Does Right To Work Boost Economic Development?

Economists are notorious for not being able to agree with one another, but there is one public policy issue on which there is a remarkable level of agreement. This paper examines what the economics literature has to say about Right to Work and its relationship to state economic development.

by W. Robert Reed, Ph.D.
Dear Oklahoma Citizen,

Since 1993, the Oklahoma Council of Public Affairs, Inc. (OCPA) has studied issues of critical economic importance to Oklahoma and has reported our findings to citizens, legislators, and media sources throughout our state. As an independent research and education organization, we remain nonpartisan in our perspective and impartial in our analysis.

OCPA has always believed that Oklahomans are hard-working, industrious people with boundless initiative and a relentless determination to succeed. There is no reason our state should settle for our current economic mediocrity. We must pursue those ideas and policies which enable our citizens to strive for excellence in their chosen profession and workplace environment.

Right to Work has been a hotly contested issue in Oklahoma for decades. It is an issue which stirs the emotions of people on both sides of the debate. Labor unions boo the governor when he regularly includes passage of Right to Work as one of his objectives in his State of the State address. Advocates of compulsory unionism see it as an effort to lower worker wages and to thwart union recruitment efforts. Meanwhile, the Chamber of Commerce keeps Right to Work as a priority for passage every legislative session.

So much rhetoric exists regarding the possible impact of such legislation that OCPA decided to ask Dr. Robert Reed, a professor of economics at the University of Oklahoma and an OCPA adjunct scholar, for an objective analysis from an economist's standpoint. Dr. Reed focused on what economists and relocation specialists are saying about this intensely contested issue. His examination of the hard evidence makes this concise and thought-provoking study a compelling supplement to our state's debate about a critical policy issue which is sure to be the subject of much controversy and debate for some time to come.

Dr. Reed's research will cast fresh light on the Right-to-Work issue. And no doubt OCPA will receive ample criticism for its publication by those that disagree with its findings. But such criticism is shallow in substance if it comes from organizations and/or their advocates with vested interests in maintaining a predetermined position on this important subject.

In this paper, Dr. Reed raises important issues that cannot be discounted or ignored by any person who seeks a legitimate and thorough understanding of the Right to Work issue. It is in this spirit and intention that we publish this study and encourage all who read it to make up their own minds.

Sincerely,

Brett A. Magbee
Executive Director
Would Right to Work (RTW) stimulate economic growth in Oklahoma?

When it comes to answering this hotly debated question, there is no substitute for careful research. Policy makers are fortunate in this respect, for there exists a large body of research devoted to carefully studying this issue. And while economists are frequently chided for their inability to come to clear-cut answers, RTW provides a notable exception: The literature clearly shows that RTW is correlated with state economic development. In other words, while economists often have a hard time agreeing about things, when it comes to RTW, there exists a commanding consensus that states that have RTW do better than states that don’t.

**RTW and the Location Decisions of Firms**

The first piece of evidence on the economic impact of RTW regards firm location. RTW is one of the criteria that firms use in making location decisions. Many firms eliminate states from consideration solely because they do not have RTW. This fact is common knowledge to those who provide location-consulting services to firms and businesses.

Consider the following description of the site-selection process:

"The ‘art’ of geographic elimination requires a set of screens that systematically eliminate the least favorable locations ... The initial stages of the screening process are commonly described as 'defining the area of search' ... The focus typically is on macro wage differentials, usually at the state level, transportation variations ... and key ‘fatal flaw’ criteria as developed by the company/consultant; for example, right-to-work state, proximity to a university with an engineering school, port facilities, available buildings, and so on."  

First, the context: This quote does not come from the annual meeting of the National Right to Work Foundation. The author is not the president of the local chapter of the Right to Work coalition. The author is Robert Ady, a well-known executive consultant with Fantus Consulting, one of the nation’s largest location-consulting services. They make their living from helping firms choose places to locate their business.

Further, this quote was not taken from a conference sponsored by RTW advocates. It comes from the published proceedings of a conference on state and local public policies on economic development sponsored by the Federal Reserve Bank of Boston — a conference primarily concerned with state and local tax and expenditure policies, not RTW.

