will. Do you agree or disagree with this? [SPLIT A]

1. Agree	76.7%
2. Disagree	21.8
8. Don't know (DO NOT READ)	0.6
9. Refuse (DO NOT READ)	1.0
Total	100.0%

3B. Those opposed to right-to-work or open shop laws say that when all workers share the gains won by the labor union, all workers should have to join and pay dues to give the union financial support. Do you agree or disagree with this? [SPLIT B]

1. Agree	46.2%
2. Disagree	50.2
8. Don't know (DO NOT READ)	3.4
9. Refuse (DO NOT READ)	0.0

4. If these right-to-work or open-shop laws are enacted in Wisconsin, do you think that they should apply to all unions and all employers? Or do you think the state government should be allowed to grant exceptions?

1. Apply to all unions	54.9%
2. Exceptions permitted	37.4
8. Don't know (DO NOT READ)	5.4
9. Refuse (DO NOT READ)	2.4
Total	100.0%

5. We are wondering what impact you think these laws will have in Wisconsin. Let's start with workers. Generally speaking, do you think these laws will encourage businesses to invest in Wisconsin, which is good for workers around the state? Do you think these laws will hurt workers by undermining their ability to organize? Or do you think these laws won't have much of an impact on workers?

1. Encourage business investment in Wisconsin and thereby help workers	34.9%
2. Hurt workers by undermining their ability to organize	29.4
3. Not much of an effect on workers	32.3
8. Don't know (DO NOT READ)	3.3
9. Refuse (DO NOT READ)	0.0
Total	100.0%

6. What impact do you think these laws will have on businesses in Wisconsin? Will these laws attract more businesses to Wisconsin? By undermining unions, will they make Wisconsin a less attractive place for businesses to locate? Or do you think businesses won't much care whether these laws are enacted?

3. Attract more business to Wisconsin	37.4%
4. Make Wisconsin a less attractive place for businesses	24.1
3. Businesses won't care	35.4
8. Don't know (DO NOT READ)	2.6
9. Refuse (DO NOT READ)	0.5
Total	100.0%

7. What impact will these laws will have on the overall economy in Wisconsin? Will these laws: [READ OPTIONS]

5. Improve economic growth in Wisconsin	40.4%
2. Reduce economic growth in Wisconsin	27.0
3. Or, will they not affect economic growth in Wisconsin	28.6
8. Don't know (DO NOT READ)	3.8
9. Refuse (DO NOT READ)	0.2
Total	100.0%

8. Generally speaking, do you consider yourself a Republican, a Democrat, an Independent, or something else?

1. Republican	26.8%
2. Democrat	28.3
3. Independent	26.9
4. Other/No preference	15.9
8. Don't know (DO NOT READ)	1. 0
9. Refuse (DO NOT READ)	1.0
Total	100.0%

DESCRIPTION OF METHODOLOGY

LHK Partners, Inc, a polling firm located in Newtown Square, Pennsylvania, fielded the WPRI survey from January 2 to 4, 2015. In total, 600 completed surveys were collected from a representative sample of Wisconsin residents, 18 years and older. The survey was administered over the telephone, lasting an average of 15 minutes. Approximately 40 percent of the calls were made to cell phones, with the remainder made to landlines. Telephone numbers for the study were developed using Random Digit Dialing (RDD) within the state of Wisconsin. Respondents were selected by asking for the youngest adult member in the household age 18 and over. By six standard AAPOR definitions, response rates ranged from 3 to 11 percent, with response rates for landlines consistently appearing higher than those for cell phones. To improve the representativeness of the sample, raking weights were constructed on the basis of respondent demographics and geographic indicators.

POLLSTER

William Howell is the Sydney Stein Professor in American Politics at the University of Chicago, where he holds appointments in the Harris School of Public Policy, the Department of Political Science, and the College. Between 2005 and 2013, Professor Howell served as the national polling director for *Education Next,* and he currently serves as a consultant on the ABC News national election decision desk. He has written widely on separation-of-powers issues and American political institutions, especially the presidency. He currently is working on research projects on President Obama's education initiatives, distributive politics, and the normative foundations of executive power.

Professor Howell is the author of numerous books, including, along with coauthors Saul Jackman and Jon Rogowski, The Wartime President: Executive Influence and the Nationalizing Politics of Threat (University of Chicago Press, 2013); and, along with David Brent, Thinking about the Presidency: The Primacy of Power (Princeton University Press, 2013).

Before coming to the University of Chicago, Professor Howell taught in the government department at Harvard University and the political science department at the University of Wisconsin. In 2000, he received a PhD in political science from Stanford University.

WPRI

The Wisconsin Policy Research Institute, established in 1987, is a nonpartisan, not-for-profit think tank working to engage Wisconsinites in discussions and timely action on key public policy issues critical to the state's future.

WPRI BOARD OF DIRECTORS

CONTACT INFORMATION

Mike Nichols, President, 262-389-8239, mike@wpri.org

WPRI

Wisconsin's Free Market Think Tank

www.WPRI.org

CONTACT:
Richard Vedder, Professor Emeritus at Ohio University, (740) 591-2037
WPRI President Mike Nichols, (262) 389-8239

Statistical Analysis: Right-to-Work Can Help Wisconsin Catch Up Economically

Study Commissioned by WPRI Compares Economic Gains in RTW States to Non-RTW States

Over the last 30 years, states with right-to-work (RTW) legislation have experienced greater per capita personal income growth than other states. And that positive correlation between right-to-work and higher incomes remains true even after controlling for other important variables (such as tax rates in various states) that might have had a simultaneous impact, according to a new study led by Ohio University Professor Richard Vedder.

Wisconsin's per capita personal income in 2013 was $43,244, according to the Bureau of Economic Analysis – $1,521 less than the national average of $44,765. The study's regression analysis suggests that had Wisconsin adopted a RTW law in 1983, per capita income would have been $1,683 higher in 2013 than it actually was – and would have brought the state slightly over the national per capital personal income average, according to the study, "The Economic Impact of a Right-to-Work Law on Wisconsin."

The study was authored by a team led by Dr. Vedder, Edwin and Ruth Kennedy Distinguished Professor Emeritus at Ohio University. A graduate of Northwestern University and the University of Illinois, Dr. Vedder is the author of approximately 200 academic studies and has authored or edited seven books. His articles have been published in many popular media outlets, such as the Wall Street Journal, New York Times, Washington Post, Los Angeles Times, USA Today, Forbes and Chicago Tribune.

Dr. Vedder stresses that there are some caveats that apply to all such statistical analysis. He points out that some possible determinants of economic growth are very difficult or impossible to measure and there may be a significant "omitted variable bias" in regression models. In addition, given declining union membership, the effects of a RTW law might be expected to have a somewhat smaller impact in the future than they would have in the past.

"That said, it is a fact that Wisconsin has fallen behind many states economically. Wisconsin's role in the national economy is not what it once was. Our analysis suggests that passage of a RTW law likely would slow and possibly reverse this trend," said Dr. Vedder.

"This paper provides a careful, nuanced, illuminating analysis by one of the country's foremost experts," added WPRI President Mike Nichols. "It's our hope that legislators will consider both Dr. Vedder's findings and the fact that – according to a recent WPRI poll – a large majority of Wisconsinites support right-to-work as an issue of fundamental personal freedom."

The full study and the poll are available at www.wpri.org.

The Wisconsin Policy Research Institute, established in 1987, is a nonpartisan, not-for-profit think tank working to engage Wisconsinites in discussions and timely action on key public policy issues critical to the state's future.

Testimony of WPRI President Mike Nichols
for
Wisconsin State Senate Committee on Labor and Government Reform
February 24, 2015

Senator Nass, Members of the Committee,

Thank you for the opportunity to speak this morning. I am Mike Nichols, president of the Wisconsin Policy Research Institute. Joining me at the table here is Joe Hartge, who just flew in from Ohio this morning and worked closely with Dr. Richard Vedder on some of the research we'd like to present to you today.

Many of you are familiar with us. For almost 30 years, WPRI has provided non-partisan, objective research on issues of interest and importance to Wisconsin's citizens and legislators.

Today, clearly, there is no issue of greater interest or importance than right-to-work. I'd imagine, with all the voices weighing in today, you're all looking for some simple facts on this issue. For several months now, that has been our focus and goal as well.

In an effort to determine whether Wisconsin should consider right-to-work legislation, WPRI decided last fall to undertake two different lines of research: a poll of public opinion and an analysis of potential economic impacts.

We released the 2015 WPRI Poll of Public Opinion in January and it included numerous questions regarding right-to-work. The survey of 600 Wisconsinites determined that approximately twice as many citizens of this state would vote in favor of right-to-work legislation as would vote against it (62% to 32%). Over three-quarters of respondents (77%), meanwhile, said they think no American should be required to join any private organization, such as a labor union, against his or her will.

In addition, a plurality of the 600 respondents, said they believe a right-to-work law will be economically beneficial for the state. Four in 10 (40%) said such laws will "improve economic growth in Wisconsin," 29% said they believe the laws "will not affect economic growth" and 27% said such laws will "reduce economic growth."

Our second line of inquiry – the paper in front of you titled "The Economic Impact of a Right-to-work Law on Wisconsin" – concludes that what a plurality of state residents intuitively believes is backed up by statistical analysis. Right-to-work laws are economically beneficial.

WPRI commissioned this paper by one of America's foremost experts on right-to-work, Ohio University economist Richard Vedder, months ago. Dr. Vedder and his colleagues, Joe Hartge and Christopher Denhart, happened to be finishing it up just when legislative leaders decided to bring a right-to-work bill to the floor this week. While they did not see the bill prior to conducting this analysis, right-to-work is a straightforward concept that varies little from state to state. As a result, we believe this paper – by comparing economic growth in states that have had right-to-work to those that have not and calculating the potential impact in Wisconsin – provides the best, most nuanced, most objective and most accurate analysis that has been done in the Badger State.

The essential finding is clear:

Over the last 30 years, states with right-to-work (RTW) legislation have experienced greater per capita personal income growth than other states. And that positive correlation between right-to-work and higher incomes remains true even after controlling for other important variables (such as tax rates in various states) that might have had a simultaneous impact.

The statistical results suggest that, in fact, the presence of a RTW law added about six percentage points to the growth rate of RTW states from 1983 to 2013. With such a law, Wisconsin's per capita personal income growth of 53% over those years would have been, instead, about 59%. Wisconsin would have gone from having economic growth below the national average over those three decades to having slightly above average growth – enough above average that it would have erased the current per capita income deficit between Wisconsin and the nation as a whole.

We think this is extremely significant because, as the report points out, Wisconsin truly has fallen behind economically in recent decades.

In 1950, well over $22 of every $1000 in personal income generated in the United States was earned by Wisconsin residents. That figure has steadily fallen to only $17.55 in 2013 – a decline of well over 20 percent. Most of this reflects relatively slow population growth. But income growth for residents over the 1950-2013 period was below the national average. In 1950, per capita income was 1.63 percent below the national average; in 2013, the income deficit was more than double that.

Wisconsin's per capita personal income received from all sources in 2013 was $43,244, according to the Bureau of Economic Analysis – $1,521 less than the national average of $44,765.

The regression analysis suggests that had Wisconsin adopted a RTW law in 1983, per capita income would have been $1,683 higher in 2013 than it actually was – and would have brought the state slightly over the national per capital personal income average.

There are some caveats that apply to all such analysis. Although the results are strong, the authors – as all good economists would – urge some caution in using the precise estimation. Comparing states with right-to-work to those without is a complex undertaking. Some possible determinants of economic growth are very difficult or impossible to measure, such as the extent of statewide environmental regulations, and there may be a significant "omitted variable bias" in this simple regression model. At the same time, it is unlikely the inclusion of other variables would materially alter the estimations with respect to RTW.

In addition it is important to note that this is an analysis of the past – the 1980s through 2013. Labor unions today have a smaller presence than they used to, so the effects of a RTW law might reasonably be expected to have a somewhat smaller impact in the future – especially in Wisconsin where Act 10 is already having an economic impact.

That said, it is a fact that Wisconsin has fallen behind. As this study indicates, Wisconsin's role in the national economy has shrunk with the passage of time. The analysis suggests that passage of a RTW law likely would slow and possibly reverse this trend. Right-to-work laws in sum are economically beneficial, and would help Wisconsin catch up to other states with which it competes economically.

As importantly, we at WPRI see this as a fundamental issue of individual freedom – and it is clear that Wisconsinites of all political persuasions agree. A majority of self-identified Republicans, independents *and* Democrats say they would vote in favor of right-to-work legislation.

Given the economic needs of our state, the evidence that right-to-work would be economically beneficial and the support of your constituents, I ask you to do the same.

Thank you.

We'd be happy to answer any questions.

Chairman Nass, Vice-Chairman Wanggaard, and members of the Committee on Labor and Government Reform, thank you for inviting me to testify.

My name is James Sherk. I am a Senior Policy Analyst in Labor Economics at The Heritage Foundation.

The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

President Reagan once remarked that "the trouble with our liberal friends is not that they are ignorant, but that they know so much that isn't so."

Today I would like to explain to you why three major arguments against right-to-work are not so:

First, contrary to union claims, unions voluntarily represent non-members in-right-to-work states.

Unions often argue federal law requires them to bargain on behalf of non-members.

But this argument is incomplete.

The National Labor Relations Act (or NLRA) authorizes unions to negotiate on behalf of all workers at a unionized workplace.

Individual workers may not negotiate separate contract provisions.

This power is called exclusive representation.

If unions exercise it the law requires them to treat all workers equally, including workers who do not pay dues.

However, federal law does not require unions to negotiate as exclusive representatives.

They may disavow exclusive representative status and negotiate "members' only contracts."

Shortly after Congress passed the NLRA the Supreme Court ruled on a case in which the International Brotherhood of Electrical

Workers formed a union representing 80 percent of the employees at a New York electrical utility.

The National Labor Relations Board challenged its legality, arguing the union had to represent all workers.

The Supreme Court rejected the Boards' challenge, holding the NLRA permits non-exclusive contracts covering only union members.

This decision remains good law which the Court reiterated in subsequent rulings.

The choice of whether to negotiate as an exclusive representative and represent non-members or not remains with the union.

If they choose "members' only" unions retain many NRLA legal protections.

Employers cannot discipline or discriminate against workers for participating in a members' only union.

They have the same legal right to strike.

The primary difference is that the NLRA requires employers to bargain with exclusive representative unions and does not impose this requirement for non-exclusive representatives.

Of course, a union will rarely have enough leverage to raise wages if the company only meets with it because it has to.

Conversely, a union representing four fifths of the workforce will usually have the leverage to bring an employer to the negotiating table.

In practice unions almost always elect to negotiate as exclusive representatives.

They do this in part because they desire mandatory employer recognition and in part because union contracts benefit some workers at the expense of others.

For example, seniority based layoffs give incredible job security to senior union members: the contract requires junior employees to get laid off first.

With a members' only union recent hires could negotiate performance based layoffs for themselves.

This would improve their job security but require senior members to share in the risk of getting laid off.

Unions voluntarily negotiate contracts covering every employee to prevent the workers they hurt from opting out.

They should not have the power to force those workers to pay union dues.

Second, contrary to union claims, unions reduce the living standards of most workers.

Unions argue that they benefit ordinary Americans.

But in economic terms unions function as labor cartels: they try to control the supply of labor in an industry so as to drive up it price – wages.

Like all cartels these gains come at the cost of greater losses to the rest of society.

To see how this works, consider the United Auto Workers (UAW).

The UAW organized the Detroit automakers--General Motors, Ford, and Chrysler—which once comprised nearly the entire U.S. auto market.

This gave it a monopoly on hourly labor in the auto industry. The union used this leverage to insist on very generous compensation packages at all three automakers.

Until the financial crisis UAW members got more than $70 an hour in wages and benefits.

At the same time the UAW made every American driver poorer.

The union's premium pay and inefficient work rules added about $800 to the cost of every Detroit vehicle.

The automakers passed these costs on to their customers.

This left most Americans with less money to spend on other goods and services – and priced a new vehicle out of reach for some families.

Consequently the automakers sold fewer cars and needed fewer workers, as did their suppliers in the steel, plastic, and other industries.

