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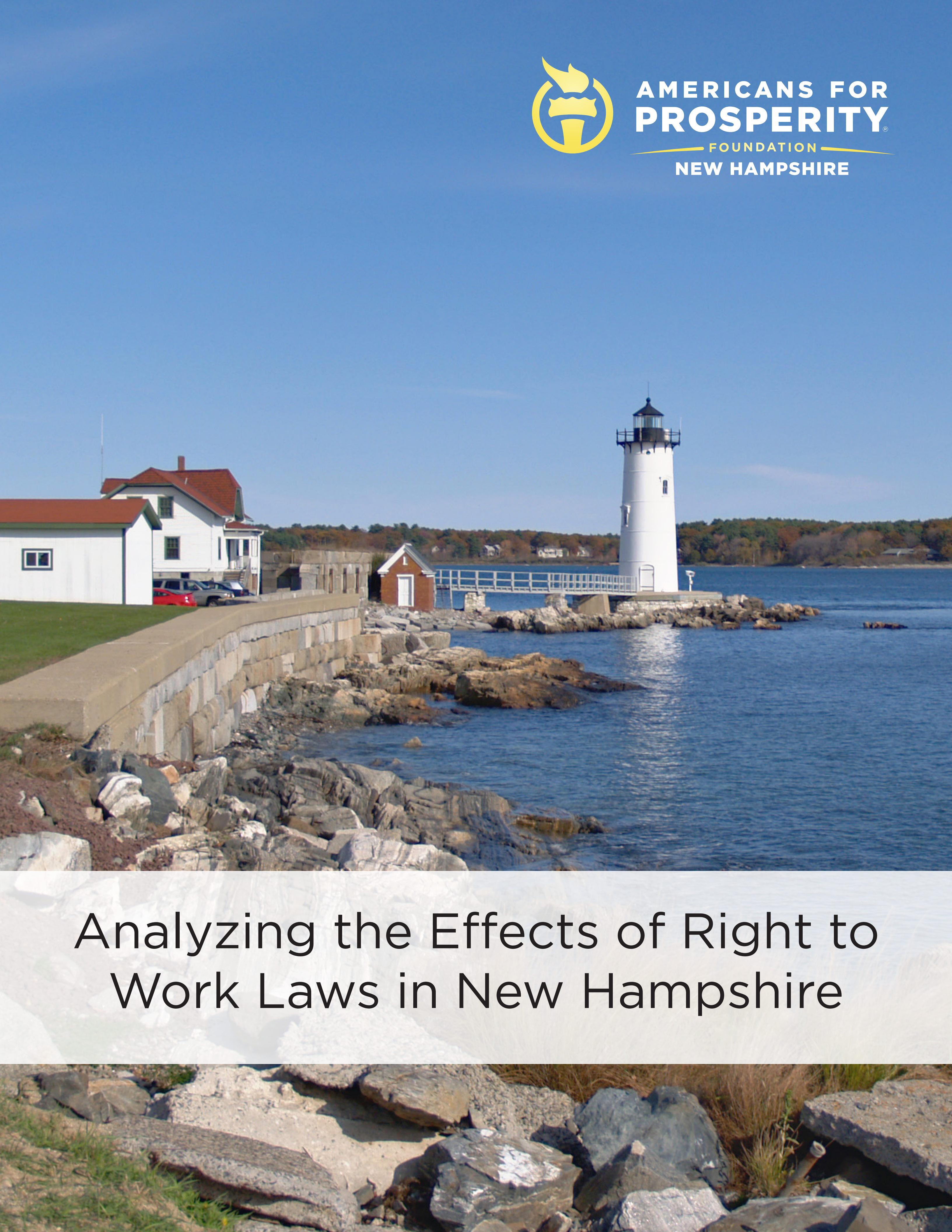

Analyzing the Effects of Right to Work Laws in New Hampshire

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I – Executive Summary

In the United States, there are currently 24 states that possess right to work laws. The effects of right to work legislation can be broadly divided into two categories: the effect of right to work legislation on unionization and union membership, and secondly the impact of right to work legislation on economic outcomes, including employment. The existing literature concerning the impact of right to work legislation contains no absolute way to isolate or link right to work legislation as a causal factor on union membership, or various economic outcomes. However, it is possible to rationally extrapolate that right to work legislation has some negative effect on union membership, and has some positive effect on job growth.