The quote describes a widely employed decision process by which firms arrive at a final set of locations at which to open new business operations. This process occurs in stages, and is characterized by sequential elimination. At each stage in the decision process, a larger set of locations is whittled down to produce a smaller set of locations. Generally speaking, wages, transportation costs, and other factors (such as the cost of energy) comprise the key criteria by which locations are eliminated. However, for some firms, there exist “fatal flaw” criteria. These criteria must be present in order for a location to progress to the next stage of consideration.

First among the criteria listed by Mr. Ady is that the state must be a Right to Work state. If not, the location is deemed to have a “fatal flaw” and is dropped from further consideration.

The fact that RTW is a very important issue for some firms should not be surprising. It accords with testimony from many different sources. For example, in her testimony to the Oklahoma State Senate Committee on Business and Labor, Elizabeth Morris, CEO and Chief Economist of Insight Research, a Dallas-based consulting firm, stated that 90 percent of their clients list RTW as a “kickout” criterion. For these firms, non-RTW states are immediately eliminated from the location selection process. Similarly, it is reported that “over half” of Fantus Consulting's clients eliminate states from location consideration if they do not have RTW.
In a 1987 study sponsored by Oklahoma 2000, Inc., Neil Dikeman, Jr. reported the results of a survey of firms that had considered Oklahoma for a plant location during the preceding seven years. These firms were asked to evaluate Oklahoma in terms of a number of different criteria. For the majority of firms, RTW was not a crucial issue. For a significant minority, however, it was. In fact, RTW was listed as the "top problem" more frequently than any of the other 26 criteria included in Dikeman's study.5

Opponents of RTW are frequently incredulous of claims that RTW matters, and challenge RTW supporters to name firms who chose to locate outside Oklahoma because of RTW. This challenge is difficult to meet. The fact is, firms are reluctant to publicly identify their reasons for not choosing a location, specifically when the reason is politically charged like RTW. The following account should help in understanding their reluctance.

In 1985, the chairman-elect of the Oklahoma State Chamber of Commerce, Ralph S. Rhoades, mailed a membership solicitation letter in behalf of the Chamber. In that letter, Mr. Rhoades identified RTW, among other items, as a key legislative goal for the upcoming year. The letter infuriated the state's unions, and a public uproar ensued.6 Incidentally, it should be mentioned that Mr. Rhoades was also president of Blue Cross/Blue Shield in Oklahoma.

Oklahoma's labor leaders demanded a retraction. The Oklahoma City local for the American Postal Workers Union recommended that its 1,200 members drop Blue Cross/Blue Shield as its insurer. The president of the union representing GM workers in Oklahoma City was quoted as saying that he "may recommend similar action." In response to the uproar, Mr. Rhoades held a press conference in which he stated that he never intended his letter to constitute an endorsement of RTW legislation. "Blue Cross/Blue Shield has never and will not take a position on a Right to Work issue, nor have I," said Rhoades. In light of this account, it should not be hard to understand why firms are reluctant to publicly identify their displeasure with Oklahoma's lack of a RTW law.7

In summary, a reasonable interpretation of the existing data is that for many firms, probably for most firms, RTW is not a decisive issue. This explains why national surveys typically report that RTW ranks among the middle tier of factors, and not the top tier, in terms of importance in relocation.8 However, for a significant minority of firms, RTW is decisive. There should be no doubt that Oklahoma's failure to adopt RTW has caused a substantial number of firms to locate and expand their operations in states other than Oklahoma. The real question is whether RTW would help more firms to come to Oklahoma. It would. The real question is whether enough firms would be attracted to result in significant economic benefits. That is the subject of the next section.

The Economic Benefits of RTW

This paper argues that there is a commanding consensus that RTW is positively associated with economic benefits. Rather than presenting a full-fledged summary of the economics literature, this paper presents the summary analysis from three independent sources.