The workers who would have been employed in the auto industry and its suppliers worked elsewhere, slightly reducing wages in those sectors.

The UAW's monopoly on auto labor meant higher wages for its members, but higher prices and fewer jobs in the auto industry and lower wages outside it.

On the whole economists find the harm to non-union workers outweighs the economic gains to union members.

As one academic literature summary concluded:

> "most economists believe, as a generalization, that the negative side of unions outweighs the positive side, at least with respect to resource allocation and efficiency."

Further, unions do not—and cannot—simply redistribute from "the rich."

While unions harm businesses' profitability, they also hurt low-income and middle-income workers.

The higher prices imposed by unions hurt rich, poor, and middle-class consumers alike, but lower-income workers feel the sting of price increases more acutely.

Restricting jobs in unionized companies reduces demand in related industries and pushes more workers into the non-union sector.

Both effects depress the pay of non-union employees.

Most of the income that unions redistribute comes from other workers, not stockowners.

To the extent right-to-work weakens unions, economists would expect it to slightly increase overall living standards.

Third, contrary to union claims, right-to-work laws have no correlation with wages once researchers control for other factors.

The Wisconsin AFL-CIO likes to point out that average wages are lower in right-to-work states.

This is true, but happens because right-to-work states also have below-average costs of living.

Virtually the entire South has passed RTW; no Northeastern states have.

The Northeast has higher costs of living and higher average wages; the South has lower living costs and lower wages.

In fact Commerce Department data shows that all but one right-to-work state has living costs at or below the national average.

All ten of the states with the highest costs of living have compulsory union dues.

Unsurprisingly workers in non-right-to-work states have higher nominal wages.

Analyses that control for cost of living differences have historically found that workers in right-to-work states have the same or greater real purchasing power.

Recently the Economic Policy Institute has begun arguing that right-to-work lowers workers' wages by 3 percent after controlling for living cost differences. You will undoubtedly hear this number a lot today.

I replicated this research and found that EPI made two major methodological errors.

It used improper control variables and did not adjust for measurement error in cost of living surveys.

These errors statistically biased their results.

The supplement to my written testimony explains this replication and these errors in detail.

I would be happy to talk with any legislators or their staff about this research.

Correcting the Economic Policy Institute's methodological errors changes their conclusion.

Doing so shows that private-sector workers have the same real wages in right-to-work states as in states with compulsory dues.

Right-to-work does appear to lower the pay of government employees, perhaps by weakening the ability of government unions to redistribute wealth from taxpayers to their members.

However Wisconsin has already passed right-to-work for most government employees.

The question before the legislature now is whether to extend it to private-sector workers.

Becoming a right-to-work state will have no effect on private sector wages in Wisconsin.

Unions do not provide public economic benefits that justify forcing workers to pay their dues.

They do appear to harm job creation.

Workers in states with right-to-work laws enjoy unemployment rates 1.3 percentage points below workers in states without them, after adjusting for other factors that influence employment.

Thank you Chairman Nass. I appreciate the opportunity to explain to you today why many of the arguments made against right-to-work lack a factual basis.

The Heritage Foundation
LEADERSHIP FOR AMERICA

214 Massachusetts Avenue, NE • Washington DC 20002 • (202) 546-4400 • heritage.org

STATE LEGISLATIVE TESTIMONY

How Unions and Right-to-Work Laws Affect the Economy

Testimony before Committee on Labor and Government Reform Wisconsin Senate

February 24th, 2015

James Sherk
Senior Policy Analyst in Labor Economics
The Heritage Foundation

Chairman Nass, Vice-Chairman Wanggaard, and members of the Committee on Labor and Government Reform, thank you for inviting me to testify. My name is James Sherk. I am a Senior Policy Analyst in Labor Economics at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Wisconsin is considering a right-to-work (RTW) law. RTW prevents unions from forcing workers to pay dues as a condition of holding their job. Liberals contend right-to-work would lower wages in Wisconsin. Today I would like to explain to you why they are wrong.

Economic theory holds that unions operate as labor cartels. Unions only raise wages for their members by raising prices and reducing job opportunities for non-union workers. Few economists believe unions increase overall living standards.

Unions have responded with empirical research finding right-to-work states have lower wages. However, this research used statistically biased methods to control for costs of living. Correcting this reveals right-to-work laws have little effect on private-sector wages. Controlling for other factors, right-to-work states also have 1.3 percentage point lower unemployment rates than non-right-to-work states. Unions do not provide economic benefits that justify forcing workers to pay their dues.

Right-to-Work Laws

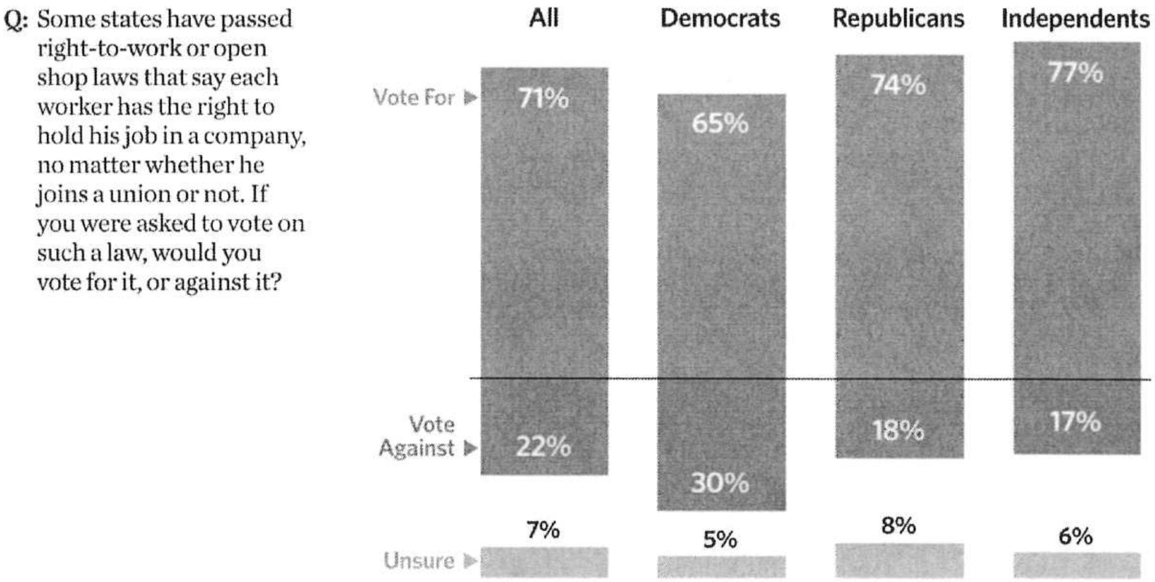
The National Labor Relations Act (NLRA) authorizes unions to act as workers "exclusive bargaining representatives."[1] This requires all of a unionized firm's employees to accept the union contract. Individuals may not negotiate separately, whether or not they belong to the union. Shortly after Congress passed the NLRA unions started negotiating contracts that made paying their dues a condition of employment. In response many states passed "right-to-work" laws (RTW) that prohibit these provisions.[2] Under right-to-work unions cannot make dues compulsory if they elect to bargain on behalf of non-members.

Large majorities of Americans across the political spectrum support right-to-work. A recent Gallup poll asked Americans their views on the subject. Respondents said they support RTW by a 71 to 22 percent margin. Self-identified Democrats supported right-to-work by a 2 to 1 margin. Independents and Republicans supported right-to-work by better than 4 to 1 margins. Now the right-to-work debate has come to Wisconsin.

[1] US Congress, "National Labor Relations Act ("NLRA")". *29 U.S.C. §§ 151-169.* July 5, 1935.
[2] US Congress, "Labor Management Relations Act", 29 U.S.C. § 401-531, 1947.

CHART 1

Gallup Poll Finds Widespread Support for Right-to-Work



Source: Gallup poll of 1,032 adults conducted August 7-10, 2014, http://www.gallup.com/poll/175556/americans-approve-unions-support-right-work.aspx (accessed February 23, 2015).

Protects Workers Freedom

Right-to-work laws protect workers freedom. In the absence of RTW unions force workers to purchase their representation—whether or not they see any benefit from it. For example, Michael Romachock began working at a Pepsi Bottling plant in Ebensburg, Pa in June 2013. He worked nine months without realizing the Teamsters had organized his workplace. He only learned of his union representation when the union sent him a letter demanding full dues. When he refused to pay for services he had not even noticed the Teamsters had him fired.[3]

Such compulsory dues allow unions to take workers for granted. They collect dues no matter how well they represent them. As Gary Casteel, Secretary-Treasurer of the United Auto Workers, told the press last year:

> "This is something I've never understood, that people think right to work hurts unions. To me, it helps them. You don't have to belong if you don't want to. So if I go to an organizing drive, I can tell these workers, 'If you don't like this arrangement, you don't have to belong.' Versus, 'If we get 50 percent of you, then all of you have to belong, whether you like to or not.' I don't even like the way

[3] News Release, "Former Pepsi Worker Files Federal Charges Against Teamsters and Company for Illegally Firing him for Refusing to Pay Union Dues", National Right to Work Legal Defense Foundation Inc., September 24th, 2014, http://www.nrtw.org/en/press/2014/09/former-pepsi-worker-files-federal-ch, (accessed February 23, 2015)

that sounds, because it's a voluntary system, and if you don't think the system's earning its keep, then you don't have to pay."[4]

Research confirms that unions pay more attention to their members in right-to-work states. Union officers earn substantially greater salaries in states with compulsory dues, even after adjusting for costs of living. When union officers must earn workers' support they spend less money on themselves.[5]

Forced dues also compel Wisconsin workers to support highly politicized organizations. At the AFL-CIO's 2013 convention delegates declared that the labor federation had "as a founding ideal the assembling of a broad progressive coalition for social and economic justice."[6] Workers with moderate and conservative views do not share this ideal. RTW ensures such workers do not have to give their money to groups whose agenda they oppose.[7]

Attracts Business and Jobs

Right-to-work laws have economic benefits that go beyond protecting workers' freedom. Union contracts make businesses less competitive.[8] One recent study compared companies whose workers narrowly voted to unionize with those who narrowly voted against unionizing. It found the unionized firms were 10 percentage points more likely to go out of businesses within seven years.[9]

Consequently most companies want to avoid getting unionized. Workers in right-to-work states can still unionize. However RTW reduces the financial incentives for unions to organize aggressively: they have less money on the line when workers can opt

---

[4] News Release, "Former Pepsi Worker Files Federal Charges Against Teamsters and Company for Illegally Firing him for Refusing to Pay Union Dues", National Right to Work Legal Defense Foundation Inc., September 24th, 2014, http://www.nrtw.org/en/press/2014/09/former-pepsi-worker-files-federal-ch, (accessed February 23, 2015)

[5] James Sherk, "Unions Charge Higher Dues and Pay Their Officers Larger Salaries in Non–Right-to-Work States", The Heritage Foundation, January 26th, 2015, http://www.heritage.org/research/reports/2015/01/unions-charge-higher-dues-and-pay-their-officers-larger-salaries-in-nonright-to-work-states

[6] Committee on Community Partnerships and Grassroots Power and the Executive Council, "Resolution 16: Building Enduring Labor-Community Partnerships", AFL-CIO, 2013, http://www.aflcio.org/About/Exec-Council/Conventions/2013/Resolutions-and-Amendments/Resolution-16-Building-Enduring-Labor-Community-Partnerships

[7] In theory the Supreme Court's decision in *Communication Workers vs. Beck* (1988) allows workers to opt out of union's political spending. However the government permits unions to charge many politicized activities, such as lobbying Congress and state legislatures, to *Beck* objectors. Further, the AFL-CIO has defined its organizational mission as moving America to the left on economic policy. Any dues that support the organization—even apart from direct political expenditures—support the organization and its politicized mission.

[8] Barry Hirsch, "Sluggish Institutions in a Dynamic World: Can Unions and Industrial Competition Coexist?" *Journal of Economic Perspectives*, Vol. 22, No. 1 (Winter 2008), pp. 153–176.

[9] Brigham R. Frandsen, "Union Effects", Brigham Young University, December 24th, 2014, https://economics.byu.edu/frandsen/Documents/unioneffects.pdf

out. Consequently right-to-work causes them to focus their energies on companies with dissatisfied workers. Workers in these workplaces are both easier to organize and more likely to pay dues if the union wins. In RTW states unions put far less effort into organizing workplaces where they have lukewarm support.[10] This reticence attracts business investment and jobs.

Academic studies find businesses make RTW laws a major consideration when deciding where to locate.[11] Businesses development consultants also report that roughly half of their clients will not consider locating in a non-right-to-work state.[12] David Brandon, President of the Pathfinders – and economic development consulting firm – explains:

> "About 35-to-40 percent of manufacturing enterprises in the automotive industry insist on operating in a right-to-work state. Another 20-to-25 percent say it is a very important factor and will be used as a second- or third-tier factor in site selection. More than half of our companies either make it a threshold or a very important factor in making a decision on where to locate a factory and other operations."[13]

As long as Wisconsin lacks a right-to-work law it takes itself out of consideration for these jobs. Within a month and a half of Warren County, Kentucky passing a local right-to-work ordinance it came under consideration for 16 new business development projects. These projects represented $184 million in potential new investment in Warren Co.[14] Unsurprisingly, states with right-to-work laws enjoy considerably faster employment growth than those without them.[15]

---

[10] David Ellwood and Glenn Fine, "The Impact of Right-to-Work Laws on Union Organizing," *Journal of Political Economy*, No. 95 (April 1987), pp. 250–273.

[11] F. J. Calzonetti and Robert T. Walker, "Factors Affecting Industrial Location Decisions: A Survey Approach," in *Industry Location and Public Policy*, ed. Henry W. Herzog Jr. and Alan M. Schlottman (Knoxville, TN: University of Tennessee Press, 1991), pp. 221–240, and Roger W. Schmenner, Joel C. Huber, and Randall L. Cook, "Geographic Differences and the Location of New Manufacturing Facilities," *Journal of Urban Economics*, No. 21 (1987), pp. 83–104.

[12] Daniel Tobergte, President of Northern Kentucky Tri-County Economic Development Program, testimony before the Labor and Industry Committee of the Kentucky House of Representatives, March 13, 2014, http://www.ket.org/legislature/archives/?nola=WGAOS+015186&session=wgaos+015

[13] Ron Starner, Mark Arend, and John McCurry, "Locked in on Labor," *Site Selection Magazine*, July 2004, http://www.siteselection.com/issues/2004/jul/p500/

[14] Dalton Workman, "More Employers Looking to Warren County, Kentucky After Right to Work Passes", The Bluegrass Institute, February 10th, 2015.

[15] Jobs expanded by 46 percent in right-to-work jurisdictions but only 20 percent in states with forced dues between 1990 and 2014. Heritage Foundation calculations using data from the Bureau of Labor Statistics, "State and Area Employment, Hours, and Earnings," June 1990–October 2014. Figures include Michigan and Indiana as compulsory dues states as they implemented voluntary dues in 2013 and 2012, respectively. Oklahoma was omitted because it became a right-to-work state in 2001. Figures are weighted by total employment in states in June 1990. The unweighted average shows right-to-work states' employment growing 49 percent and compulsory dues states growing 26 percent.

Members Only Unions Permissible

Unions often object that right-to-work forces them to represent non-members free of charge. However federal law allows unions with majority support in the workplace to negotiate "members' only contracts" whose terms apply only to dues paying members. Shortly after Congress passed the NLRA the Supreme Court ruled on a case in which the International Brotherhood of Electrical Workers formed a union representing 80 percent of the workers at a New York electrical utility. The National Labor Relations Board challenged its legality. The Supreme Court rejected the Boards' challenge, holding the NLRA permits non-exclusive contracts covering only union members.[16] This decision remains good law and the Supreme Court subsequently upheld its validity after the Taft-Hartley amendments to the NLRA.[17]

Unions almost always choose to negotiate as exclusive representatives. They do this in part because union contracts benefit some workers at the expense of others. For example, seniority based layoffs give incredible job security to senior union members: the contract requires junior employees to get laid off first. With a members' only union recent hires could negotiate performance based layoffs for themselves. This would improve their job security but require senior members to share in the risk of getting laid off. Unions negotiate as exclusive representatives to prevent the workers they hurt from opting out. Research finds that in RTW states the workers disadvantaged by union contracts disproportionately stop paying dues.[18].

