north carolina
JUSTICE CENTER

ncjustice BRIEF

January 2013

"Right to Work" Is the Wrong Approach to Economic Recovery and a Strong Middle Class

"Right to work" (RTW) laws have been on the books in North Carolina for decades, but lawmakers are now pushing to enshrine this status in the state's constitution. Proponents of RTW laws argue they spur economic growth. Yet, research shows that in states where the laws exist, including North Carolina, RTW laws do not create jobs; rather, they lower wages and undermine the middle class.

Research demonstrates that increased union membership leads to higher wages—for both union members and non-union members—and greater access to benefits such as health insurance and pensions. Such increases in income and the benefits that ensure financial stability for working families strengthen the middle class and local economies.

CONTACT:

SABINE SCHOENBACH

Policy Analyst

919/856-2234
sabine@ncjustice.org

north carolina
JUSTICE CENTER

P.O. Box 28068
Raleigh, NC
27611-8068

www.ncjustice.org

What are "Right to work" laws?

"Right to work" laws have little to do with the right to a job. Instead, these laws make it illegal for a group of unionized workers to negotiate a contract that requires all employees who benefit from the contract terms and union representation to pay his or her share of the costs of administering it. The effect is to dilute union bargaining strength by making it more difficult for unions to financially sustain themselves. As a result, the laws impact workers' wages and benefits as well as local economies.

"Right to work" laws do not spur employment growth

Proponents of RTW laws argue that employment growth in RTW states has been higher than in the remaining free-bargaining states and that, by implication, these laws cause employment growth.[1] These claims, however, do not take into account other important local variants, such as industry trends or educational attainment. Researchers at the Economic Policy Institute controlled for these factors and through state-by-state analysis found that RTW laws had no impact on employment growth in the states that have them.[2]

Moreover, the argument that RTW laws will encourage companies to relocate to RTW states is rooted in economies of the past. Proponents of RTW laws often focus on the laws' effect on manufacturing because, more so than other companies, manufacturers can choose where to locate their plants. Over the last three decades, however, North Carolina's manufacturing industry has crumbled, leading to company closures and extensive offshoring.[4] Over the last decade, North Carolina's economy has experienced an accelerated transition away from industries like manufacturing toward non-exportable industries like services and healthcare.[5] Protecting wages in these and other low-wage sectors will be critical to ensuring strong long-term consumer demand in the state.

Oklahoma, prior to Indiana and Michigan, was the only state to have adopted RTW laws in the last 20 years and serves as a good example of the lack of impact RTW laws have on economic growth in the global economy. In the 10 years since the state adopted RTW laws, both the numbers of companies relocating to Oklahoma and the total number of manufacturing jobs in the state fell by about one-third.[3]

Lower union membership results in lower wages and benefits for all workers in RTW states

Union membership results in higher wages and benefits for workers because unions enable workers to negotiate with their employers on relatively equal ground. In North Carolina, the wage gap between union and non-union workers is significant (**Figure 1**).

Yet, researchers have found that all workers—union and non-union—in RTW states face a wage penalty; wages in states with RTW laws are 3.2 percent lower than those in non-RTW states. Whether unionized or not, the average worker in a RTW state earns approximately $1,500 less per year than a similar worker in a state without such laws.[8]

FIGURE 1: North Carolina median wages and benefit rates by union status (in 2011 dollars)

	Median Wage	Health Insurance Rate	Retirement Plan Rate
Union	$19.46	75.4%	74.4%
Non-Union	$14.70	55.7%	53.2%

SOURCE: EPI analysis of 2009-2011 Current Population Survey Outgoing Rotation Group

THE HISTORY OF "RIGHT TO WORK"

The 1947 Taft-Hartley amendments to the National Labor Relations Act of 1935 (the Wagner Act) allowed states to pass laws that prohibit unions from requiring workers to pay union dues. Fourteen states, including North Carolina, enacted RTW laws through the spring of 1947; Section 14(b) of the Taft-Hartley Act subsequently provided protection for these laws.[6]

The passage of these laws came on the heels of national union expansion, which was taking hold even in some of the previously resistant regions in the South. The end of the decade, however, was witness to pushback. In the context of increased union membership, public concern over wartime strikes, and the association of unionization with racial integration, arguments for RTW laws amplified the general economic concerns about undermining the South's biggest selling points of compliant workers and low wages.[7]

FIGURE 2: If union membership increased in the states with the lowest unionization rates, the middle class would benefit.