Since Indiana enacted right to work legislation, the state has grown faster than the historic average for the Midwest, as measured by the Chicago Federal Reserve, experienced faster than predicted job growth, and seen significant drop in unemployment. Examining the existing data from Indiana, it is reasonable to assume that the passage and implementation of right to work legislation played a role in Indiana's economic recovery, particularly given the relative stagnation of the surrounding states in the region.

Using Indiana's experience in the 2 years since passing right to work legislation, a rough estimate for the potential impacts of passing right to work legislation in New Hampshire can be inferred. If right to work legislation were passed in New Hampshire, in two years the state could be reasonably expected to add 4000 to 6000 additional jobs beyond the average growth rate, with many of those jobs coming from neighboring states, which are all forced unionism states. Secondly, the state would approach full employment, with unemployment dropping to nearly 4.0 percent.

As an additional note, if New Hampshire had implemented right to work laws 35 years ago, per capita income in the state would be almost 3,000 dollars higher.

II - Background

Introduction and Purpose

This paper will aim to address not only the established literature regarding right to work legislation, but will also attempt to predict the economic impacts that the passage of right to work legislation could potentially create. The focus of the analysis of the impact of right to work legislation will focus onIndiana, followed by extrapolations as to what may reasonably be expected to occur if right to work legislation is passed in New Hampshire.

III - Economic Impacts of Right to Work Legislation: Review of Existing Literature

Right To Work Legislation - Congressional Research Service Report

Given that there are currently 24 right to work states, there is a wealth of statistical data that can be analyzed and compared to gauge the impacts that right to work legislation can have on states' economies.The Congressional Research Service (CRS) released an empirical and legislative overview of the general impact of right to work laws in January 2014 which illustrates the general effects of right to work legislation upon the various states.This report first delves into the legal and legislative aspects of right to work legislation before addressing the question of what the effects are of passing right to work laws. The report's findings are divided into two overarching categories: the impacts of right to work legislation on economic indicators and outcomes, such as employment and wages, and the effects that right to work laws have on unionization.

Right To Work Legislation - Impacts on Employment and Economic Outcomes

Much like the existing literature regarding the impact of right to work legislation on union membership, there exists no study that has established beyond reproach the links between the passage of right to work legislation and wages and employment.The use of different methodologies and controlling for various variables leads to different results and conclusions. As it is related to right to work laws and employment, there are two overarching schools of thought. The first school is that right to work legislation creates a favorable business climate and culture that allows businesses to have the flexibility in wage-setting, hiring, and discharge of employees. The second is that right to work legislation is not the primary driver in business decision making, and that other factors, such as subsidies, tax breaks, and local labor supply are the driving forces in animating business policy.

Fortunately there exists a wealth of data that illustrates the levels of employment for right to work states versus forced unionism states. This data is illustrated in Table 4 of the Congressional Research Service's report on the impact of right to work laws. The data shows two general trends of interest regarding right to work laws. The first is that over the decade from 2002 through 2012, all states had a combined net change in employment of 2.7 percent, with right to work states posting a 6.6 percentage increase in total employment compared to a .3 percent increase in union security states. Similarly, the Bureau of Economic Analysis reports that from 1990 to 2011, right to work states experienced a 42.6 percent gain in total employment, contrasted to less than 19 percent in union security states.
Looking from 2007-2012, during the period when the housing bubble burst, all states posted a net 2.7 percent reduction in employment levels, with right to work states posting a reduction in employment rates of 2.2 percent, and union security states seeing a 3.0 percent reduction in employment. These data points would appear to indicate that states that have right to work legislation laws rebounded from the late 2000s recession more quickly than states with union security laws. There is no present survey that has adequately isolated the effects of right to work legislation and its result on employment, but the presence of right to work legislation or union security legislation may serve as general proxy for a state's overall business climate.

Effects of Right to Work Legislation on Union Membership

Since the fifty states have differing regulatory and legislative structures, not to mention differing economies, there is no way to completely isolate the effects of right to work legislation. Modern economies of scale are simply too large and have too many moving parts, making any systematic study of the precise effects of right to work legislation difficult from a research standpoint, but trends are noticeable among the data.