Unions and Living Standards

Right-to-work laws protect workers' freedom and attract business investment. In response unions counter that it lowers wages. They contend that unions pressure employers to pay workers more; by reducing union organizing RTW reduces this pressure. They claim workers in states with compulsory dues enjoy higher living standards than they would in RTW states.[19] Union allied organizations, like the liberal Economic Policy Institute (EPI), make similar claims.[20]

This argument flies in the face of economic theory. Labor unions function as labor cartels: they try to control the supply of labor in an industry so as to drive up it price –

---

[16] *Consolidated Edison Co. vs. NLRB*, 305 U.S. 197 (1938)
http://caselaw.lp.findlaw.com/scripts/getcase.pl?court=US&vol=305&invol=197

[17] *Retail Clerks v. Dry Lion Goods*, 369 U.S. 17 (1962).

[18] Richard Sobel, "Empirical Evidence on the Union Free-Rider Problem: Do Right-to-Work Laws Matter?" *Journal of Labor Research,* No. 16 (1995), pp. 347–365. Sobel finds that 70 percent of workers covered by collective bargaining agreements but not paying union dues value union coverage less than the amount of union dues.

[19] AFL-CIO, "Right to Work", 2015,
http://www.aflcio.org/Legislation-and-Politics/State-Legislative-Battles/Ongoing-State-Legislative-Attacks/Right-to-Work

[20] Elise Gould and Heidi Shierholz, "The Compensation Penalty of 'Right-to-Work' Laws," Economic Policy Institute, Briefing Paper #299, February 17th, 2011 at http://www.epi.org/publication/bp299/

wages. Like all cartels these gains come at the cost of greater losses to the rest of society.[21]

To see how this works, consider the United Auto Workers (UAW). The UAW organized the Detroit automakers--General Motors, Ford, and Chrysler—which once comprised nearly the entire U.S. auto market. This gave it a monopoly on hourly labor in the auto industry. The union used this leverage to insist on very generous compensation packages for all three automakers. In the face of strikes the automakers repeatedly caved to union demands. Until the financial crisis UAW members got more than $70 an hour in wages and benefits.[22]

At the same time the UAW made every American driver poorer. The union's premium pay and inefficient work rules added about $800 to the cost of every Detroit vehicle.[23] The automakers passed these costs on to consumers. This left most consumers with less money to spend on other goods and services – and priced a new vehicle out of reach for some families. Consequently the automakers sold fewer cars and needed fewer workers, as did their (potentially non-union) suppliers in the steel, plastic, and other industries. The workers who would have been employed in the auto industry and its suppliers worked elsewhere, slightly reducing wages in those sectors.[24] The UAW's monopoly on auto labor meant higher wages for its members, but higher prices and fewer jobs in the auto industry and lower wages outside it.

On the whole economists find the harm to non-union workers outweighs the economic gains to union members.[25] As one academic literature summary concluded:

---

[21] George Borjas, *Labor Economics*, 3rd ed. (Columbus, OH: McGraw-Hill, 2005), pp. 413–415.

[22] James Sherk, "Auto Bailout Ignores Excessive Labor Costs," Heritage Foundation *WebMemo* No. 2135, November 19, 2008, http://www.heritage.org/research/reports/2008/11/auto-bailout-ignores-excessive-labor-costs. Many in the media claim the $70 per hour figure included the legacy cost of previous retirees. It did not. It included the discounted value of future retirement and health benefits that current workers earned while on the job. See James Sherk, "UAW Workers Actually Cost the Big Three Automakers $70 an Hour," Heritage Foundation *WebMemo* No. 2162, December 8, 2008, http://www.heritage.org/research/reports/2008/12/uaw-workers-actually-cost-the-big-three-automakers-70-an-hour.

[23] Heritage Foundation calculations were based on an average $30 per hour difference in compensation costs in 2006 for hourly employees in the Big Three over an average of 30 hours per unit, with hourly employees making up 73 percent of all U.S. employees, as well as union contracts adding an additional two hours per unit to construction times at General Motors relative to Toyota. See Sherk, "Auto Bailout Ignores Excessive Labor Costs"; Sherk, "UAW Workers Actually Cost the Big Three Automakers $70 an Hour"; U.S. Securities and Exchange Commission, "General Motors Corporation: Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Year Ended December 31, 2006," http://www.sec.gov/Archives/edgar/data/40730/000095012407001502/k11916e10vk.htm; and HARBOUR Consulting, "The HARBOUR Report: 2007 North America Press Release," http://www.autonews.com/assets/PDF/CA2018861.PDF

[24] These are known as "crowding" and "complements" models. In the crowding model, the reduction of jobs in the union sector pushes workers into the non-union sector, lowering their wages. In the complements model, reduced demand for the goods of unionized companies because of higher prices also reduces the demand and hence wages for non-union workers, whose jobs are connected to that sector (e.g., suppliers to the unionized industry).

[25] George Borjas, *Labor Economics*, 3rd ed. (Columbus, OH: McGraw-Hill, 2005), pp. 413–415.

"most economists believe, as a generalization, that the negative side of unions outweighs the positive side, at least with respect to resource allocation and efficiency."[26]

Further, unions do not—and cannot—simply redistribute from "the rich." While unions harm businesses' profitability, they also hurt low-income and middle-income workers. The higher prices imposed by unions hurt rich, poor, and middle-class consumers alike, but lower-income workers feel the sting of price increases more acutely. Restricting jobs in unionized companies reduces demand in related industries and pushes more workers into the non-union sector. Both effects depress the pay of non-union employees.[27] Most of the income that unions redistribute comes from other workers, not stockowners. To the extent right-to-work weakens unions, economists would expect it to slightly increase overall living standards.[28]

Union strength and the middle class

Unions and their supporters frequently claim the opposite: that unions helped build the middle class and weaker unions hurt all workers – not just union members. To make this point they often juxtapose the decline of union membership since the late 1960s with the share of income going to the middle class. The Economic Policy Institute did exactly this when criticizing the possibility of RTW in Wisconsin.[29] These comparisons suffer from two problems. First, the absolute standards of living for middle class workers have risen substantially over the past generation. Inflation adjusted market earnings rose by one-fifth for middle class workers between 1979 and 2011. After-tax incomes rose at an even faster pace.[30] Middle class workers today enjoy substantially higher standards of living than their counterparts in the 1970s.

---

[26] Bruce E. Kaufman, "What Unions Do: Insights from Economic Theory," *Journal of Labor Research*, Vol. 25, No. 3 (July 2004), pp. 351–382.

[27] David Neumark and Michael L. Wachter, "Union Effects on Nonunion Wages: Evidence from Panel Data on Industries and Cities," *Industrial and Labor Relations Review*, Vol. 49, No. 1 (October 1995), pp. 20–38.

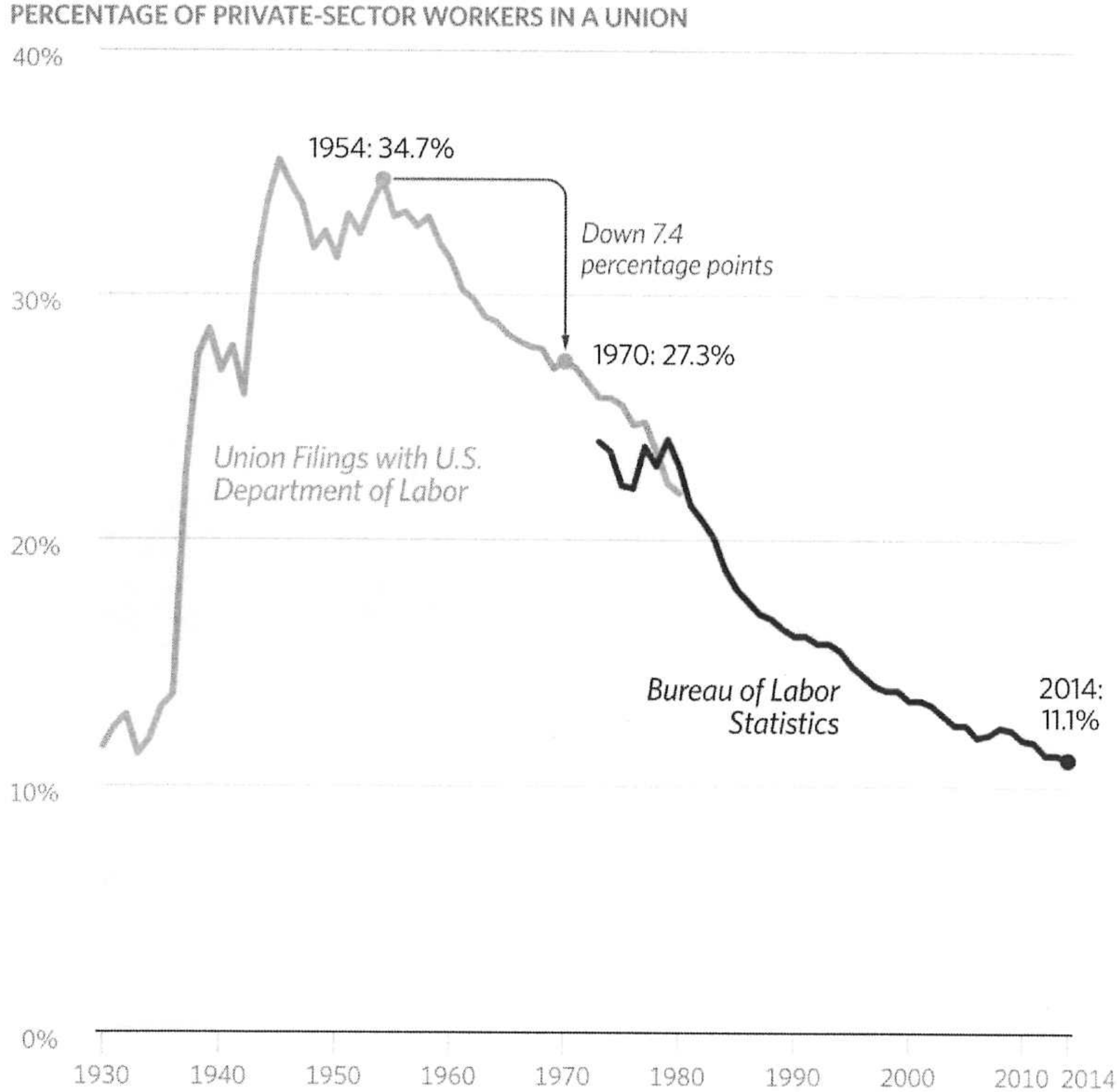
[28] George Borjas, *Labor Economics*, 3rd ed. (Columbus, OH: McGraw-Hill, 2005), pp. 413–415.

[29]Gordon Lafer, ""Right to Work" Is the Wrong Answer for Wisconsin's Economy", Economics Policy Institute, January 23, 2015, http://www.epi.org/publication/right-to-work-is-the-wrong-answer-for-wisconsin/

[30] Inflation-adjusted compensation rose 23 percent among the middle quintile of nonelderly households with children. In the middle quintile of nonelderly households without children, real total compensation rose 19 percent. Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2011," November 2014, supplemental data, Tables 14 and 16, https://www.cbo.gov/publication/49440

CHART 2

Union Membership Rates Began Falling in Mid-1950s



Sources: Data for 1930-1980: U.S. Department of Labor, assorted labor union reports/Haver Analytics. Note these figures exclude employee associations. Data for 1977-2014: Barry T. Hirsch and David A. Macpherson, "Union Membership and Coverage Database from the Current Population Survey," Unionstats.com, http://www.unionstats.com (accessed February 23, 2015), and U.S. Department of Labor, Bureau of Labor Statistics. Data was interpolated for 1982.

Secondly, these figures conflate correlation with causation. During the time period EPI examined union membership correlates well with their measure of middle class income shares. Extending the graph back another two decades eliminates this correlation. U.S. union density surged in the late 1930s and during World War II. It peaked at about a third of the overall economy and private sector workforce in the mid-

1950s. During this time period America had few global competitors.[31] From the mid-1950s onward global competition increased and U.S. union membership steadily declined. Between 1954 and 1970 union density dropped from 34.7 to 27.3 percent. Unions lost over a fifth of their support in just over a decade and a half.

During this period middle class income and living standards grew rapidly. No one remembers the 1950s and 1960s as bad for the middle class, despite the substantial de-unionization that occurred. Over a longer historical period changes in U.S. union strength show little correlation with middle class income shares. Liberal analysts come to their conclusion by looking only at the historical period in which the two trends align.

Unions Argue RTW Hurts Wages

In the same vein unions argue that RTW laws lower wages. As the Wisconsin AFL-CIO recently claimed:

> *These anti-worker Right To Work laws just force all working families to work harder for lower pay and less benefits, whether they're in a union or not. The average worker makes about $5,000 less and pensions are lower and less secure in Right to Work states."*[32]

This statement contains a degree of truth: average wages in right-to-work states are approximately that much lower than in non-RTW states. This happens because right-to-work states also have below-average costs of living. Virtually the entire South has passed RTW; no Northeastern states have. The Northeast has higher costs of living (COL) and higher average wages; the South has lower living costs and lower wages.

Chart 3 shows this visually. It presents Bureau of Economic Analysis (BEA) living cost data for U.S. states over 2008 to 2012. The values show how much more or less goods and services cost in particular states relative to the U.S. average. For example, New Yorkers pay 15 percent more than the average American and Wisconsinites pay 7 percent less.

---

[31] During these years European economies were recovering from World War II; furthermore German and Japanese heavy industry suffered extensive damage from allied bombing campaigns.

[32] Wisconsin State AFL-CIO. *PETITION: Stop RTW in Wisconsin.* December 16, 2014 http://wisaflcio.typepad.com/wisconsin-state-afl-cio-blog/2014/12/stop-rtw.html (accessed February 23, 2015).

CHART 3

Most Expensive States to Live in Are Compulsory Dues States

States with compulsory dues hold the 11 highest positions when ranking the cost of living, and 16 of the 17 highest positions. Conversely, Right-to-Work states have 11 of the 15 lowest positions.

Compulsory Dues States	Cost of Living Index	Rank	Right-to-Work States
Hawaii	1.165	1	
District of Columbia	1.149	2	
New York	1.148	3	
New Jersey	1.137	4	
California	1.117	5	
Maryland	1.112	6	
Connecticut	1.102	7	
Massachusetts	1.076	8	
New Hampshire	1.060	9-t	
Alaska	1.060	9-t	
Delaware	1.034	11	
	1.027	12	Virginia
Washington	1.026	13	
Colorado	1.006	14-t	
Illinois	1.006	14-t	
Vermont	1.001	16	
Rhode Island	0.999	17	
	0.996	18	Nevada
	0.993	19	Florida
	0.990	20	Arizona
Pennsylvania	0.985	21	
Oregon	0.981	22	
Maine	0.977	23	
	0.969	24	Texas
Minnesota	0.968	25	
	0.966	26	Utah
	0.960	27	Wyoming
Michigan	0.951	28	
New Mexico	0.946	29	
Montana	0.942	30	
	0.936	31	Idaho
	0.933	32	Georgia
Wisconsin	0.927	33	
	0.921	34-t	North Carolina
	0.921	34-t	Louisiana
Indiana	0.918	36	
	0.915	37	South Carolina
	0.910	38	Tennessee
	0.904	39-t	Kansas
	0.904	39-t	Oklahoma
Ohio	0.902	41	
	0.900	42	Nebraska
	0.896	43	Alabama
	0.894	44	Iowa
Kentucky	0.893	45	
West Virginia	0.892	46	
	0.888	47	North Dakota
	0.887	48-t	Arkansas
Missouri	0.887	48-t	
	0.881	50	Mississippi
	0.874	51	South Dakota

Note: The average for all U.S. states is 1.00. Figures shown are the average index values between 2008 and 2012 for each U.S. state. Indiana and Michigan passed Right-to-Work laws and 2012 and are categorized as non-Right-to-Work states in this table.
Source: Heritage Foundation calculations using data from U.S. Department of Commerce, Bureau of Economic Analysis, Regional Price Parity Index for all goods and services for U.S. states.