The first source comes from a recent study of Oklahoma's economic growth problem by a team of economists. Their analysis, the authors write the following:

"...in reviewing the success of the fastest growing manufacturing states (the upwardly converging states of this study), we observed that they all had Right-to-Work laws. If state economic expansion includes targeting manufacturing growth, addressing the problem of Right-to-Work is a prerequisite." [Source: Alexander Holmes, Donald Murry, Kent Olson, and Larkin Warner, Raising Oklahoma's Personal Income: Lessons from the Fastest Growing States, 1998, page 59.]
The study identified in the preceding quote refers to a two-year investigation in which Oklahoma was compared to a set of rapidly growing states on a number of economic characteristics. As clearly stated, a distinguishing characteristic of these rapidly growing states was that they all had RTW while Oklahoma did not.

A skeptical reader might reasonably ask whether RTW was masking other factors that might be more important for economic growth. The task of identifying the independent contribution of specific factors, after controlling for the impact of other variables, belongs to a statistical technique called multiple (or multivariate) regression. There have been dozens of studies that have employed this technique in attempting to identify the independent contribution of RTW. Two recent surveys report the conclusions from that literature.

In the first survey, Robert Tannenwald, an economist at the Federal Reserve Bank of Boston and a long-time researcher in the area of economic development, reviewed 11 of the most sophisticated of these studies. This is his conclusion:

"I identified 11 studies that estimate the impact of right-to-work laws on either plant location, the rate of business formation, employment, or some other manifestation of economic development...Eight of them find that the existence of a right-to-work law exerts a positive, statistically significant impact on economic activity." [Source: Robert Tannenwald, "State Regulatory Policy and Economic Development," in New England Economic Review, March/April 1997, pages 88ff.]

The most comprehensive review of the literature on RTW is that of Professor W. Jefferson Moore, a chaired professor of economics at Louisiana State University and perhaps the country's foremost expert on RTW. In the conclusion to his review of the literature, Professor Moore writes the following:

"A little more than a decade ago, Professor Newman and I ended our review of the RTW literature with the conclusion that the better studies suggest that the effects of RTW laws are more symbolic than real (Moore and Newman, 1985, p. 583). More recent evidence indicates that this conclusion was premature...RTW laws are...positively correlated with long-run industrial development. The proponents of RTW laws may have been correct. RTW laws may have...promoted industrial development in the long run." [Source: William Moore, "The Determinants and Effects of Right-To-Work Laws: A Review of the Recent Literature," Journal of Labor Research, 1998, page 464.]

There are two things to note from Professor Moore's conclusion. First, he phrases his conclusion in the careful manner appropriate to scholarly research in refereed journals. Namely, he recognizes that one must be careful to distinguish correlation from causation. Statistical studies can only identify correlations. According to his survey of the economics literature, Professor Moore identifies a statistically significant correlation between RTW and economic growth after carefully controlling for the effects of other variables. However, it is always possible that other, unidentified factors not controlled for in the analyses may have caused the above-average growth of RTW states, and that the positive correlation between RTW and economic development is a coincidental artifact. This explains Professor Moore's careful phraseology (e.g., "may have been correct," "may have...promoted industrial development in the long run").

Second, it should not be overlooked that this conclusion of Professor Moore's reverses a previous conclusion that he had reached in a review of the literature published approximately a decade earlier. Professional economists — perhaps like most people, perhaps more than most people — do not like having to admit that they were wrong, especially when it comes to research published in peer-refereed journals. However, that is exactly what Professor Moore is saying when he states that his earlier conclusion was "premature." This speaks volumes about the convincing nature of the research supporting the economic benefits of RTW. And it speaks highly of Professor Moore's integrity that, when confronted by this evidence, as an objective researcher he was willing to reverse his earlier conclusion.

A Closer Look at the Evidence

Despite the evidence discussed above, some will always be skeptical of statistical analyses, mindful of the adage that "statistics lie, and liars use statistics." In this last section, this paper reviews the research of one particular study whose findings are not based on sophisticated statistical analyses, but on a careful comparison of primary data. The study is by Professor Thomas Holmes, associate
Professor of economics at the University of Minnesota, and is entitled, "The Effect of State Policies on the Location of Manufacturing Evidence from State Borders," published in 1998 in the Journal of Political Economy, one of the most prestigious journals in the economics profession.