One area where right to work legislation appears to have an effect is on the rate of union membership within a state. The CRS report on the impact of right to work legislation notes that the rate of union membership in non right to work states is almost triple the rate in right to work states. Union membership in union security states is 15.0 percent, compared to right to work states where the average rate of union membership is 5.6 percent. The second tendency pertains to workers covered under union contracts yet are not members of a union. In states that have right to work legislation, the percentage of workers who are covered by union contracts, but are not members of a union stands at 19. In union security states, the percentage of workers covered by union contracts who are not members of a union stands at approximately 7 percent.

However, union membership is by and large falling across the country, although there are exceptions to this general trend. The Mackinac Center for Public Policy reported that in 2012, union membership in union security states fell by 396,000, while in right to work states union membership grew by 39,000. A possible explanation for this is that in right to work states, unions must do a better job of demonstrating their usefulness when trying to attract new members.

Still, there exists no unifying hypothesis that can adequately describe the difference in unionization rates between union security states and right to work states, principally due to differing methodologies that are used by interested researchers, but also due to the different business environments and cultures that exist around labor practices. Some hypotheses that have been put forward for explaining the difference in union membership include the free-rider hypothesis, the bargaining power hypothesis, and the tastes hypothesis. These three hypotheses all have mixed to inconclusive findings regarding their respective hypothesis. From the surveys that have already been performed, the passage of right to work legislation appears to have two principal impacts upon union membership: the first is that union membership is substantially lower in right to work states compared to union security states, and the second is that in right to work states a greater percentage of workers who are covered by union contracts, yet are not members of a union.

One general trend that has been occurring irrespective of the passage of right to work legislation is the general decline in union membership, regardless of a state's right to work or union security status. The cause of this trend is far beyond the prospective scope of this paper, and is simply a broader societal development in recent decades.

General Trends in Wages and Employment

One very important question that many have when right to work laws are being considered is their effect on wages and job growth. Indeed one of main arguments that opponents of right to work have is that right to work laws lower wages for employees. Fortunately, there is a good amount of information regarding the relationship between right to work states, wages and job growth.

In the period from 1990 through 2012, 35 states had increases in income, while 15 states saw the average income in their state go down. Of note however, is that of the 15 states that saw incomes go down, only 6 of them were states with right to work laws. Additionally, of the 35 states that had income increase, 18 of these states were right to work states.

When looking at how states' overall levels of employment changed from January of 1990 through April of 2014, a very interesting trend appears. The average increase in employment in this 24 year span was about 24 percent. What is striking to see is that of the states that are below the national average, only 6 of them are right to work states, and three of these states (Alabama, Mississippi and Louisiana) suffered not only from Hurricane Katrina in 2005, but also from the BP oil spill in 2010. Of note is that Alabama, while posting the second lowest job growth rate among right to work states, still managed to increase jobs at a higher rate than Massachusetts, Illinois, New York and New Jersey. Of the top 10 states in job growth, 8 of the 10 have been right to work states, while of the bottom 10 states in job growth, 9 of the 10 bottom states do not have right to work laws, and the one right to work state, Michigan, only became a right to work state in 2013.

Clearly, right to work states have fared far better in employment growth over the past fifteen years.

In 2003 economist Robert Reed conducted a study that illustrated that when the economic conditions in a state prior to passing right to work legislation are controlled, a statistically significant positive relationship between right to work legislation and wages appears. Reed estimated that when holding economic conditions constant, average wages in right to work states were on average 6.68 percent higher than in union security states. Controlling for the economic conditions in a state prior to passing right to work laws is important, as it allows for the conceptualizing of the historical differences between many right to work and union security states. Many right to work states, particularly the states in the Deep South, have long been poorer and less developed than many union security states and are only recently beginning to catch up in terms of relative economic prosperity.

Richard Vedder and Jonathan Robe released a study that analyzed the effects of right to work laws, with particular attention being paid to how right to work laws impact growth and income. The authors found that states with right to work laws had economic growth that was on average 11.5 percentage points higher than union security states. After this finding, the authors performed an analysis as to what the lost income from economic growth was in the 35 years between 1977 and 2012. The results of this analysis are stunning. If New Hampshire had enacted right to work legislation in 1977, per capita income in New Hampshire would be just under 3,000 dollars higher.