All but one right-to-work state has living costs at or below the national average. All ten of the states with the highest costs of living have compulsory union dues. Analyses that control for these cost of living differences have historically found that right-to-work has no deleterious effects on workers real purchasing power.[33]

Recently the Economic Policy Institute has claimed that workers in RTW states make 3 percent less than workers w/o RTW protection, even after controlling for living costs. Heritage replicated this analysis and found that EPI made two major mistakes: it included improper control variables and did not account for measurement error in their cost-of-living variables. These mistakes drive their results. Correcting these mistakes shows that private sector wages have no statistically detectable correlation with RTW laws. The supplement and the appendices to this testimony explain the technical details of this replication. Properly measured, RTW laws have no effect on wages in the private sector.

RTW and Non-Wage Benefits

EPI also examined the effect of RTW laws on two major non-wage benefits: employer sponsored health coverage and pensions. They conclude that RTW considerably reduces the likelihood workers enjoy these benefits. Unfortunately this analysis provides little insight into what will happen in Wisconsin. In 2010 President Obama signed the Affordable Care Act (aka Obamacare) into law. This law imposes a "Cadillac tax" on expensive health insurance policies, requires employers to provide health insurance or pay a fine, and provides taxpayer subsidies to individuals without employer sponsored coverage. Analysis of pre-Obamacare healthcare markets provide little insight into how people and firms will respond to the law. It is simply too soon to determine what effect RTW laws have on the availability of health insurance in the post-Obamacare world.

The EPI analysis of pension coverage suffers also from two major problems. First, it uses data from the March Current Population Survey supplement. The March CPS asks respondents about whether they are covered by a pension or other retirement plan at work. However many Americans who have pensions or 401(k)s do not mention them when interviewed by the CPS. Census Bureau researchers have found that two-thirds of March CPS respondents who report pension income on their tax forms do not report pension income on the CPS survey.[34] Workers with defined benefit pensions—those most unions prefer—probably report them in the CPS more often than workers with defined contribution plans. The March CPS data regrettably provides only limited insight into the availability of employer sponsored retirement plans.

[33] W. Robert Reed, "How Right-to-Work Laws Affect Wages," *Journal of Labor Research*, Vol. 24, No. 4 (October 2003), pp. 713–730.

[34] Adam Bee. "An Evaluation of Retirement Income in the CPS ASEC Using Form 1099-R Microdata." US Census Bureau. March 2013. http://www.census.gov/library/working-papers/2013/demo/Bee-PAA-paper.html (accessed February 22, 2015).

Second, Gould and Shierholz assume that all union members who report having pensions will collect them. Many will not. Large numbers of union multiemployer pensions have become critically underfunded. Multiemployer pensions covering 1.5 million workers have less than 40 percent of the assets necessary to pay promised benefits. In theory the Pension Benefit Guarantee Corp. (PBGC) backstops these pension plans. But the PBGC itself faces steep financial shortfalls. Last year it estimated its multiemployer pension fund would run out of money within eight years.[35]

If that happens many union members will collect nothing or almost nothing of their promised benefits.[36] Many multiemployer pensions have become legally sanctioned Ponzi schemes. Younger union workers currently paying into these pensions fund benefits for existing retirees, with nothing set aside for their retirement. Treating them as having meaningful retirement security is simply inaccurate. Researchers cannot use CPS pension data to estimate the effects of RTW laws on pension coverage.

Lower Unemployment in RTW States

TABLE 1

Right-to-Work and Unemployment

Dependent Variable	Independent Variable	Unemployment Regression, No Controls	Unemployment Regressions, Sherk Preferred Model without Inappropriate Economic Controls
Unemployed (vs Employed)	Right-to-Work	-0.008*	-0.013*
	Standard Error	0.001*	0.001*
	P-Value	0.000*	0.000*

* Statistically significant at the 1 percent level.
Note: This table uses the same model as in column "Heritage Model with Full Controlls, All Years" in Table 3. It controls for cost of living, age, and age squared, and uses dummy variables for sex, detailed martial status, race, education, city size, citizenship status, year and parental status, as well as interaction terms for married men and single parents.
Source: Heritage Foundation analysis of 2008-2012 data from the Current Population Survey, Outgoing Rotation Group. See Appendix A for details on the methodology and data. See Appendix C for complete regression results. All results are statistically significant at the 0.01 level.

Opponents of right-to-work often ignore one conspicuous economic measure it affects: unemployment. While the EPI researchers thoroughly examined the effect of RTW on pay they did not look at its effect on jobs. Applying the same methodology the EPI used to analyze compensation to analyze unemployment—correcting for their mistakes—shows that RTW significantly reduces unemployment.[37] Without any controls for demographics workers in RTW states are 0.8 percentage points less likely to be unemployed. Controlling for relevant factors shows that workers in right-to-work states

[35] Pension Benefit Guaranty Corporation. "FY 2013 PBGC Projections Report." 2013. http://www.pbgc.gov/documents/Projections-report-2013.pdf (accessed February 22, 2015).
[36] Congress passed multi-employer pension plan reforms in late 2014 designed to enable these pensions to restructure to avoid this financial cliff. It remains to be seen what effect this will have on plan solvency.
[37] Note that there is no need to include controls for cost of living when analyzing unemployment, and thus it is not necessary to use instrumental variables to correct for measurement error in cost of living indices.

are 1.3 percentage points less likely to be unemployed than workers in states with forced dues. Appendix C show these results in greater detail.

Conclusion

Right-to-work would prevent Wisconsin workers from being forced to pay union dues. Unions strongly oppose right-to-work, arguing the benefits of strong unions justify their coercion. However the facts do not back up their claims. Unions operate as labor cartels. When they win higher wages for their members they do so at the expense of higher prices and lower wages for non-union members. Labor economists generally agree that unions reduce overall living standards.

Against this unions and their allies contend that RTW would lower wages in Wisconsin – even after controlling for living costs. Heritage replicated this research and found that it made two analytical mistakes: (1) it held constant the mechanisms through which right-to-work laws increase wages, effectively ignoring their economic benefits and (2) used statistically biased methods to control for costs of living. Correcting these mistakes shows right-to-work laws have no statistically detectable relationship with wages. Workers in right-to-work states do have unemployment rates averaging over a percentage point less than comparable workers in non-RTW states. Wisconsin policymakers should know that unions do not provide public economic benefits that justify forcing workers to pay their dues.

Supplement – Econometric Analysis of RTW and Wages

Recently unions and union allied groups have begun arguing that right-to-work lowers workers' wages even after controlling for COL differences. In 2011 the Economic Policy Institute released a report by Elise Gould and Heidi Shierholz entitled "The Compensation Penalty of Right-to-Work Laws" (hereafter Gould and Shierholz).[38] The report analyzed the effect of right-to-work laws on wages in 2009, controlling for factors like as demographics and costs of living that affect pay. Table 2 reproduces their main findings.

The first column shows the relationship between right-to-work laws and wages without controlling for any other factors. It shows RTW is correlated with approximately 13 percent lower wages. [39] The second column shows the results after controlling for other factors that would affect wages: demographics, urban status, union status, full-time and salaried status, and industry and occupation. This reduces the correlation to about 9 percent lower wages in RTW states. The third column shows the EPI's preferred specification, which also includes controls for the unemployment rate and costs of living. Gould and Shierholz find that even after controlling for these factors workers make about 3 percent less in RTW states.

TABLE 2

Economic Policy Institute Wage Regressions: Estimates of Coefficient of Right-to-Work Indicator

Dependent Variable	Model with No Controls	Model with Basic Set of Controls	Full Model
Natural log of hourly wage	-0.137*	-0.0911*	-0.0317*
Standard error	0.00449*	0.00323*	0.00375*

* Statistically significant at the 1 percent level.

Note: The EPI basic set of controls includes age, age squared, race/ethnicity, education indicators, sex, marital status, urbanicity, hourly worker, full-time workers, union status, major industry and major occupation. The EPI full model includes the basic set of controls plus state-level unemployment rate and adjustments for cost-of-living differences across states.

Source: Elise Gould and Heidi Shierholz, "The Compensation Penalty of Right-to-Work Laws," Economic Policy Institute *Issue Brief* #299, Table 2, February 17, 2011, http://www.epi.org/publication/bp299/ (accessed February 23, 2015).

[38] Elise Gould and Heidi Shierholz, "The Compensation Penalty of 'Right-to-Work' Laws," Economic Policy Institute Briefing Paper #299, February 17th, 2011 at http://www.epi.org/publication/bp299/

[39] Gould and Shierholz report the coefficient on a dummy variable from regressing RTW laws and other controls on the natural log of hourly pay. They report this coefficient as the percentage difference in average wages associated with RTW laws. Technically this is incorrect. For a binary variable like RTW status the percentage change in log wages is related to the coefficient on the dummy variable through the formula % change = $e^{\beta} - 1$, where e is the mathematical constant and β is the coefficient on the dummy variable in the semi-log regression. However for small values of β the coefficient on the dummy variable will closely approximate the percentage change. See Robert Halvorsen, and Raymond Palmquist. "The Interpretation of Dummy Variables in Semilogarithmic Equations." *The American Economic Review* Vol. 70, No. 3 (1980): 474-475.

On the basis of this finding the Economic Policy Institute recently released a report arguing RTW would hurt Wisconsin.[40] This report estimated the consequences of a 3 percent wage reduction on Wisconsin's economy. Unsurprisingly it found large negative effects. Unions and their supporters have used this study to argue for compulsory dues.

The Heritage Foundation replicated the EPI analysis. This replication revealed that EPI made several methodological mistakes. These mistakes drive their finding that right-to-work laws lower wages and thus hurt the economy. Correcting these errors changes their conclusion: right-to-work laws have no association with cost-of-living adjusted wages across the overall economy. However, RTW laws are associated with significantly lower unemployment rates.

Replication of EPI Analysis

To replicate Gould & Shierholz the Heritage Foundation used Current Population Survey data and Bureau of Economic Analysis Regional Price Parity (RPP) data for 2008 through 2012.[41] Appendix A to this supplement explains the data and methods used in detail. Appendix C presents detailed regression results. Table 3 shows the results of regressing the natural log of hourly pay on a variable for RTW status and other control variables. This coefficient approximately equals the percentage change in average wages for workers in RTW states.[42]

The first three columns of Table 3 repeat the EPI analysis in Table 2. Using the same data and methodology Heritage found results very similar—but not identical—results to those EPI reported. In the EPI's preferred specification Heritage estimated 2.8 percent lower wages, while EPI estimated 3.2 percent lower wages. Column (4) reproduces EPI's preferred model for the years 2008-2012. Expanding the sample does not change the results.

Bad Statistical Controls

The estimates change markedly in column (5). That column reports the association between RTW and wages using slightly different control variables. Researchers need to carefully consider what they control for in their analysis. They need to make sure they do not factor out the channels through which one variable influences another. For example, researchers examining how education affects wages might control for factors like age, gender, or state of residence. However, they should not control for

[40] Gordon Lafe, and Alyssa Davis. *"Right to Work" Is the Wrong Answer for Wisconsin's Economy.* January 23, 2015 at http://www.epi.org/publication/right-to-work-is-the-wrong-answer-for-wisconsin/

[41] The BEA provides Regional Price Parity (RPP) data to facilitate cost-of-living adjusted comparisons across states. Heritage chose the years 2008-2012 because the RPP is a new data product from the BEA and as of the time of this writing was only available for those years.

[42] See footnote 39. For the sake of facilitating comparisons with the EPI this study refers to the coefficient on the log regressions as a percent change although that is not technically correct. For values below 2.6 percent these values are almost identical.

occupation. Education often gives workers access to more highly paid occupations.[43]

TABLE 3

The Effect of Right-to-Work on Wages, Controlling for Other Factors

Dependent Variable	Independent Variable	No Controls, 2009	EPI Basic Controls, 2009	EPI Full Model, 2009	EPI Full Model, All Years	EPI Model, All Years, Removing Bad Controls	Heritage Model with Full Controls, All Years	Cost of Living Adjusted Wages, Heritage Model with Full Controls, All Years	Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years
Natural log of hourly pay	Right-to-Work	-0.134*	-0.066*	-0.028*	-0.028*	-0.015*	-0.016*	0.001	-0.005
	Std. Error	0.004*	0.003*	0.003*	0.002*	0.002*	0.002*	0.002	0.005
	P-Value	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.614	0.293

* Statistically significant at the 1 percent level.

Note: The EPI basic set of controls includes age, age squared, race/ethnicity, education indicators, sex, marital status, city size, hourly worker, full-time workers, union status, major industry, and major occupation. The EPI full model includes the basic set plus state-level unemployment rate and adjustments for cost-of-living differences across states. The EPI model removing bad controls equals the basic set of controls excluding union status, industry, occupation, full-time and salaried employee status, and including cost-of-living adjustments. The Heritage model with full controls includes cost of living, age, age squared, and dummy variables for sex, detailed martial status, race, education, city size, citizenship status, and parental status, as well as interaction terms for married men and single parents. The column with costs of living corrected for measurement error instruments cost of living indexes with the previous two years of costs of living for rents, and includes controlls for climactic amenities: average historical temperatures and precipitation for all four seasons and an indicator for whether a state borders the ocean. All columns for "all years" include dummy variables for year, and are inflation adjusted using the CPI-U-RS.

Source: Heritage Foundation analysis of 2008–2012 data from the Current Population Survey, Outgoing Rotation Group. See Appendix A for details on the methodology and data. See Appendix C for complete regression results.

Controlling for occupation removes an important factor through which education raises earnings. Including it in the analysis would make it appear education boosts earnings less than it actually does. Such "bad controls" produce biased results.[44]

EPI used several such improper controls in its analysis. Right-to-work laws benefit local economies precisely by attracting jobs and industries that would not otherwise locate there. Tuscaloosa, Alabama has more well paid manufacturing jobs because its right-to-work law helped attract a Mercedez-Benz plant. Similarly, by attracting employers RTW laws reduce unemployment. Lower unemployment and a tighter labor market puts upward pressure on wages. Tighter labor markets also make companies more responsive to workers' desires for full-time schedules. By controlling for industrial mix and labor market conditions EPI removed the main channels through which RTW laws put upward pressure wages. This biases their estimates toward finding negative effects.

Operating in the other direction, EPI included controls for union membership. States with compulsory dues have more union members than states with voluntary dues. To the extent that unions succeed in raising wages for their members, and RTW laws reduce union membership, the EPI analysis removes one of the channels through which unions raise wages. This biases their estimates of the effect of RTW on wages upward.

[43] In some cases education does not just make it easier to obtain but is in fact a legal pre-requisite for highly paid jobs, as in medicine or the legal profession.

[44] Joshua Angrist, and Jorn-Steffen Pischke. "*Mastering 'Metrics: The Path from Cause to Effect.*" 214-217. Princeton University Press, 2014.

Column (5) shows the results of the EPI analysis after removing controls for union membership and labor market conditions: the unemployment rate, industry, occupation, hourly and full-time status.[45] Removing these bad controls has a large effect. The estimated negative effect of RTW laws on wages falls almost in half, from -2.8 percent to -1.5 percent.

Column (6) shows the Heritage Foundation preferred model which controls for several more variables than EPI included in its analysis – citizenship status, parental status, single parent status. The estimates in column (6) also use more detailed measures of marital status and educational attainment. These new variables have only a small effect on the overall results, changing the coefficient on RTW to -1.6 percent.[46]

Correctly Accounting for Costs of Living

A larger problem with the EPI analysis comes in how it adjusts for costs of living.[47] Gould & Shierholz included measures of states living costs as control variables in their preferred specification.[48] However this specification only accounts for about 70 percent of the differences in costs-of-living between states.[49] In other words, it does not fully account for how workers in states with lower costs of living need less money to purchase the same goods and services as workers in other states. Column (7) shows how directly adjusting wages for living costs and then running the analysis changes the results. It completely eliminates the estimated negative effect of RTW laws on wages. Under this specification RTW laws are associated with (statistically insignificant) 0.1 percent higher wages for all workers.