	Unionization Rate	Gain for middle-class households if union membership were 10 percentage points higher	Gain in middle-class income if union membership were 10 percentage points higher
North Carolina	**3.2%**	**$1,279**	**$2,818,083,652**
Georgia	4.0%	$1,364	$2,850,605,280
Arkansas	4.1%	$1,135	$759,209,809
Louisiana	4.4%	$1,281	$1,298,647,436
Mississippi	4.5%	$1,096	$710,291,819
South Carolina	4.7%	$1,221	$1,290,644,592
Tennessee	4.7%	$1,231	$1,803,289,319
Virginia	4.7%	$1,768	$3,175,002,396
Oklahoma	5.5%	$1,225	$1,053,114,455
Texas	5.5%	$1,446	$7,583,648,242

SOURCE: Madland, David and Nick Bunker, September 2011. "As Unions Weaken So Does the Middle Class," Center for American Progress Action Fund. For a full methodology see Madland, David, Karla Walter, and Nick Bunker, April 2011. "Unions Make the Middle Class," Center for American Progress Action Fund.

A gap also exists between union workers' and non-union workers' access to employer-sponsored health insurance and pensions in North Carolina. To a smaller extent this gap exists for all workers in RTW states as compared to non-RTW states. The rate of employer-sponsored health insurance is 2.6 percent lower in RTW states, and the rate of pensions is almost 5 percent lower.[9]

A strong middle class fuels growth

Nine of the 10 states with the lowest percentage of unionization, including North Carolina, are RTW states. All of these states, including North Carolina, have relatively weak middle classes—defined as the middle 60 percent of the population by income – meaning that the share of income going to the middle class is below the national average.[10] If unionization increased by 10 percentage points in North Carolina, a typical middle-class household—not only those who are union members—would earn an average of $1,279 more per year (**see figure 2**).[11]

By lowering the wages and benefits of workers, RTW laws reduce consumer demand and restrict funds flowing into local economies. As consequence of this loss, the number of jobs in the economy shrinks. For example, for every $1 million in wage cuts, 6 jobs are lost in the service, retail, construction, real estate, and other local industries.[12]

Conclusion

North Carolina currently has the dubious distinction of being the least unionized state in the nation. As one of the earliest RTW states, North Carolina has had many years to learn from its experiences with RTW laws and economic growth. If it was ever a successful economic policy, for which there is scant evidence, the new economy in North Carolina does not support economic growth through low-wages. In fact, RTW laws, which have kept unionization rates low, may ultimately harm our struggling economic recovery.

1 For a summary of arguments for RTW laws, see Lafer, Gordon, January 2012. “Working Hard to Make Indiana Look Bad,” Economic Policy Institute.

2 Lafer, Gordon and Sylvia Allegretto, March 2011. “Does ‘Right to Work’ Create Jobs? Lessons from Oklahoma,” Economic Policy Institute.

3 Ibid citing the Oklahoma Department of Commerce, 2011 and the U.S. Bureau of Labor Statistics, 2011.

4 See Freyer, Allan, July 2012. “Going, Going, Gone – Offshoring, Job Losses, and the North Carolina Economy,” North Carolina Justice Center.

5 From 2001 to 2011, the state shed almost 380,000 jobs, almost 75 percent of which were concentrated in industries with average wages above the Living Income Standard, a market based measure of how much a family must earn in order to meet basic expenses. Sirota, Alexandra, 2012. State of Working North Carolina: North Carolina Justice Center.

6 See NC Gen. Stat. §§95-78 to 84. Dixon, Marc, July 2007. “Limiting Labor: Business Political Mobilization and Union Setback in the States,” Journal of Policy History, Vol. 19, Issue 3.

7 See Dixon, 2007.

8 Shierholz, Heidi and Elise Gould, February 2011. “The Compensation Penalty of ‘Right to Work’ Laws,” Economic Policy Institute. The authors controlled for individual demographic and socioeconomic variables as well as state macroeconomic indicators.

9 Ibid.

10 Madland, David, Karla Walter, and Nick Bunker, April 2011. “Unions Make the Middle Class,” Center for American Progress Action Fund. See also, for example, Schmitt, February 2010. “The Unions of the States,” CEPR.

11 Madland, David and Nick Bunker, September 2011. “As Unions Weaken so Does the Middle Class: New Census Data Shows the Importance of Unions to the Middle Class,” Center for American Progress Action Fund.

12 Lafer, January 2012.