IV - Indiana as a Case Study

Data Sources, Framework

While Michigan and Indiana both passed right to work legislation in 2012, the legislation that was passed in Michigan was piecemeal and does not provide a clear before/after point of comparison, rendering it ineffective for extrapolating the potential effects of implementing right to work legislation in New Hampshire. The clean nature of the passage of right to work legislation in Indiana, coupled with the relatively comparable size of Indiana, make an analysis of Indiana's economic trajectory in the wake of the passage of right to work legislation in the state an apt case for comparing and forecasting the potential effects of right to work legislation in New Hampshire. The data that will be examined is from the Chicago Federal Reserve's Midwest Economic Index, as well as employment data from the Bureau of Labor statistics and research from the Indiana Business Research Council. It is important to restate that just like in the extant literature regarding the impact of right to work legislation, it is difficult to concretely establish a link between right to work legislation and the desired economic impact to be studied.
Federal Reserve Midwest Economic Indicators - Analysis

Under the Federal Reserve, there are several regional Federal Reserve Banks that serve to analyze the economic conditions in various parts of the country. The Federal Reserve branch that serves Indiana is the Chicago branch of the Fed, and their data for the region serves as the base for the first portion of analysis for the impact of right to work legislation on Indiana.

The Chicago Fed uses a metric that they term the Midwest Economic Index (MEI) to track the growth of the economy in the Midwest. The metric itself is a weighted average of 134 regional and state economic indicators that is then compared to historical growth patterns in the region. When comparing growth rates to historical averages, an MEI of 0 would indicate the regional economy is growing at historically consistent rates. Similarly, a negative MEI would indicate that economic growth is less than the historical average and a positive MEI would indicate that economic growth is proceeding faster than the historical average. For the purposes of this analysis, the MEI data from the Chicago Fed for Indiana and Wisconsin will be analyzed and compared, followed by an interpretation of the data.

The first portion of the analysis will examine the extant data from the Chicago Fed from before the implementation of right to work legislation in Indiana. The MEI data from the Chicago Fed goes back to February 2011, and spans 12 months of MEI data. During this period, from February of 2011 through January of 2012, the state of Indiana experienced an MEI of-.29, which would indicate that economic growth in the state was less than the historical average for the region. In contrast, the state of Wisconsin posted an MEI of .34, indicating growth that was above the historical average for the region.

Indiana's right to work law was put into effect in February of 2012, and the first MEI report from the Chicago Fed was released in March of 2012. From March of 2012 through April of 2014, Indiana posted an MEI of .42, which is a substantial turnaround from the MEI of -.29 that was posted for the previous 12 months of data collection. During this time frame, Wisconsin by contrast posted an MEI of -.59, which was also a marked turnaround from the .34 MEI that Wisconsin posted during the previous time period.

Interpretation - Considerations and Conclusions

Looking at the data from the Chicago Federal Reserve, it can reasonably be assumed that the implementation of right to work legislation in Indiana had some positive effect on Indiana's economic growth, and was a net positive contributor towards economic growth in Indiana.

In regards to Wisconsin's growth projections,Wisconsin was chosen as a comparison for Indiana for three reasons. First, Wisconsin is in the same Fed region as Indiana, allowing for the use of the same measure of competitiveness. Second, the states are comparable in size. And lastly, Wisconsin, while enacting important reforms, remains a union security state.

Right to Work Legislation and Employment in Indiana

The next area of analysis will focus on the labor and employment situation in Indiana in the wake of the passage and implementation of right to work legislation. The Bureau of Labor Statistics keeps voluminous records on virtually every economic indicator, and when examining the employment situation in a state, the BLS looks at 4 main areas of data: the total labor force in Indiana, the total employment numbers in Indiana, the total unemployment numbers in Indiana, and lastly the unemployment rate in Indiana. Much like the data from the Chicago Fed, the analysis will begin at the beginningof 2012, right when Indiana implemented their right to work legislation.