Some economists argue against directly adjusting pay for cost of living. They believe that costs of living partly reflect desirable (or undesirable) amenities in an area

---

[45] Column 5 and the subsequent columns use the authors preferred specification which also includes controls for citizenship, parental status and single parent status. Single parenthood has been found to have a large negative effect on upward mobility and it should be controlled for. However these variables have negligible little effects on the overall results. Excluding these variables results in a coefficient of 0.017 instead of 0.016 in column 5.

[46] Liberal groups have also pointed out that single parents tend to experience greater economic difficulties than married parents. See Deborah Povich, Roberts Brandon, and Mark Mather. "Low-Income Working Mothers and State Policy: Investing for a Better Economic Future." 2013. http://www.workingpoorfamilies.org/wp-content/uploads/2014/02/WPFP_Low-Income-Working-Mothers-Report_021214.pdf

[47] EPI used two measures of cost-of-living: data from the Missouri Economic Research and Information Center and data from the Political Economic Research Institute (PERI) on differences in rental costs across states. The Heritage Foundation used more accurate Regional Price Parity data now produced by the Bureau of Economic Analysis. Appendix B explains the differences between these measures in greater detail.

[48] It is not clear from their report if Gould & Shierholz used the log of these cost of living indicators or the level. In a semi-log regression the appropriate control to use is the log of the price index. Heritage used the log of the price index throughout this replication when it included direct controls for cost of living.

[49] See the detailed results in Appendix C. The coefficient on the RPP variable is approximately 0.7. So in a state with 10 percent below-average cost of living the model reduces wages by approximately 7 percent, not the 10 percent needed to maintain constant purchasing power.

that data on local prices do not capture. For example, New Yorkers pay 15 percent more for goods and services than Nevadans do. Many New Yorkers also live in the largest city in America with perhaps the best restaurant, cultural, and entertainment options in the country. A New Yorker making $57,500 arguably has a higher standard of living than a Nevadan making $50,000. Those incomes buy them the same amount of goods and services, but the New Yorker has the option of watching shows on Broadway, visiting the Metropolitan Museum of Art, or attending events in Madison Square Garden.

In the late 1990s researchers examining this issue recommended controlling for costs of living using the method Gould and Shierholz employed – including it as a control variable that only partially adjusts for differences in prices across states.[50] Subsequent research identified a problem with this technique: measurement error. As with any survey, cost of living surveys have measurement error. This introduces biases into the analysis. In essence, measurement error has no correlation with wages. Costs of living are strongly correlated with wages. Sampled costs of living – which combine the two – are thus less strongly correlated with wages than the true cost of living. Researchers should use a statistical technique (instrumental variables) to correct for this bias.[51] Not doing so produces inaccurate estimates.

This bias becomes particularly problematic when analyzing the effect of RTW because right-to-work laws are strongly correlated with living costs. Measurement error causes Gould & Shierholz's analysis estimates to under-compensate for the effect of living costs on wages. Their regression attributes part of its remaining effect to variables (like RTW) correlated with true living costs. Consequently their estimates partly conflate the (downward) effect of lower living costs on wages with the effect of right-to-work laws. This biases their estimates toward finding negative effects of RTW on pay. Appendix B explains these problems and the solution in greater detail.

Column (8) uses the same model as in column (7) – corrected for measurement error. Doing so eliminates the estimated negative effect of RTW laws on wages. The coefficient falls to -0.5 percent and becomes statistically insignificant. Using appropriate control variables and adjusting for costs of living correctly reverses Gould & Shierholz's finding. Proper analysis shows that right-to-work laws have little correlation with wage rates.

This fact casts serious doubt on the claims that unions benefit workers overall. Right-to-work states generally (although not always) have lower union membership than states with compulsory dues. Nonetheless overall wage rates are not statistically distinguishable between these states, after properly controlling for factors like costs of living. Unions do not provide broad based-economic benefits.

---

[50] Michael DuMond, Barry Hirsch, and David Macpherson, "Wage Differentials across Labor Markets and Workers: Does Cost of Living Matter?," Economic Inquiry, Western Economic Association International, vol. 37(4), pages 577-98, October 1999.

[51] John Winters, "Wages and prices: Are workers fully compensated for cost of living differences?," Regional Science and Urban Economics, vol. 39(5), pages 632-643, September 2009.

Effects on Different Groups

Gould & Shierholz also analyzed the effect of RTW laws on various subsets of the population. They concluded that RTW laws had particularly negative effects on women, African-Americans, and Hispanics. Table 4 shows the results of using the measurement error corrected model to analyze how RTW affects these workers. It shows that removing the bad controls and correcting for measurement error eliminates the estimated negative effects. RTW has no statistically significant effect on wages for any of these subpopulations. EPI concluded otherwise because it used statistically biased methods.

TABLE 4

The Effect of Right-to-Work on Wages for Various Subgroups

Dependent Variable	Independent Variable	Women	African-American	Hispanic	State and Local Government	Private Sector
Natural log of hourly pay	Right-to-Work	-0.005	-0.029	0.005	-0.028*	-0.002
	Standard Error	0.007	0.019	0.014	0.011*	0.006
	P-Value	0.429	0.128	0.720	0.010*	0.725

* Statistically significant at the 1 percent level.

Note: This table uses the same model as in column "Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years" in Table 3. It controls for cost of living, age, age squared, and uses dummy variables for sex, detailed martial status, race, education, city size, citizenship status, year and parental status, as well as interaction terms for married men and single parents. It instruments cost of living indexes with the previous two years of costs of living for rents, and includes controls for climactic amenities: average historical temperatures and precipitation for all four seasons and an indicator for whether a state borders the ocean. All figures are inflation adjusted using the the CPI-U-RS.

Source: Heritage Foundation analysis of 2008-2012 data from the Current Population Survey, Outgoing Rotation Group. See Appendix A for details on the methodology and data. See Appendix C for complete regression results.

The Table also breaks down the effect of RTW laws on two groups of the population Gould & Shierholz did not consider: private sector workers and state and local government employees.[52] By attracting investment and jobs right-to-work laws can put upward pressure on private sector pay. Conversely, voluntary dues reduce the resources available to government unions to "elect their own boss" and win inflated contracts. This would tend to reduce government compensation.

Wisconsin Act 10 already gave right-to-work protections to most government employees while restructuring government compensation. Only private-sector wages are relevant for Wisconsin policymakers to consider when evaluating right-to-work.

Table 4 shows right-to-work does reduce government pay, but has virtually no effect on private sector compensation. The coefficient on RTW in the private sector is a statistically insignificant -0.2 percent. Wisconsin policy makers should evaluate the benefits of right-to-work knowing it will neither increase nor decrease wages in the Badger state.

[52] These figures exclude federal employees because the federal government is entirely RTW and federal wages are determined by the General Schedule and federally determined cost of living adjustments for various regions. State RTW laws have no effect on federal pay.

Appendix A – Data and Methodology

The Heritage Foundation Center for Data Analysis (CDA) conducted this analysis using data from the outgoing rotation groups of the 2008 through 2012 Current Population Survey (CPS). The CDA was not able to exactly replicate the results presented in Gould and Shierholz (2011). In e-mail correspondence Dr. Gould directed the Heritage Foundation to the adjustments the Economic Policy Institute makes to the CPS data to correct for top coding, workers who do not report their usual weekly hours, and other data quality issues.[53] This methodology is substantially similar to that the Center for Economic Policy Research (CEPR) uses and makes publicly available online.[54] To avoid any impression that Heritage data adjustments drove the disparity between EPI's and Heritage's results CDA used the publicly available CEPR adjusted CPS outgoing rotation group data. CEPR is a prominent liberal policy organization. The use of CEPR data in this replication does not imply CDA endorsement of every data correction CEPR made. For example, along with the Congressional Budget Office and the Federal Reserve, Heritage's CDA considers the Personal Consumption Expenditures price index a better measure of inflation than the Consumer Price Index Research Series (CPI-U-RS). CEPR used the CPI-U-RS to adjust for inflation. Had this not been a replication exercise Heritage would have used the PCE.[55]

Heritage used the CEPR hourly wage estimates that matched the adjustments EPI indicated it made: hourly pay variable rw_p8_no. CEPR constructed this using reported wages for hourly employees and estimating hourly earnings for salaried workers by dividing usual weekly earnings by usual weekly hours. This variable makes no adjustment for overtime or tips earned by hourly employees. It imputes the estimated hours worked for salaried employees who report their "hours vary" and imputes the pay of workers with top-coded earnings using the Pareto distribution workers with earnings above the 80th percentile. Following the EPI Heritage dropped observations with CPS imputed earnings and restricted attention to workers between the ages of 18 and 64. For analysis covering more than one year Heritage only included workers the first year they appeared in the Outgoing Rotation Group data, with the exception of workers in their second ORG interview in 2008.

To the CPS data Heritage added data from the Bureau of Labor Statistics on state unemployment rates for the years 2008 to 2012 and Bureau of Economic Analysis Regional Price Parity (RPP) data on state costs of living. CDA choose these years because they are the only years for which the BEA currently provides RPP data. Heritage also added Climate Normals data on 1971-2000 average seasonal (winter, spring,

---

[53] Lawrence Mishel, Josh Bivens, Elise Gould, Heidi Shierholz. "Appendix B" In *The State of Working American 12th Edition*, 460-747. Cornell University Press, 2012 at http://stateofworkingamerica.org/files/book/Appendices.pdf/

[54] In fact the CEPR adjustments were developed in conjunction with EPI staff.

[55] In this report the choice of inflation deflator

makes little difference to the final results.

summer, and fall) temperatures and precipitation by state from the National Climactic Data Center data.

CDA regressed the log of hourly wages on a variable indicting whether employees resided in a right-to-work state and various control variables. CDA used robust standard errors throughout. In the EPI full model reported in column (3) of Table 3 Heritage included controls for age, age squared, race/ethnicity, highest degree attained, sex, marital status, city size, hourly worker status, full-time worker status, union status, major industry and major occupation, state-level unemployment rate and the log of state the RPP for all goods and services. The column (5) estimates removing bad controls include the same control variables as column (3), excluding union membership, industry, occupation, full-time and salaried employee status, and state unemployment rate.

The Heritage model with full controls in column (6) includes cost of living, age, age squared, and dummy variables for sex, detailed martial status, race[56], detailed education, city size, citizenship status, and parental status, as well as interaction terms for married men and single parents. Column (8) with costs of living corrected for measurement error instruments state RPP indexes for all goods in services with the previous two years of costs of living for rents. The instrumental variable specification uses CPS data from 2010-2013 because RPP data for years prior to 2008 was not available. The specification in column (8) also includes controls for climactic amenities: average historical temperatures and precipitation for all four seasons and an indicator for whether a state borders the ocean. The estimates in Table 4 use the same specification as in column (8) of Table 3 restricted to various subgroups of the workforce. All columns for "all years" in Table 3 and Table 4 include dummy variables for year, and are inflation adjusted using the CPI-U-RS.

The cost-of-living adjusted wages in column (7) of Table 3 were estimated by dividing wages by the RPP index and then estimating the model in column (6).[57] The estimates in column (2) of Table 1 use the same control variables as in column (6) of Table 3, excepting the logged RPP index.

Workers residing in Indiana after March 2012 were classified as living in a RTW state; for previous months they were classified as being non-RTW.

---

[56] The full Heritage race variable is slightly more comprehensive than that used by EPI. EPI used white, black, Hispanic, Asian and other categories. Heritage used white, black, Hispanic, Asian, mixed-race, and other. Similarly, EPI categorized individuals as either married or single. Heritage used a more detailed marital status categorization: married, divorced, widowed, separated, or never married.

[57] This specification of course excluded the logged RPP variable.

Appendix B – Controlling for Cost of Living

Properly controlling for cost of living differences is a critical factor in making comparisons between RTW and non-RTW states. Most right-to-work states have below-average costs of living. A dollar buys more goods and services in them than it does in states without RTW laws. The higher nominal wages in non-RTW states do not necessarily translate into greater real purchasing power.

CDA used the BEA Regional Price Parity index for all goods and services by state and year to calculate differences in costs of living. The RPP uses price data on goods and services compiled by the Bureau of Labor Statistics for constructing the Consumer Price Index, disaggregated by state. The RPP estimates shelter costs using survey data from the American Community Survey (ACS). The BEA released its first official RPP estimates in April of 2014. They were not available for the Economic Policy Institute to use in its 2011 report. The EPI used data on the cost of fair market rents across states and years estimated by the Political Economic Research Institute at the University of Massachusetts-Amherst. The EPI also used Council for Community and Economic Research (C2ER) cost of living indexes compiled by the Missouri Economic Research and Information Center (MERIC). The C2ER was formerly known as the ACCRA cost of living index. The C2ER calculates housing costs using home values, not rental values.

All three of these indexes suffer from various measurement errors. The RPP housing costs data contains the classical sampling error the ACS and all probability surveys exhibit. The RPP data on all other goods and services also suffers from potentially non-classical serially correlated errors. As the BEA explains:

> "Price levels for each county are assumed to be those of the CPI sampling area in which the county is located. For example, counties in Pennsylvania are assigned price levels from either the Philadelphia or Pittsburgh areas or from the Northeast small metropolitan area. Rural counties are not included in any of the 38 urban areas for which stage one price levels are estimated. These counties are assigned price levels of the urban area that (1) is located in the same region and (2) has the lowest population threshold."[58]

Thus BEA assigns many rural counties price levels from urban areas that may well have higher costs of living. It does so year after year, probably producing persistent errors into each states' average estimated living costs.

The C2ER also suffers from serially correlated measurement errors. The C2ER gathers data on costs of living from different cities collected by partnering organizations. The statewide living cost index averages the results for all participating cities in a state. MERIC does not randomly select these cities – all cities with partnering organizations

---

[58] Bettina H. Aten, and Eric B. Figueroa. "Real Personal Income and Regional Price Parities for States and Metropolitan Areas, 2008–2012." Bureau of Economic Analysis. June 2014 at http://www.bea.gov/scb/pdf/2014/06%20June/0614_real_personal_income_and%20_regional_price_parities_for_states_and%20metrpolitan_areas.pdf

that collect the data get included. Cities appear in and disappear from the survey over time depending on the interest and participation of these partnering organizations. The C2ER data excludes almost all cities with populations of less than 50,000. This causes errors caused by the exclusion of rural areas or non-random inclusion of cities to perpetuate year after year.

One method of controlling for price differences is for researchers to simply convert nominal wages into real wages using a price index, then analyze the data. Economists almost always control for the effects of inflation over time this way. Column (7) of Table 3 shows that doing so and eliminating bad controls completely eliminates the negative correlation between wages and RTW laws.

DuMond et al (1999) criticize this approach, arguing that areas with higher costs of living have amenities not reflected in the price of purchased goods and services. For example, California is expensive to live in precisely because its mild climate makes it attractive to live in. North Dakota has lower costs of living in part because people do not want to endure its frigid winters. The cheaper price of living in North Dakota partly reflects its less enjoyable climate – something living cost indexes do not capture. DuMond et al recommend adjusting for living costs by including the logged value of price indexes in a regression framework. Using this approach with the C2ER they find that wages only partially adjust to living costs. Gould and Shierholz used this approach.

Winters (2009) re-evaluates DuMond et al's findings. He comes to two main conclusions: (1) wages are much more closely related to differences in living costs measured by the rental value of homes than those measured by the value of homes. This biases the effect of cost of living adjustments based on home values—like the C2ER—toward zero; (2) measurement error seriously affects wage regressions using cost of living indexes. Measurement error in an independent variable biases regression coefficient estimates towards zero. Winters finds that the ACS estimates the rental value of homes with classical measurement error, but concludes the C2ER non-shelter goods and services indexes contain serially correlated non-classical errors as well. A standard approach for controlling for classical measurement error is to use instrumental variables with the instruments previous values of the valuable. Winters recommends instrumenting for living costs for all goods and services using previous values of the price index for rental costs, which only suffers from classical non-serially correlated survey error. Winters finds that wages fully adjust to living costs when regressed on instrumented living costs and detailed controls for city level amenities (e.g. crime rates, climate, city size, topography, air quality, taxes).