Professor Holmes was concerned with explaining the disproportionate growth of manufacturing employment in RTW states since RTW became a viable option for states in 1947. Two facts in particular impressed him:

1. "Manufacturing employment in the states without right-to-work laws is virtually the same today as it was in 1947. In the right-to-work states, manufacturing employment has increased 150 percent."

2. "Eight of the 10 states with the highest manufacturing employment growth rates are right-to-work states. All 10 states with the lowest growth rates are not right-to-work."  

Professor Holmes' methodology focused on counties that lay on either side of a border between a RTW and non-RTW state. The darkened areas in Figure 1 show all counties in the U.S. whose center of population lay within 25 miles of a border between a "Pro-Business" (i.e., RTW) and an "Anti-Business" (non-RTW) state. Excepting the counties in the western portion of the United States, Holmes noted that these border counties generally lay aside two great divides: (i) a divide that extends from Point A to Point B on the map (what he calls the "Confederacy Border"), and (ii) a divide from Point C to Point D that he calls the "Plains States Border." His analysis concentrated on the counties that adjoined these two divides.

Professor Holmes compared border counties on two dimensions. The first characteristic was the share of the county's total employment in manufacturing in 1997. The second characteristic was the growth rate in manufacturing employment from 1947-1997. Holmes chose these two dimensions because economic theory predicts that RTW would have its greatest effect on manufacturing industries.

Table 1 reports the results of the following "experiment." Suppose one were to take a trip starting 75-100 miles away on the non-RTW side of the border and then gradually approach, cross, and...
finish that trip 75-100 miles away on the other (RTW) side of the border. If RTW mattered, one should see a sharp contrast in manufacturing activity at the border crossing. If RTW didn’t matter, one should not be able to identify a marked change at the border.

Moving down the columns of Table 1 simulates the experience of “traveling” from the non-RTW side of the border to the RTW side. Column 1 focuses on the share of total employment engaged in manufacturing in 1997. At 75-100 miles from the border, on the non-RTW side, one finds that counties have an average of 24.9 percent of their employment in manufacturing. At 50-75 miles from the border, the share decreases to 22.5 percent. At 25-50 miles from the border, it dips slightly to 22.3 percent. For counties located 0-25 miles from the border, the corresponding share value is 20.0 percent. And then comes the change. Once one crosses the border, the manufacturing share value increases abruptly from 20.0 percent to 27.0 percent, a marked (and statistically significant) difference compared to changes between other, non-border segments. Further movements away from the border on the RTW side result in moderate decreases in manufacturing shares. But, again, the changes between non-border segments are small compared to the abrupt change that occurs at the border.

A similar pattern occurs when one looks at manufacturing employment growth rates over the period 1947-97 as one “travels” from the non-RTW side of the border to the RTW side. In counties located in the interior of non-RTW states, 75-100 miles away from the border, manufacturing employment grew an average of 75.1 percent. This compares with 70.7 percent in counties 50-75 miles from the border, 91.3 percent in counties 25-50 miles from the border, and 70.3 percent in counties located within 25 miles of the border, on the non-RTW side. As one crosses from the non-RTW side to the RTW side of the border an abrupt change is again observed. The manufacturing employment growth rate increases from 70.3 percent to 104.6 percent. Moving further away from the border on the RTW side, one sees growth rates of 94.2, 93.4, and 99.8 percent as one passes across subsequent 25 miles segments.

The important thing to note here is that the change that takes place at the border between a

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**TABLE 1**

<table>
<thead>
<tr>
<th>Miles from Border</th>
<th>Manufacturing Share, 1997</th>
<th>Manufacturing Employment Growth Rate, 1947-97</th>
</tr>
</thead>
<tbody>
<tr>
<td>75-100</td>
<td>24.0</td>
<td>75.1</td>
</tr>
<tr>
<td>50-75</td>
<td>22.5</td>
<td>70.7</td>
</tr>
<tr>
<td>25-50</td>
<td>22.3</td>
<td>91.3</td>
</tr>
<tr>
<td>0-25</td>
<td>20.0</td>
<td>70.3</td>
</tr>
<tr>
<td>0-25</td>
<td>27.0</td>
<td>104.6</td>
</tr>
<tr>
<td>25-50</td>
<td>25.2</td>
<td>94.2</td>
</tr>
<tr>
<td>50-75</td>
<td>24.5</td>
<td>93.4</td>
</tr>
<tr>
<td>75-100</td>
<td>24.0</td>
<td>99.8</td>
</tr>
</tbody>
</table>

