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Right-to-Work Laws Improve Growth Prospects

Summary

States with right-to-work laws over the last six decades saw improvements in average annual employment, real personal income and population growth compared to what those states would have experienced without right-to-work, according to a new Mackinac Center study.

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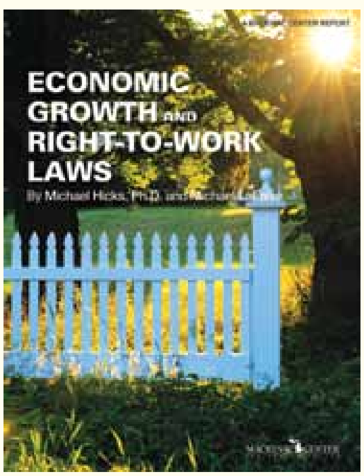
By Michael Hicks and Michael LaFaive

Michigan's right-to-work law — which took effect earlier this year — may prove to be an economic boon for the state, particularly over time. The cumulative effect of right-to-work appears to have dramatically boosted the standard of living in the states which have adopted it.

Our new study assumes that growth rates in such things as personal income, population and employment are proxies for a state's overall well-being. We measured changes in each over time, including a 64-year sweep from 1947 through 2011 and three other distinct and smaller time periods.

According to our model, states with right-to-work laws enjoyed an annual average increase in real personal income of 0.8 percentage points and an average annual population growth of 0.5 percentage points compared to what they would have experienced without such laws. From 1970 through 2011, these laws also boosted average annual employment growth by 0.8 percentage points. Data in this last category is not available starting in 1947.

On its face, a 0.8 percentage point boost in personal income or employment growth may not seem impressive — unless it is taken in context. If a state would have otherwise enjoyed a 2 percentage point increase in growth, and adoption of a right-to-work law raised that rate to 2.8 percentage points, the improvement in the growth rate is a heady 40 percent.



Economic Growth and Right-To-Work Laws can be found online at www.mackinac.org/19051

These changes represent a permanent incremental average improvement. In other words, if population growth increases by 0.5 percent after adoption of a right-to-work law, than after 10 years a state would have seen a 5 percent increase in population growth above what would have been seen had the policy not been adopted. This is a subject which should be of great interest to Michigan residents, as the Great Lake State is the only state to have lost population in net terms from 2000 through 2009.

Because national and state economic performances can change over time, we divided our analysis into three smaller segments: 1947 through 1970; 1971 through 1990; and 1991 through 2011. During the first period of study, our research indicates that right-to-work laws had little meaningful impact on either average growth of personal income or in average growth of population.

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The middle period (1971 through 1990) showed significantly different performance characteristics from right-to-work states in all three categories. Our model reports average annual growth rates for employment, personal income and population were 0.90, 0.93 and 1.30 percentage points higher, respectively. The final period (1991-2011) shows more modest gains, but ones that are still statistically and economically significant in each category.

Our empirical findings seem to align with more descriptive looks at the trends between RTW and non-RTW states.

Mackinac Center scholar James Hohman updated several right-to-work and non-right-to-work statistics recently for the Center's study. This language appears there verbatim:

- "According to the Bureau of Economic Analysis, right-to-work states showed a 42.6 percent gain in total employment from 1990 to 2011, while non-right-to-work states showed gains of only 18.8 percent."

- "According to the Bureau of Economic Analysis, nominal personal income grew by 209.3 percent in right-to-work states and by 148.5 percent in non-right-to-work states from 1990 to 2011."

- "According to the U.S. Census Bureau, population increased in right-to-work states by 39.8 percent and only 16.7 percent in non-right-to-work states from 1990 to 2011."

- "According to the U.S. Census Bureau, 4.9 million people moved from non-right-to-work states to right-to-work states from 2000 to 2009."

These statistics suggest that right-to-work states outperform non-right-to-work states in the key areas of employment, population and personal income growth. In addition to our new study, other scholarly works — but not all — have also found positive economic results from state adoption of right-to-work statutes.

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Michigan's right-to-work law started raucous debates in Lansing and elsewhere over whether or not such policies were beneficial. We believe the evidence reports to positive — sometimes very positive — economic consequences.

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