The problems Winters identified bias the EPI estimates. One of the two EPI living cost indexes (the C2ER) relies on home values, not rental values of homes. Gould and Shierholz also make no adjustments for measurement error. Both effects cause their analysis to under-estimate the relationship between wages and living costs. Worse, right-to-work laws are correlated with lower costs of living. Consequently their analysis attributes part of the remaining (negative) relationship between lower living costs and wages to the RTW variable.

The problems Winters identified partially affect the RPP data Heritage used. As mentioned the BEA bases RPP shelter costs on rents, not home values. But the RPP data for non-shelter services and goods almost certainly contains serially correlated errors. Following Winters 2009, CDA instrumented for the RPP for all goods and services using the previous two years of the RPP for rents. Heritage also partially controlled for statewide climactic amenities, including a dummy variable for whether a state borders the ocean and average seasonal temperatures and precipitation by state. Many of the amenities Winters controlled for only make sense as city-wide variables as they are not generally enjoyed by residents statewide (e.g. crime rates, air quality). The CEPR CPS ORG files only include identifying information for a limited number of sub-state metropolitan areas, so CDA did not attempt to control for amenities at the city level beyond city size.

Applying the Winters' correction for measurement error substantially increases the correlation between wages and living costs. While the base model in column (6) of Table 3 estimates wages increase 0.73 percent in states with a 1 percent higher cost of living, the model in column (8) of Table 3 estimates wages rise 0.89 percent. Appendix C shows the full regression output for these models. It is quite probably that including controls for city-level amenities would cause the model to show wages track living costs even more closely. As Table 3 makes clear correcting for measurement error renders the relationship between wages and right-to-work laws statistically insignificant.

Appendix C – Full Regression Results

Appendix Tables 1 through 4 present the full regression results for the models in Table 1, column (2) and Table 3, columns (4), (6), and (8).

APPENDIX TABLE 1

Regression Results for the EPI Full Model, All Years

Dependent Variable: Log of hourly earnings

Independent Variable	Coefficient	Standard Error	t	P-Value
Right-to-Work	-0.0283	0.0020	-14.26	0
Log of Regional Price Parity Index	0.6105	0.0131	46.75	0
Unemployment Rate	0.0008	0.0005	1.40	0.162
Age	0.0326	0.0005	65.38	0
Age Squared	-0.0003	0.0000	-51.47	0
Female	-0.1314	0.0020	-64.39	0
Married	0.0731	0.0019	39.22	0
Race				
Black	-0.1083	0.0029	-37.37	0
Hispanic	-0.1349	0.0027	-49.41	0
Asian	-0.1008	0.0044	-22.76	0
Other	-0.0419	0.0071	-5.92	0
City Size				
100,000-249,999	0.0357	0.0032	11.01	0
250,000-499,999	0.0540	0.0031	17.52	0
500,000-999,999	0.0661	0.0030	22.06	0
1,000,000-2,499,999	0.0879	0.0026	33.80	0
2,500,000-4,999,999	0.1528	0.0029	53.55	0
5,000,000+	0.1102	0.0032	34.06	0
Paid by the Hour	-0.2038	0.0018	-113.20	0.000
Major Industry				
Mining	0.4261	0.0160	26.65	0
Utilities	0.3266	0.0146	22.30	0
Construction	0.1713	0.0133	12.84	0
Manufacturing: Nondurable goods	0.1926	0.0129	14.98	0
Manufacturing: Durable Goods	0.2224	0.0128	17.37	0
Wholesale Trade	0.1700	0.0133	12.80	0
Retail Trade	-0.0247	0.0127	-1.94	0.052
Transportation and Warehousing	0.1965	0.0132	14.90	0
Information	0.1639	0.0138	11.88	0
Finance and Insurance	0.2294	0.0131	17.46	0
Real Estate	0.0501	0.0149	3.36	0.001
Professional, Scientific, Technical	0.2253	0.0131	17.20	0
Management and Related Services	0.0409	0.0130	3.14	0.002
Educational Services	0.0068	0.0130	0.53	0.599
Healthcare and Social Assistance	0.1061	0.0128	8.28	0
Arts, Entertainment, and Recreation	0.0446	0.0142	3.15	0.002
Accomodation and Food Services	-0.1262	0.0131	-9.61	0
Other Service	-0.0243	0.0133	-1.83	0.067
Public Administration	0.1802	0.0130	13.90	0

Note: This is the model used in column "EPI Full Model, All Years" in Table 2.

APPENDIX TABLE 1

Regression Results for the EPI Full Model, All Years (cont.)

Dependent Variable: Log of hourly earnings

Independent Variable	Coefficient	Standard Error	t	P-Value
Major Occupation				
Business and financial operations	-0.1046	0.0053	-19.56	0
Computer and mathematical science	0.0180	0.0060	3.02	0.003
Architecture and engineering	-0.0474	0.0064	-7.43	0
Life, physical, and social sciences	-0.1841	0.0093	-19.69	0
Community and social service	-0.3510	0.0071	-49.32	0
Legal occupations	-0.0275	0.0106	-2.58	0.01
Education, training, and library	-0.3262	0.0055	-59.43	0
Arts, design, entertainment, and sports	-0.1964	0.0088	-22.23	0
Healthcare practitioner and technical	0.1043	0.0057	18.33	0
Healthcare support	-0.3203	0.0062	-51.25	0
Protective service	-0.2874	0.0067	-43.17	0
Food preparation and serving related	-0.4464	0.0058	-77.14	0
Building and grounds cleaning and maintenance	-0.4071	0.0055	-73.58	0
Personal care and service	-0.4530	0.0067	-67.73	0
Sales and related	-0.2535	0.0049	-51.42	0
Office and administrative support	-0.2976	0.0040	-74.30	0
Farming, fishing, and forestry	-0.4244	0.0135	-31.49	0
Construction and extraction	-0.2184	0.0063	-34.73	0
Installation, maintenanence and repair	-0.1711	0.0054	-31.95	0
Production	-0.3371	0.0050	-67.20	0
Transportation and material moving	-0.3656	0.0051	-71.99	0
Union Member	0.1669	0.0026	64.99	0
Full-Time Employee	0.1188	0.0026	46.25	0
Year				
2009	0.0133	0.0031	4.33	0
2010	0.0080	0.0031	2.55	0.011
2011	-0.0117	0.0029	-3.98	0
2012	-0.0148	0.0028	-5.38	0
Education				
High School Graduate	0.1110	0.0031	35.93	0
Some College, No Degree	0.1665	0.0034	49.26	0
Associates Degree	0.2122	0.0039	54.65	0
Bachelors Degree	0.3597	0.0040	91.00	0
Graduate Degree	0.5732	0.0050	115.48	0
Constant	1.4154	0.0209	67.74	0
N =	326,221			
R-squared =	0.5624			

Note: This is the model used in column "EPI Full Model, All Years" in Table 3.

APPENDIX TABLE 2

Heritage Model with Full Controls, All Years

Dependent Variable: Log of hourly earnings

Independent Variable	Coefficient	Standard Error	t	P-Value
Right-to-Work	-0.0159	0.0024	-6.51	0.000
Log of Regional Price Parity Index	0.7265	0.0163	44.69	0.000
Age	0.0560	0.0007	80.13	0.000
Age Squared	-0.0006	0.0000	-66.43	0.000
Female	-0.1582	0.0038	-41.35	0.000
Marital Status				
Widowed	-0.0356	0.0105	-3.38	0.001
Divorced	-0.0006	0.0048	-0.11	0.909
Separated	-0.0652	0.0077	-8.46	0.000
Never Married	-0.0753	0.0044	-16.95	0.000
Married Man	0.1241	0.0046	26.92	0.000
Race				
Black	-0.1424	0.0037	-38.34	0.000
Hispanic	-0.1176	0.0039	-30.4	0.000
Asian	-0.0330	0.0065	-5.05	0.000
Native American	-0.0697	0.0122	-5.73	0.000
Mixed	-0.0559	0.0093	-6.04	0.000
Highest Grade Attained				
1st-4th grade	0.0009	0.0234	0.04	0.969
5th-6th grade	0.0121	0.0215	0.56	0.573
7th-8th grade	0.0342	0.0220	1.55	0.120
9th grade	0.0361	0.0216	1.67	0.095
10th grade	0.0583	0.0217	2.69	0.007
11th grade	0.0862	0.0214	4.03	0.000
12th grade-no diploma	0.1257	0.0221	5.68	0.000
HS graduate, GED	0.2131	0.0206	10.36	0.000
Some college but no deg..	0.3106	0.0207	15.03	0.000
Associate degree-occupa..	0.4239	0.0210	20.17	0.000
Associate degree-academ..	0.4348	0.0210	20.72	0.000
Bachelor's degree	0.6700	0.0207	32.35	0.000
Master's degree	0.8674	0.0209	41.49	0.000
Professional school	1.1298	0.0238	47.56	0.000
Doctorate	1.0953	0.0229	47.81	0.000
City Size				
100,000-249,999	0.0423	0.0041	10.36	0.000
250,000-499,999	0.0726	0.0038	19.05	0.000
500,000-999,999	0.0905	0.0038	23.87	0.000
1,000,000-2,499,999	0.1262	0.0032	39.22	0.000
2,500,000-4,999,999	0.2127	0.0036	59.58	0.000
5,000,000+	0.1875	0.0040	46.67	0.000

Note: This is the model used in column "Heritage Model with Full Controlls, All Years" in Table 2.

APPENDIX TABLE 2

Heritage Model with Full Controls, All Years (cont.)

Dependent Variable: Log of hourly earnings

Independent Variable	Coefficient	Standard Error	t	P-Value
Citizenship				
Born in Puerto Rico, Ou..	-0.0741	0.0145	-5.12	0.000
Foreign born, US parents	-0.0244	0.0118	-2.06	0.040
Foreign born, naturalized	-0.1066	0.0054	-19.89	0.000
Foreign born	-0.2219	0.0050	-44.26	0.000
Parent with a child at home	0.0391	0.0029	13.3	0.000
Single Parent	-0.0113	0.0050	-2.28	0.023
Year				
2009	0.0070	0.0035	2.03	0.042
2010	0.0008	0.0032	0.24	0.811
2011	-0.0215	0.0032	-6.71	0.000
2012	-0.0251	0.0032	-7.77	0.000
Constant	0.5066	0.0296	17.09	0.000
N =	270,508			
R-squared =	0.426			

Note: This is the model used in column "Heritage Model with Full Controlls, All Years" in Table 2.

APPENDIX TABLE 3

Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years

	FIRST STAGE REGRESSION Dependent Variable: Log of Regional Price Parity index				SECOND STAGE REGRESSION Dependent Variable: Log of hourly earnings			
Independent variable	Coefficent	Standard Error	t	P-Value	Coefficent	Standard Error	t	P-Value
Right-to-Work	-0.0065	0.0002	-31.06	0.000	0.8854	0.0338	26.21	0.000
Age	-0.0001	0.0000	-1.94	0.052	-0.0052	0.0049	-1.05	0.293
Age Squared	0.0000	0.0000	2.01	0.045	0.0575	0.0009	65.72	0.000
Female	0.0001	0.0001	0.79	0.430	-0.0006	0.0000	-53.47	0.000
Marital Status								
Widowed	0.0005	0.0004	1.30	0.194	-0.0343	0.0129	-2.67	0.008
Divorced	-0.0001	0.0002	-0.72	0.472	0.0029	0.0059	0.49	0.622
Separated	0.0007	0.0003	2.58	0.010	-0.0558	0.0094	-5.92	0.000
Never Married	0.0001	0.0002	0.94	0.349	-0.0620	0.0054	-11.50	0.000
Married Man	0.0002	0.0002	1.30	0.195	0.1277	0.0057	22.60	0.000
Race								
Black	0.0000	0.0001	-0.15	0.883	-0.1314	0.0049	-26.83	0.000
Hispanic	0.0010	0.0001	7.22	0.000	-0.1198	0.0052	-22.89	0.000
Asian	0.0005	0.0002	2.45	0.014	-0.0261	0.0085	-3.07	0.002
Native American	0.0029	0.0006	4.62	0.000	-0.0744	0.0169	-4.40	0.000
Mixed	-0.0008	0.0004	-2.24	0.025	-0.0709	0.0119	-5.96	0.000
Highest Grade Attained								
1st-4th grade	0.0003	0.0009	0.34	0.732	-0.0030	0.0297	-0.10	0.920
5th-6th grade	0.0002	0.0008	0.21	0.833	0.0102	0.0270	0.38	0.706
7th-8th grade	0.0012	0.0008	1.41	0.159	0.0318	0.0273	1.16	0.244
9th grade	0.0009	0.0008	1.14	0.253	0.0418	0.0272	1.54	0.124
10th grade	0.0006	0.0008	0.72	0.473	0.0555	0.0272	2.04	0.041
11th grade	0.0003	0.0008	0.39	0.700	0.0941	0.0267	3.52	0.000
12th grade–no diploma	0.0002	0.0008	0.25	0.799	0.1290	0.0276	4.67	0.000
HS graduate, GED	0.0010	0.0007	1.29	0.199	0.2158	0.0256	8.43	0.000
Some college but no deg..	0.0003	0.0007	0.44	0.663	0.2986	0.0257	11.60	0.000

Note: This is the model used in column "Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years" in Table 2.

APPENDIX TABLE 3

Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years

	FIRST STAGE REGRESSION Dependent Variable: Log of Regional Price Parity index				SECOND STAGE REGRESSION Dependent Variable: Log of hourly earnings			
Independent variable	Coefficent	Standard Error	t	P-Value	Coefficent	Standard Error	t	P-Value
Right-to-Work	-0.0065	0.0002	-31.06	0.000	-0.0052	0.0338	-1.05	0.293
Instrumented Log of Regional Price Parity Index	—	—	—	—	0.8854	0.0338	26.21	0.000
Age	-0.0001	0.0000	-1.94	0.052	-0.0052	0.0049	-1.05	0.293
Age Squared	0.0000	0.0000	2.01	0.045	0.0575	0.0009	65.72	0.000
Female	0.0001	0.0001	0.79	0.430	-0.0006	0.0000	-53.47	0.000
Marital Status								
Widowed	0.0005	0.0004	1.30	0.194	-0.0343	0.0129	-2.67	0.008
Divorced	-0.0001	0.0002	-0.72	0.472	0.0029	0.0059	0.49	0.622
Separated	0.0007	0.0003	2.58	0.010	-0.0558	0.0094	-5.92	0.000
Never Married	0.0001	0.0002	0.94	0.349	-0.0620	0.0054	-11.50	0.000
Married Man	0.0002	0.0002	1.30	0.195	0.1277	0.0057	22.60	0.000
Race								
Black	0.0000	0.0001	-0.15	0.883	-0.1314	0.0049	-26.83	0.000
Hispanic	0.0010	0.0001	7.22	0.000	-0.1198	0.0052	-22.89	0.000
Asian	0.0005	0.0002	2.45	0.014	-0.0261	0.0085	-3.07	0.002
Native American	0.0029	0.0006	4.62	0.000	-0.0744	0.0169	-4.40	0.000
Mixed	-0.0008	0.0004	-2.24	0.025	-0.0709	0.0119	-5.96	0.000
Highest Grade Attained								
1st-4th grade	0.0003	0.0009	0.34	0.732	-0.0030	0.0297	-0.10	0.920
5th-6th grade	0.0002	0.0008	0.21	0.833	0.0102	0.0270	0.38	0.706
7th-8th grade	0.0012	0.0008	1.41	0.159	0.0318	0.0273	1.16	0.244
9th grade	0.0009	0.0008	1.14	0.253	0.0418	0.0272	1.54	0.124
10th grade	0.0006	0.0008	0.72	0.473	0.0555	0.0272	2.04	0.041
11th grade	0.0003	0.0008	0.39	0.700	0.0941	0.0267	3.52	0.000
12th grade-no diploma	0.0002	0.0008	0.25	0.799	0.1290	0.0276	4.67	0.000
HS graduate, GED	0.0010	0.0007	1.29	0.199	0.2158	0.0256	8.43	0.000
Some college but no deg..	0.0003	0.0007	0.44	0.663	0.2986	0.0257	11.60	0.000

Note: This is the model used in column "Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years" in Table 3.

APPENDIX TABLE 3

Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years (cont.)