**TABLE 2**

<table>
<thead>
<tr>
<th>Border Side</th>
<th>1997 Share</th>
<th>Growth Rate, 1947-97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probusiness</td>
<td>Anti</td>
<td>Pro</td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Anti</td>
<td>Pro</td>
<td>Anti</td>
</tr>
<tr>
<td>(4)</td>
<td></td>
<td>(5)</td>
</tr>
<tr>
<td>Texas</td>
<td>Oklahoma</td>
<td>15.6</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Oklahoma</td>
<td>40.4</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Missouri</td>
<td>36.2</td>
</tr>
<tr>
<td>Tennessee</td>
<td>Missouri</td>
<td>39.4</td>
</tr>
<tr>
<td>Tennessee</td>
<td>Kentucky</td>
<td>40.6</td>
</tr>
<tr>
<td>Virginia</td>
<td>Kentucky</td>
<td>14.0</td>
</tr>
<tr>
<td>Virginia</td>
<td>West Virginia</td>
<td>22.2</td>
</tr>
<tr>
<td>Virginia</td>
<td>Maryland</td>
<td>14.0</td>
</tr>
<tr>
<td>Minnesota</td>
<td></td>
<td>16.4</td>
</tr>
<tr>
<td>Minnesota</td>
<td></td>
<td>17.1</td>
</tr>
<tr>
<td>Missouri</td>
<td></td>
<td>22.2</td>
</tr>
<tr>
<td>Wisconsin</td>
<td></td>
<td>29.1</td>
</tr>
<tr>
<td>Illinois</td>
<td></td>
<td>32.1</td>
</tr>
<tr>
<td>Missouri</td>
<td></td>
<td>25.0</td>
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<td>Missouri</td>
<td></td>
<td>20.1</td>
</tr>
<tr>
<td>Kansas</td>
<td>Missouri</td>
<td>21.3</td>
</tr>
<tr>
<td>Oklahoma</td>
<td></td>
<td>18.6</td>
</tr>
</tbody>
</table>

*Probusiness* value is larger than *Anti-business* value.

**SOURCE:** Table is taken from Holmes (1998, Table 1, Columns (3) and (4), page 886). Numbers have been updated by Professor Holmes under contract with Oklahoma’s Office of State Finance (OSF) and are used with their permission.

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non-RTW and RTW state is distinctly larger than changes that take place within the interior of those states. This is exactly what one would expect if RTW were exerting a significant impact on the location of manufacturing activity.

One may reasonably question whether these results are being driven by one particular state or border. Table 2 addresses this question. There are 17 state borders represented in the border data of Table 1. In a remarkable 15 out of 17 cases, the 1992 manufacturing share is greater on the RTW side of the border. The results for manufacturing employment growth are not quite as robust, but are still very strong. In 11 out of the 17 cases, manufacturing employment growth was larger on the RTW side of the border. This provides solid evidence that the findings of Table 1 are not driven by a small number of special cases.

What makes Holmes' findings so compelling is that the RTW and non-RTW counties are located so close to each other. It is one thing to compare Oklahoma, a non-RTW state, with Tennessee, South Carolina, or some other RTW state. Despite one's best efforts to control for the influence of other factors, it is reasonable to speculate whether differences in economic activity may be due to things other than RTW. But in Holmes' study the counties are so close to each other, it is hard to imagine what other than state policy could be responsible for the observed differences. Climate, soil fertility, access to transportation, population characteristics — these are approximately the same on both sides of the border. This leads Professor Holmes to conclude, "The differences in manufacturing activity at the border are surprisingly big... There is a lot of uncertainty and debate about whether or not state policies make much difference in the geographic distribution of industrial activity. The results of this paper suggest that state policies do matter (Holmes, 1998, page 704)."

**Conclusion**

In a 1997 story involving a debate over educational curricula, Time magazine reported that the evidence was now overwhelming that one method of instruction was superior to its chief competitor. "Indeed," Time reported, "the evidence is so strong that if the subject under discussion were, say, the treatment of mumps, there would be no discussion."