Since the beginning of 2012, Indiana's total labor force has increased by approximately 47,000. This change in the labor market can be seen in chart number 1 in the appendix. Secondly, the total number of employed people in Indiana went from approximately 2,910,000 people to 3,045,000 over the period from January 2012 through April of 2014. This indicates that there are now 135,000 more employed people in Indiana than there were in January of 2012. This data is summarized in chart 2 in the appendix.Following an expected trajectory, just as employment increased in Indiana from January 2012 through April 2014, the number of unemployed workers in Indiana decreased. Additionally, the number of unemployed Hoosiers decreased by 87,000 workers in this time period. Lastly, the unemployment rate in Indiana decreased from 8.3 percent in January of 2012 to 5.7 percent in April of 2014. Just as with the data concerning the MEI data relating to Indiana's economic growth, it is impossible to say with certainty the effect that right to work legislation had on the growth in Indiana. However, it can still be reasonably assumed that the passage of right to work legislation had a net positive effect on employment in Indiana.

Projected Growth vs. Actual Growth

Looking at the job growth data for Indiana shows an interesting contrast between the projected growth in Indiana and the actual growth in the state. The Indiana Business Research Center publishes an annual projection of job growth in the state of Indiana in the year 2013. The two areas that are of most interest for the purposes of this paper are the IBRC's projections regarding the projected growth in employment and the projected decrease in unemployment. The IBRC projected that employment in Indiana would increase by 50,000 during the calendar year 2013, yet actual growth was over 60,000 jobs in 2013. Secondly the IBRC projected that unemployment rate would drop from 7.9 percent down to 7 percent, with a projection to approach 5 percent in 3-5 years. However, the actual unemployment rate fell down to 6.3 percent by the end of 2013, and is currently sitting at 5.7 percent statewide, meaning that unemployment fell a full seven tenths of a percentage point farther than predicted.

Conclusion

The extant data from Indiana illustrates that Indiana's economy has been recovering faster than predictions had forecast in the wake of passing right to work legislation. While bearing in mind that completely isolating the impact of right to work legislation is functionally impossible, it is reasonable to assume that the implementation of right to work legislation played a role in Indiana's recovery from the general recession that gripped the country late in the first decade of the new century.

V – Right to Work Legislation and Competition Between States

Attracting jobs to a state is fundamentally about competition. All other things being equal, a state that is able to out-compete other states in attracting companies will reap the benefits of those companies and manufacturers moving their operations to that state. Before Indiana passed right to work legislation, supporters of right to work legislation received letters and notice from manufacturers stating that they preferred to do business in right to work states, primarily due to the increased ability to compete effectively. An excerpt from a letter written by David Brandon, of Site Selection Group LLC to State Senator Phil Boots of Indiana makes this point abundantly clear: "I can tell you from professional experience that Indiana has missed multiple project opportunities that represented thousands of high-paying jobs and billions of dollars in capital investments because my clients specified 'Right to Work states only.'"

The flexibility afforded to states that possess right to work legislation allows them to compete more effectively in the national and international economies, while simultaneously attracting productive employment to the state.

VI - Predicted Effects in New Hampshire

In May of 2014, New Hampshire was able to stagger back to its pre-recession employment levels, though the extant data illustrates a slight leveling off of employment. However, for the first time in recent decades, New Hampshire did not lead New England in economic recovery after an economic downturn.

Admitting the difficulties inherent in attempting to ascribe causes to economic developments, there must be some reason why New Hampshire didn't lead New England in recovering after a recession. Given Indiana's experience in the wake of passing right to work legislation and the growth the state experienced after passing right to work legislation, it can be reasonably inferred that passing right to work legislation in New Hampshire would conceivably lead to faster growth.

There are many challenges that exist in attempting to predict future economic developments. However, using the experience of Indiana in the wake of the passage of right to work legislation, a certain number of predictions can be posited as to the potential effect of the passage of right to work legislation in New Hampshire. The first prediction is that the state would add four to six thousand additional jobs over the next two years, over current growth rates. Many of these jobs would conceivably be drawn from surrounding states that lack right to work legislation. Secondly, unemployment in the state would drop to at or near 4.0 percent, and would approach levels of full employment. Thirdly, the available supply of labor would increase.

As noted earlier in the discussion on Vedder and Robe's research, if New Hampshire had passed right to work legislation in 1977, every New Hampshire resident would be making 3,000 more dollars per year.

VII - Caveats and Disclaimers

As discussed in the review of extant literature on the subject, there is no concrete way to isolate the effects of right to work legislation on an economy. The only thing that can be done is to make informed inferences based upon observable phenomena. Generally speaking, right to work states have grown faster than states that possess union security legislation. While these differences in growth rates are due to many different factors, it can be reasonably assumed that right to work legislation had a positive role in the faster growth of states that did not possess union security legislation. The predictions in this paper are not meant to be authoritative, but are instead predications as to what could reasonably expected to occur if right to work legislation were passed in New Hampshire.