	FIRST STAGE REGRESSION Dependent Variable: Log of Regional Price Parity index				SECOND STAGE REGRESSION Dependent Variable: Log of hourly earnings			
Independent variable	Coefficent	Standard Error	t	P-Value	Coefficent	Standard Error	t	P-Value
Parent with a child at home	-0.0001	0.0001	-0.55	0.582	0.0452	0.0042	10.68	0.000
Single Parent	-0.0004	0.0002	-1.80	0.071	-0.0238	0.0065	-3.65	0.000
Year								
2010	-0.0022	0.0001	-23.64	0.000	0.0253	0.0034	7.46	0.000
2011	-0.0009	0.0001	-8.77	0.000	0.0039	0.0034	1.14	0.253
Average Temperature								
Winter	0.0019	0.0000	44.40	0.000	0.0058	0.0012	4.78	0.000
Spring	-0.0037	0.0001	-70.02	0.000	0.0068	0.0020	3.45	0.001
Summer	0.0040	0.0001	61.80	0.000	0.0052	0.0019	2.78	0.005
Fall	-0.0027	0.0001	-31.53	0.000	-0.0198	0.0024	-8.09	0.000
Average Precipitation								
Winter	-0.0056	0.0001	-69.29	0.000	-0.0020	0.0030	-0.67	0.500
Spring	0.0060	0.0001	48.38	0.000	0.0207	0.0044	4.72	0.000
Summer	-0.0062	0.0001	-97.35	0.000	0.0024	0.0023	1.03	0.301
Fall	0.0093	0.0001	78.63	0.000	-0.0232	0.0044	-5.24	0.000
State borders the ocean	0.0160	0.0001	113.06	0.000				
Log of RPP for Rents, One year ago	0.1594	0.0011	138.91	0.000				
Log of RPP for Rents, Two years ago	0.2028	0.0013	154.78	0.000				
Constant	-1.6943	0.0023	-752.18	0.000	1.3222	0.0546	24.21	0.000
N =	152754.0000				152,754			
R-Squared	0.9677				0.4357			

Note: This is the model used in column "Cost of Living Corrected for Survey Error, Heritage Model with Full Controls, All Years" in Table 2.

APPENDIX TABLE 4

Heritage Unemployment Model with Full Controls, All Years

Dependent Variable: Unemployed (vs Employed)

Independent Variable	Coefficient	Standard Error	t	P-Value
Right-to-Work	-0.0129	0.0009	-13.98	0.000
Age	-0.0076	0.0003	-22.26	0.000
Age Squared	0.0001	0.0000	20.61	0.000
Female	-0.0268	0.0020	-13.52	0.000
Marital Status				
Widowed	0.0118	0.0045	2.60	0.009
Divorced	0.0132	0.0021	6.15	0.000
Separated	0.0224	0.0041	5.51	0.000
Never Married	0.0260	0.0020	13.08	0.000
Married Man	-0.0283	0.0022	-13.01	0.000
Race				
Black	0.0502	0.0019	26.22	0.000
Hispanic	0.0089	0.0018	5.03	0.000
Asian	0.0060	0.0022	2.76	0.006
Native American	0.0390	0.0069	5.68	0.000
Mixed	0.0240	0.0047	5.09	0.000
Highest Grade Attained				
1st-4th grade	0.0027	0.0143	0.19	0.851
5th-6th grade	0.0039	0.0131	0.30	0.766
7th-8th grade	0.0191	0.0134	1.43	0.152
9th grade	0.0354	0.0133	2.66	0.008
10th grade	0.0575	0.0133	4.32	0.000
11th grade	0.0663	0.0131	5.07	0.000
12th grade-no diploma	0.0162	0.0134	1.21	0.228
HS graduate, GED	-0.0105	0.0123	-0.85	0.396
Some college but no deg..	-0.0299	0.0124	-2.42	0.015
Associate degree-occupa..	-0.0386	0.0124	-3.10	0.002
Associate degree-academ..	-0.0420	0.0124	-3.38	0.001
Bachelor's degree	-0.0526	0.0123	-4.26	0.000
Master's degree	-0.0589	0.0124	-4.77	0.000
Professional school	-0.0693	0.0124	-5.57	0.000
Doctorate	-0.0670	0.0125	-5.37	0.000
City Size				
100,000-249,999	0.0030	0.0018	1.68	0.094
250,000-499,999	0.0124	0.0017	7.16	0.000
500,000-999,999	0.0031	0.0016	1.85	0.064
1,000,000-2,499,999	0.0057	0.0014	4.04	0.000
2,500,000-4,999,999	0.0069	0.0015	4.79	0.000
5,000,000+	0.0069	0.0015	4.56	0.000

APPENDIX TABLE 4

Heritage Unemployment Model with Full Controls, All Years (cont.)

Dependent Variable: Unemployed (vs Employed)

Independent Variable	Coefficient	Standard Error	t	P-Value
Citizenship				
Born in Puerto Rico, Ou..	0.0224	0.0074	3.02	0.003
Foreign born, US parents	0.0020	0.0044	0.44	0.658
Foreign born, naturalized	-0.0036	0.0020	-1.81	0.070
Foreign born	-0.0069	0.0021	-3.23	0.001
Parent with a child at home	0.0042	0.0011	4.01	0.000
Single Parent	0.0174	0.0025	6.98	0.000
Year				
2009	0.0326	0.0014	23.90	0.000
2010	0.0349	0.0013	26.75	0.000
2011	0.0294	0.0013	22.77	0.000
2012	0.0183	0.0013	14.67	0.000
Constant	0.2512	0.0144	17.39	0.000
N =	482,950			
R-squared =	0.040			

****

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2012, it had nearly 700,000 individual, foundation, and corporate supporters representing every state in the U.S. Its 2012 income came from the following sources:

Individuals	81%
Foundations	14%
Corporations	5%

The top five corporate givers provided The Heritage Foundation with 2% of its 2012 income. The Heritage Foundation's books are audited annually by the national accounting firm of McGladrey & Pullen. A list of major donors is available from The Heritage Foundation upon request.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

WISCONSIN
CONTRACTOR
COALITION

The Truth about Worker Training, the Trades and Contractors

We believe it is important for members of the legislature to hear directly from Contractors who have been in the business for many years to factually describe as simply as possible how the worker training is paid for by the union skilled trades.

1. A contractor negotiates with a union and agrees upon a pay scale for the total package of wages and fringe benefits.
2. The Union Trades and their members then decide through a vote of their membership how much of the wage package goes to regular wages, how much goes to training, how much goes to health care and how much goes to pension.

It is critical to understand the pay scale is the workers money. Whatever they do not put into training, health and pension goes on their pay check. It is not the contractor's money.

Why a business organization like WMC would say otherwise is very concerning to those of us who actually own and run businesses.

Undersigned:

Miron Construction Company, Inc.

Neenah, Wausau, Middleton and Milwaukee

Market & Johnson, Inc.

Eau Claire and La Crosse

Rock Road Companies, Inc.

Janesville, Beloit, Edgerton and Monroe

Hooper Corporation

Madison

Hoffman Construction Company

Black River Falls and Eau Claire

General Heating and Air Conditioning, Inc.

Madison

MACKINAC CENTER
FOR PUBLIC POLICY

Why Worker Freedom is Right for Wisconsin

Written Testimony

F. Vincent Vernuccio[1]
Mackinac Center for Public Policy

Prepared for

The Wisconsin Senate Committee on
Labor and Government Reform Committee

February 24, 2015

[1] F. Vincent Vernuccio is director of labor policy for the Mackinac Center for Public Policy in Midland, Mich. Jeremy Lott and James Hohman assisted in compiling the data and writing this testimony.

Chairman Nass, Members of the Senate Committee on Labor and Government Reform, I am F. Vincent Vernuccio, director of labor policy for the Mackinac Center for Public Policy, a nonpartisan research and educational institute based in Midland, Mich.

Thank you for giving me the opportunity to testify here today on right-to-work. This policy will give workers the freedom to choose whether to support a union or not and help improve Wisconsin's economy.

Wisconsin governor Scott Walker has been fielding a number of questions about this policy lately. He was asked if he considered the state Legislature's right-to-work proposal to be anti-union.

Gov. Walker rejected that characterization. He said right-to-work laws are not anti-union; all they do is give workers the right to choose. My testimony will underscore that fundamentally sound judgment.

Gov. Walker and the Wisconsin Legislature have put limits on government union collective bargaining privileges in the past, through legislation such as Act 10 of 2011.[2]

This bill is different. It is not about limiting the ability of unions to bargain. It is about worker freedom.

Right-to-work laws prohibit labor contracts that force employers to fire workers who do not wish to financially support a union. Outside of this, right-to-work does not affect collective bargaining in any way. In Wisconsin, private sector unions will still be able to bargain over wages, hours, working conditions, or anything else they could bargain for before right-to-work.

The difference is worker freedom.

A significant number of employees will always want some form of representation. Unions — strong unions, — still exist in right-to-work states. They simply behave differently because they have to earn the support of workers rather than rely on compulsion.

In right-to-work states, unions can't take worker support for granted. Therefore, they must earn dues by providing value to members.

Despite claims to the contrary, states can improve union representation and give workers this fundamental freedom without necessarily harming unions or workers.

---

[2] "2011 Wisconsin Act 10" (State of Wisconsin, Mar. 11, 2011), http://perma.cc/NW3X-LM2M (accessed Feb. 10, 2015).

The data are mixed on unionization rates in right-to-work states, but it isn't a guarantee that when a state goes right-to-work it is going to have any less unionization than before. Some years, forced unionization states do better, other years right-to-work states put up better unionization numbers.[3]

In 2014, Indiana managed to add, on net, more than 50,000 union members.[4]

Though unions as a whole take a dim view of right-to-work, Gary Casteel, an organizer in the South for the United Auto Workers, was quoted by the Washington Post after he made a striking observation:

> I've never understood [why] people think right to work hurts unions ... To me, it helps them. You don't have to belong if you don't want to. So if I go to an organizing drive, I can tell these workers, 'If you don't like this arrangement, you don't have to belong.' Versus, 'If we get 50 percent of you, then all of you have to belong, whether you like to or not.' I don't even like the way that sounds, because it's a voluntary system, and if you don't think the system's earning its keep, then you don't have to pay.[5]

What Casteel doesn't seem to understand is that union leaders may have a self-interested reason for opposing right-to-work.

According to a report by labor economist James Sherk, states with compulsory unionism charge their members about 10 percent more than their right-to-work rank-and-file brothers in other states. He also found that top union officials in those non-right-to-work states take home about $20,000 more in salary, each, per year.[6]

Unions can charge these premiums because there is no competition. Workers are compelled to pay dues or fees on the pain of losing their jobs.

The reason more states are embracing right-to-work is that such laws make states more economically competitive. Right-to-work states tend to have more job growth. This is true both in the short and long term.

---

[3] Tom Gantert, "Right-to-Work States Gain Union Members While Other States Lose Hundreds of Thousands," *Michigan Capitol Confidential* (Mackinac Center for Public Policy, Feb. 4, 2013), http://perma.cc/HH6T-LZEJ (accessed Feb. 23, 2015).
[4] "Union Members — 2014" (Bureau of Labor Statistics, Jan. 23, 2015), http://perma.cc/J2D8-ATFN (accessed Feb. 23, 2015).
[5] Lydia DePillis, "Why Harris v. Quinn Isn't as Bad for Workers as It Sounds," *The Washington Post*, July 1, 2014, http://perma.cc/QQX8-PDVR (accessed Feb. 23, 2015).
[6] James Sherk, "Unions in Non-Right-to-Work States: Charge Higher Dues and Pay Their Officers Larger Salaries" (The Heritage Foundation, Jan. 26, 2015), http://perma.cc/WZ2X-AFYM (accessed Feb. 23, 2015).

For the short term benefits, a good example comes from Site Selection Magazine, a trade publication for corporate real estate and economic development. After Michigan went right-to-work in 2013, the magazine quoted a real estate manager from a Chicago-based firm as saying: "Where [right-to-work] will have an effect is when there are companies who are looking for locations... [T]here should be a significant increase in the number of projects Michigan receives because they are no longer being eliminated in the early stages of searches."[7]

The developer's prediction proved correct. Michigan's economy is greatly improving. According to the Bureau of Labor Statistics' household survey, from March 2013, when Michigan's right-to-work law took effect to December 2014, Michigan's employment levels increased by 141,990 people. This is a 3.3 percent growth rate giving Michigan the 15th highest in the country.[8]

Among those states in the Midwest, only Indiana, another right-to-work state, outpaced Michigan, growing by 5.1 percent. Only Colorado and North Dakota surpassed Indiana over this period.[9]

The Wall Street Journal has noticed this trend as well. In January, it reported that between March of 2013 and November last, Michigan had seen "4% payroll manufacturing growth, beating an average of 2.8% in right-to-work states and 0.9% in non-right-to-work states."[10]

States that go right-to-work typically experience job growth, but even after those initial good years, their economies are fundamentally restructured. Costs are held down, wages are boosted, and there are more jobs.

According to statistics derived from the U.S. Bureau of Economic Analysis, between 2003 and 2013, right-to-work states experienced 21.5 percent growth in inflation-adjusted GDP versus 14.7 percent in non-right-to-work states. In manufacturing, the spread was even more pronounced. There was 26.1 percent growth in manufacturing GDP, versus only 13.8 percent growth in non-right-to-work states.[11]

States with growing GDPs are adding jobs, and lots of them. According to research of Bureau of Labor Statistics data by my colleague James Hohman, from 2003 to 2013, right-to-work states added 4.3 million jobs while non-right-to-work states added only 2.4 million. Add to this the

---

[7] Ron Starner, "A Watershed Moment," *Site Selection*, Jan. 2013, http://perma.cc/7343-RWQT (accessed Feb. 23, 2015).
[8] "Local Area Unemployment Statistics" (Bureau of Labor Statistics), http://www.bls.gov/lau/ (accessed Feb. 23, 2015).
[9] Ibid.
[10] "Scott Walker and Right to Work," *The Wall Street Journal*, Jan. 12, 2015, http://perma.cc/EU2R-T4PF (accessed Feb. 23, 2015).
[11] "Right to Work Boosts Manufacturing Growth" (National Right to Work Committee, Aug. 17, 2014), http://perma.cc/P7EL-K25G (accessed Feb. 23, 2015).

fact that the average right-to-work state has a smaller population than the average non-right-to-work state, and this contrast is quite remarkable and telling.

Finally, another myth worth dispelling is that wages in right-to-work states are low. In fact, if you factor in cost of living and purchasing power – if you actually look not just at the raw numbers but what those wages can buy in terms of food, clothing and shelter – workers in right-to-work states actually enjoy higher incomes than folks in non-right-to-work states on average.

More jobs, more wage growth, growing economies, and last but not least, more freedom and choice for individual workers in Wisconsin. That is what right-to-work is all about.

International Union Of Operating Engineers
★★★ Local 139 ★★★
Providing a Skilled Workforce for Wisconsin's Future
N27 W23233 Roundy Drive • P.O. Box 130 • Pewaukee, WI 53072
Phone: (262) 896-0139 • Fax (262) 896-0758
www.iuoe139.org

Terrance E. McGowan
President / Business Manager
General Vice President

ATTENTION: PAYROLL

March 20, 2013

TO: Contractors Signatory to the Heavy & Highway Construction Agreement

RE: **June 1, 2013** Negotiated Economic Increase Allocation - Heavy & Highway Agreement

Dear Contractors:

This letter is to advise you that the negotiated economic increase effective **June 1, 2013** of Two ($2.00) dollars per hour for the above-referenced labor agreement has been allocated in the following manner: Forty (40¢) cents per hour will be applied to the Central Pension Fund, Five (5¢) cents per hour will be applied to the Skill Improvement & Apprenticeship Fund, Five (5¢) cents per hour will be applied to the Joint Labor Management Work Preservation Fund and One Dollar and Fifty ($1.50) cents per hour will be applied to each wage classification. Accordingly, the new hourly wage and fringe benefit contributions will be:

WAGES:

Classification 1(a).................................... $36.72
Classification 1(b) $36.22
Classification 2.. $35.72
Classification 3.. $35.46
Classification 4.. $35.17
Classification 5.. $29.27

BENEFITS:

Health Benefit Fund .... $ 9.15
(This includes the amount of one ($1.00) dollar into the pre-funding voted in by the membership)
Central Pension Fund $10.15
Skill Improvement Fund............................. $ .80
Transportation Education Fund.................. $ .08
JLMWPF.. $ .30
Administrative Dues Deduction (1.5% of Total Gross Wage & Fringe Package)

Should you have any questions concerning this matter, please call me at (262) 896-0139. Thank you for your anticipated cooperation in this matter.