Such is the case with RTW. This paper argues that the evidence for RTW is clear. Based on objective, careful research by many independent researchers, the evidence points compellingly to the conclusion that RTW makes a difference to state economic development. How much of a difference is debatable, but one thing is clear: states with RTW do better than states that do not have RTW.

It needs to be emphasized that RTW is not a panacea. It is not a "silver bullet." It will take more than RTW to move Oklahoma to economic parity with the rest of the nation. But RTW is a part of the puzzle. As such, it should be adopted and adopted soon. It is one of the "easy" steps that Oklahoma can take to help itself move forward towards a more prosperous future.

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**About the Author**

W. Robert Reed, Ph.D. is a professor of economics at the University of Oklahoma and an adjunct scholar of the Oklahoma Council of Public Affairs. Dr. Reed received his Ph.D. in economics from Northwestern University, and has taught at Texas A&M and the University of Texas at Austin. He joined the University of Oklahoma faculty in 1992.

Dr. Reed's primary fields of interest include state and local policy analysis, public choice, labor economics, and applied microeconomics. He brings both a free-market perspective and econometric rigor to the topics he approaches. His research work has appeared in numerous professional journals, including Economic Inquiry; Economics and Politics; Journal of Human Resources; Journal of Labor Economics; Journal of Law, Economics, and Organization; Journal of Political Economy; Journal of Population Economics; Journal of Urban Economics; Public Choice; Social Science Quarterly; and the Southern Economic Journal.
Harry Truman is widely reported to have said that he longed for a one-armed economist to provide answers for economic policy-making. When asked to explain this preference, President Truman responded by saying that he was sick and tired of economists saying, "On the one hand ... but on the other hand."

This quote is from a review by Robert Ady in the New England Economic Review (March/April 1997), page 78.

These comments refer to testimony by Elizabeth Morris on February 21, 2000 to the Oklahoma State Senate Committee on Business and Labor.

Mike Strain, "Right to Work — Is Breaking Union Hold on Workplace Wrong or Right?" The Daily Oklahoman, February 18, 2000.

Overall, "lack of right to work ranked 16th of out [sic] 26 as a perceived impediment [Source: Tim Chavez, "Right to Work Not Major, Study Says," The Daily Oklahoman, January 14, 1987]." Dickeman's findings support the view that while RTW may not be an important consideration for many firms, it is a top priority issue for a significant minority of firms.


Even so, there are occasional public evidences from individual firms that RTW matters. Both Micron and United Airlines, two large corporations that ultimately chose not to locate in Oklahoma, cited Oklahoma's lack of RTW as a source of concern. Kipp Bedard, a Micron spokesman, is quoted as having said in regard to RTW legislation being considered at the time, "We feel that this is positive legislation that we would support [Source: Gypsy Hogan, The Daily Oklahoman, February 24, 1995]." And United Airlines' chief executive is quoted as expressing concern at Oklahoma's lack of a Right to Work law during negotiations with the state [Source: John Greiner, "Stafford Backing Right-to-Work Law," The Daily Oklahoman, February 23, 1993].

For example, Area Development magazine, compiling data from a nationally representative survey of business executives in 1999, reported that a "low union profile" ranked 11th, and RTW ranked 15th, in importance among 23 factors believed to influence location decisions [Source: Mike Strain, "Right to Work — Is Breaking Union Hold on Workplace Wrong or Right?" The Daily Oklahoman, February 18, 2000].

Both quotes may be found on page 669 of Holmes' study.

The western counties were omitted from most of Holmes' empirical analyses. The main reason is that the large size of the counties made measures of county "centers of population" less meaningful (cf. discussion on page 681 of Holmes' paper). As a practical matter, Holmes reports that the inclusion of the western counties does not change the study's conclusions.

The analysis reported in the Journal of Political Economy covered the time period 1947-1992. Subsequently, Oklahoma's Office of State Finance (OSF) contracted with Professor Holmes to update his analysis to 1997. This paper reports the updated figures calculated by Professor Holmes for OSF. I am very grateful to OSF for allowing me the use of this updated analysis.