Appendix 1 - Charts

Chart 1 - Indiana Labor Force

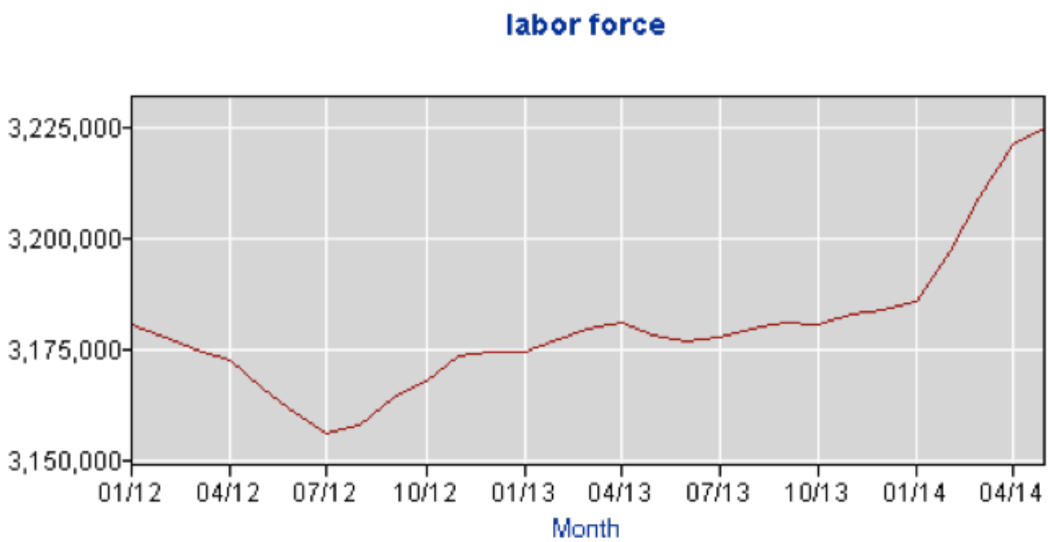

Chart 2 - Raw Indiana Employment Numbers

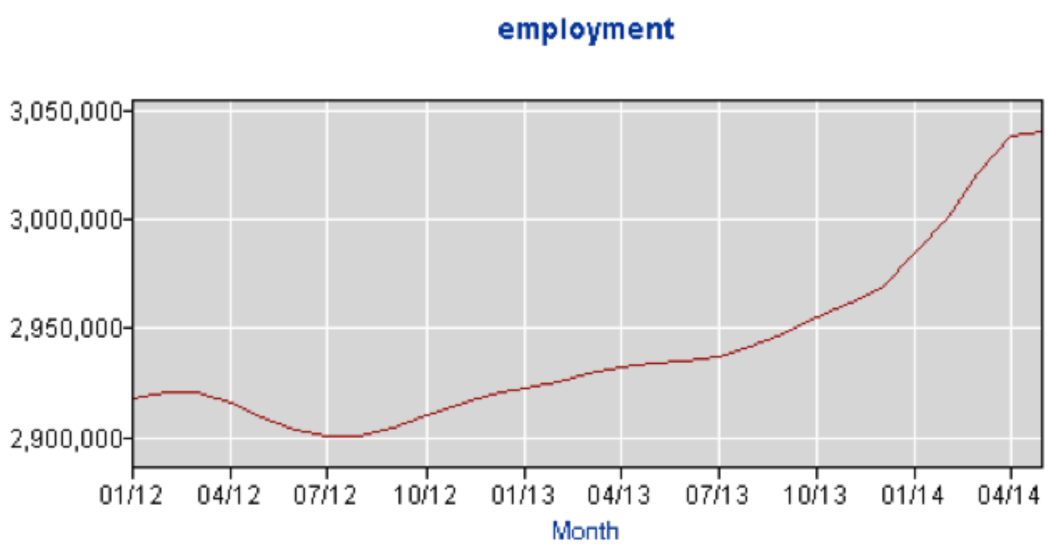

Chart 3 - Raw Indiana Unemployment Numbers

Chart 4 - Indiana Unemployment Rate