Sincerely,

Terrance E. McGowan

Terrance E. McGowan
IUOE General Vice President
President/Business Manager, Local 139
TEM/rw P:\Rebecca\Allocations\2013\Letter to H&H Contractors re alloc 13.doc

International Union Of Operating Engineers
★★★ Local 139 ★★★
Providing a Skilled Workforce for Wisconsin's Future
N27 W23233 Roundy Drive • P.O. Box 130 • Pewaukee, WI 53072
Phone: (262) 896-0139 • Fax (262) 896-0758
www.iuoe139.org

Terrance E. McGowan
President / Business Manager
General Vice President

May 6, 2013

TO: Contractors that are signed to Wall to Wall Highway Agreement

RE: Allocation for Wall to Wall Addendum to the Heavy and Highway Master Agreement - REVISED

The following is a breakdown of the hourly wage and fringe benefits **effective June 1, 2013** for the classifications covered under this Addendum:

Class #6 General Laborer, Trucks (On-road licensed quad and tri-axle truck only):

Straight Time:	
Hourly Wage Rate:	$28.12
Health Benefit:	9.15*
Central Pension:	5.30
Skill/Apprenticeship:	0.80
Labor-Management:	0.30
	$43.67 Total Package

Class #7 Flag Person:

Straight-Time:	
Hourly Wage Rate:	$24.75
Health Benefit:	9.15*
Central Pension:	5.30
Skill/Apprenticeship:	0.80
Labor-Management:	0.30
	$40.30 Total Package

(*This includes the $1.00 allocated to the Pre-funded Retirement Health Care Fund, which was approved by the membership.)

The 1.5% gross total package for Administrative Dues is an employee payroll deduction on the above classifications.

WISCONSIN PIPE TRADES

11175 West Parkland Ave, Milwaukee, WI 53224

February 24, 2015

To: Chairman Steve Nass, Members
Senate Committee on Labor and Government Reform

Fr: Terry Hayden, President
Wisconsin Pipe Trades Association

Re: Private-sector union agreements

Thank you Chairman Nass and members of the Labor and Government Reform Committee; I am the president of the Wisconsin Pipe Trades Association, a statewide organization that trains and educates men and women in the plumbing, steamfitting and fire sprinkler industries. We also train welders and HVAC service technicians – two careers that are currently very high in demand.

Our business model involves a contractual agreement with employers to provide a service, and within that model, we have an exclusive membership. At minimum, we are responsible to provide our contractors a highly-skilled workforce, capable of mobilizing not only in Wisconsin but across state lines for everything from a small residential service job to large-scale projects involving frac sand mining, pipelines like Keystone and the Enbridge upgrade, power plants and more.

The role of the union is much like an employment agency – provide hands-on training, classroom training, and safety and drug-testing programs to ensure a readied workforce. Members value their family-supporting wages, and health and pension funds, and voluntarily pay portions of their paycheck into these funds, as well as training funds. As part of our private agreement, we require a membership to our organization, without taxpayer subsidies.

I am here today in opposition to the proposed right-to-work legislation. In our world, workers in Wisconsin have a choice today – a choice whether to pursue a career in the trades as union or non-union. More importantly, the employers in Wisconsin have a choice today. The contractors we work with choose to be signatory to us – in other words, union contractors. Why? Because we act as their employment agency and provide value.

In order for a sustainable business model, we need a level-playing field within our membership. Again, the choice exists for them today. But today, by introduction of this bill, we are being told that this business model is wrong and that the government is going to intervene in our private-sector, privately negotiated, and privately-funded agreements.

The rules of the game will be changed for us, for our partnership with our contractors. Under this bill, no membership dues would be required, yet the same value needs to be provided regardless. How does that help us forge ahead to ensure after the baby-boomers have retired that we have recruited and trained the new workforce for our employers? How does that help us ensure members continue to fund our training, our health and pension funds at the current levels?

The construction trades have a different business model then other unions; we are part of the economic solution, not a problem. We are exactly what Wisconsin should be propping up, not turning away. We partner, through a collaborative and cooperative arrangement, to provide a reliable, skilled and nimble workforce.

I appreciate the opportunity to testify today, and hope you can see that our private contracts are of value to the greater goal of a thriving Wisconsin economy.

I would be happy to take any questions.

SUPER EXCAVATORS

SUPER EXCAVATORS, INC.

ESTABLISHED IN 1950

AN EQUAL OPPORTUNITY EMPLOYER

February 24, 2015

To: **Scott Fitzgerald**
Members of the Legistlature
Member of the Senate
Governor Walker

RE: **Right-to-work Legislation**

Ladies and Gentlemen:

My name is Peter Schraufnagel, President and owner of several construction firms in Menomonee Falls, Waukesha County, Wisconsin. I also reside in Delafield, Waukesha County, WI.

I am puzzled by our State Government's propensity to meddle in private business' affairs and agreements. We willingly signed and agreed to the terms of our contracts with our respective construction unions. We do this because they provide a great resource of talent for us. Super Excavators, Inc., Super Western, Inc., SX Blasting, Inc., and SX Foundations, Inc. are companies domiciled in Menomonee Falls, Wisconsin. These companies however do work across the United States. When we go to do work in Rhode Island, Cleveland, San Francisco, Michigan City, and Chicago we call up the local union halls and get TRAINED people to come to work for us. This is a huge help especially when we are trying to establish ourselves in another location. The union provides us a built in HR department with TRAINED people who are certified crane operators. Passing Right to Work will not allow the unions to spend the proper money to get their members trained.

Super Excavators, Inc.(SEI) has gone to areas of the Country such as Omaha, Nebraska where there isn't a vibrant organization such as our Local 139. Our experience has been poor. Why? Because they don't have good training programs such as ours located in Coloma, Wisconsin. These training programs are more necessary than ever. When construction economy hit the skids in 2008, many tradespeople left and relocated or retired early because there was no work for them. Now, we are in a situation where the construction economy nationwide is becoming robust again, but we are struggling to find TRAINED people to fill these positions across the US. Our businesses are being held back by the lack of quality people available. In Wisconsin, we are able to get quality people to get our work done and that is because of training programs such as the one our Local 139 hold in Coloma. When people are off of work due to winter weather, they can get further training at Coloma to expand their abilities. This is a tremendous asset to SEI and other contractors statewide. Your actions today could have an even greater effect on our ability to compete nationwide. When working outside Wisconsin, SEI takes 50-60% of the workforce needed from Wisconsin. Why? Because the people in our state are second to none!

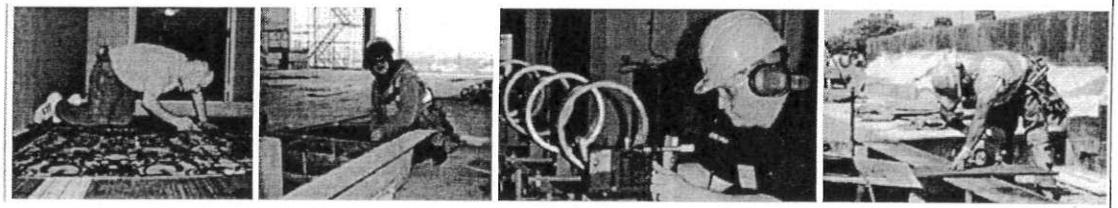
We work on some of the toughest projects nationwide. We are doing Heavy Civil Construction that requires smart, trained, and hardworking individuals. Many of these people got their start going to Coloma and starting their career training and hoping there will be work available. That's our lifeblood!

Your passage of this bill will dramatically hurt our ability to foster a high quality, trained, and safe workforce. I urge all those involved in this committee, the Legislature, Senate, and the Governor to vote against the Right to Work bill. This will not Move Wisconsin Forward, it will adversely move us in the wrong direction!

Thanks for your consideration,

Peter J. Schraufnagel

NORTH CENTRAL STATES
Regional Council of
CARPENTERS



TRAINING AND EDUCATION

Training is what sets Union Carpenters apart from our non-union counterparts. Training gives us the skills we need to:

- Do a better job
- Get more done in less time
- Get it right the first time
- Work more safely

Our commitment to training builds the skilled, productive workforce our economy needs today and in the future. Our training helps our signatory contractors compete, stay profitable and succeed. It helps us earn the wages and benefits that give us a better life.

When it comes to training, the Carpenters Union literally puts its money where its mouth is. The Regional Council has 14 training centers in operation. Every year, we spend $5 million to provide apprenticeship and upgrade training to our members. Not one dime comes from a state or federal government. We pay for it all ourselves. That's how committed we are to training our members — the skilled, new workers this industry needs.

The Regional Council also develops custom training in areas such as paper mills and health care construction — training that responds to the demands of key industries in our region.

Our members never stop learning. We offer hundreds of safety and skill advancement classes every year. Even veteran members constantly improve their productivity and keep up-to-date with the latest in industry practices and technology. Best yet, all of this training is free to members in good standing.

Union apprenticeship training is unparalleled. Our signatory contractors and our members partner to build a skilled workforce. All of our apprenticeship training takes place through rigorous, state-certified programs. That's a huge difference from the haphazard "training" nonunion outfits say they provide. Our training goes far beyond piecemeal instruction in which someone gives a kid a tool and says "Do this."

Instead, our apprentices learn their entire craft, adding skill blocks and certification in the classroom, in the shop and on the job. They work side-by-side with skilled journey-level workers every step of the way, in the tradition of the centuries-old European guild system.

Our instructors are among the 1,600 instructors nationally certified by the United Brotherhood of Carpenters. The UBC spends more than $120 million each year on training. That includes providing more than 100 "Train the Trainer" courses annually so our instructors stay up-to-date on their skills.

Select Language ▼

Google Powered by **Translate**

PHOTO ALBUMS

North Central States Regional Council of Carpenters, 700 Olive Street, Saint Paul, Minnesota 55130, 651-646-7207

WMC

WISCONSIN MANUFACTURERS & COMMERCE

TO: Members, Senate Committee on Labor and Government Reform

FROM: Scott Manley, Vice President of Government Relations
Chris Reader, Director of Health & Human Resources Policy

DATE: February 24, 2015

RE: Support for Senate Bill 44 – Right to Work

Thank you for holding the public hearing today on Senate Bill 44, which would implement Right to Work in Wisconsin. We appreciate the opportunity to speak in favor of this important legislation, and explain why Wisconsin will benefit economically from a Right to Work law.

Wisconsin Manufacturers & Commerce (WMC) is the state chamber of commerce and largest general business association in Wisconsin. We were founded more than 100 years ago, and are proud to represent approximately 3,800 member companies of all sizes, and from every sector of our economy. Roughly one-fourth of the private sector workforce is employed by a WMC member.

Right to Work (RTW) is simple: it gives employees the freedom to choose whether to join a union and pay dues. It protects workers by ensuring that they cannot be fired because they refuse to pay union dues. No one should be required to join a union and pay dues as a condition of being hired or maintaining a job.

Equally important, it is important to recognize what RTW does not do. RTW does not eliminate existing unions, it does not void existing labor contracts, it does not prohibit collective bargaining, it does not impact worker training, it does not lower wages, and it does not prohibit workers from organizing a union.

Why should Wisconsin pass Senate Bill 44 and become the 25th state to enact RTW? Beyond the argument that giving workers the freedom to choose whether they join an organization is simply the right thing to do. Passing Senate Bill 44 will help Wisconsin compete for economic development projects that are now going to RTW competitors like Michigan and Indiana.

On a number of Economic Measures, RTW states have outperformed forced-unionization states in recent years.

- **Competitive Business Climate**. Site selectors who advise businesses on where to expand or locate a new business say that 75% of their clients view Right to Work as an "important" or "very important" factor, and up to half of businesses will not even consider investing in a forced-union state.

- **More Job Creation**. During the 10-year period from 2004-2013, RTW states added 3.6 million jobs – significantly more than the 1.5 million in forced-union states.

- **Faster Job Growth**. From 2004-2013, RTW states grew jobs by an average of 5.3%, which is more than twice the rate of forced union states (2.1%).

---

501 East Washington Avenue Madison, WI 53703-2914 P.O. Box 352 Madison, WI 53701-0352
Phone 608.258.3400 • **Fax** 608.258.3413 • www.wmc.org • **Facebook** WisconsinMC • **Twitter** @WisconsinMC

- **Higher Wage Growth**. RTW states grew wages by an average of 15.1% from 2003-2013, while wage growth lagged in forced-union states at 8.2%

- **Higher Manufacturing Output**. Manufacturing GDP grew by 26.1% in RTW states from 2003-2013, compared to 13.8% in forced-union states.

- **More Disposable Income**. When differences in cost-of-living variations between states are taken into account, employees in RTW states had per capita disposable income of $38,915 in 2013, nearly $2,000 per year more than the $36,959 in forced-union states.

- **More Workers**. RTW states grew population by 4.9 million people in the ten-year period from 2003-2012, while forced-union states lost 4.9 million people.

Beyond the compelling economic measures associated with RTW states, the RTW policy is strongly supported by the people of Wisconsin. WMC commissioned a statewide scientific public opinion poll in December, and the results found strong support for RTW in Wisconsin.

Fully 69% of the general public in that poll supported Right to Work, including 91% of Republicans, 76% of Independents, 48% (a plurality) of Democrats, and even 51% of Union Households. A poll from Wisconsin Policy Research Institute released in January found similar strong support for Right to Work statewide.

Despite the popularity of RTW laws among voters, organized labor and other opponents of RTW have attempted to paint a false picture of this important reform.

Following is a rebuttal of some of the most common arguments against RTW.

- **The Middle Class Argument**. Unions often claim that RTW hurts the middle class. However, the objective data show that RTW states have faster job growth, faster wage growth and higher disposable income. It's unclear how any of those economic measures are bad for the middle class.

- **The Lower Wage Argument**. Contrary to the claim that RTW will reduce wages, the experience in Michigan and Indiana has been the exact opposite. Both of those states have consistently increased wages since enacting a RTW law. Moreover, wages grew twice as fast in RTW states compared to forced union states from 2003-2013.

- **The Poverty Argument**. Opponents often argue that RTW will reduce wages and lead to greater reliance on public welfare programs. On the contrary, welfare utilization is actually lower in RTW states at 5.8 TANF recipients per thousand in 2013. That's less than half the rate of 16.7 welfare recipients per thousand residents in forced-union states.

- **The Anti-Union Argument**. Union leaders often characterize RTW as a policy intended to harm unions, but the data shows otherwise. In the period from 2010-2013, Right to Work states collectively grew union membership by 57,000 workers, while forced-union states actually lost 248,000 union members. In addition, Indiana has actually increased union membership since enacting RTW in 2012.

- **The Worker Training Argument**. Opponents argue Right to Work will jeopardize training in the construction trades, but that has not been the experience in other states. In fact, Right to Work states have 28% more operating engineers employed per capita than forced-union states. The truth is that training is paid for by the businesses, not the unions, and businesses will continue to pay for training because it's in their best interest to have a well-trained workforce. One need only at the IRS tax filings to see that training is paid by companies, not by union membership dues. Training is conducted by 501(c)(3) organizations funded primarily by employer contributions, compared to the membership unions, which are 501(c)(5) organizations and funded by union membership dues. The facts speak for themselves; skilled training is not dependent upon union dues.

- **The Free-Rider Argument**. Union leaders claim Right to Work is unfair because the union is required to represent all employees, even if they do not pay dues. However, these "exclusive representation" agreements are not mandatory and unions are not required to negotiate these clauses into their contract. The Supreme Court has found that unions are free to negotiate member-only contracts if they want. If unions do not wish to represent workers who don't pay dues, they are free to exclude them in their bargaining agreements.

The economic and individual freedom arguments make clear that Right to Work is Right for Wisconsin, and we urge you to vote yes on Senate Bill 44.