

CENTER FOR BUSINESS AND ECONOMIC RESEARCH MILLER COLLEGE OF BUSINESS

Phone: 765-285-5926 Fax: 765-285-8024

January 19, 2012

Memorandum for the Record

Subject: Right-to-Work Study

- 1. A number of media outlets and blogs have reported findings and interpretations from my recent study, "Right-to-Work Legislation and the Manufacturing Sector." Given the very technical nature of this study, efforts to summarize its findings have, on occasion resulted in misinterpretations of the results that this memorandum seeks to clarify. There are three issues that require clarification.
 - A. Wages Only: My study examined wages for manufacturing employees, testing for the impact of RTW on these wages. We found no statistically meaningful impact, which should be interpreted as no impact on average wages in states that have passed RTW legislation when controlling for a host of other factors. I did not, because of data limitations, examine non-wage compensation, working conditions or other factors. I do not believe such data is available, and so my research was silent on the matter.
 - B. *Growth of Manufacturing Sector*: My study looked at employment, manufacturing share and manufacturing income (total) in all the lower 48 states and District of Columbia. We found no statistically meaningful effect of RTW on any of these variables. However, a second analysis demonstrated that 7 out of 10 states which implemented RTW after the Taft-Hartley Act (1947), and still have RTW and have had it for ten years saw job growth.
 - C. *The Site Selector Effect*: A number of proponents of RTW legislation have claimed that some Site Selectors effectively 'black list" Indiana due to an absence of RTW. I have personal knowledge of these activities through the course of my job here in Indiana and elsewhere. I have heard reports that between one fourth and half of all Site Selectors do so, but am aware of no reliable data beyond these anecdotes. However, these claims are not inconsistent with the results of my study. This is simply because the impact of Site Selectors on total employment in Indiana is very small. Here is why:
 - a. In 2011, the Indiana Economic Development Corporation, the state government organization that works with site selectors, reported more than 19,000 new jobs created with their assistance. In the most recent year in



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that data is available (2010), Indiana saw more than 520,000 new jobs created. Both of these data reflect gross, not net job flows. So, the IEDC interacts directly with between 3.5% and 3.75% of gross new jobs that come to Indiana.

- b. If the number of these gross job flows were to expand by one third due to RTW, the total new gross job flows in Indiana would increase by 6,448 employees, or roughly 1.2 percent. This would be a significant and important number of new workers worthy of policy attention. However, it represents only gross, and not net jobs. Net job flows account for job losses occurring for a variety of reasons, including technological growth, failing firms, and workers leaving firms who are not replaced. Gross job losses closely track gross job gains since due to labor force supply constraints.
- c. If total job growth in Indiana were 2.5% last year, then the net (as opposed to gross) job gains associated with RTW would be roughly 161 workers, of which only a share would be manufacturing workers. This value would be too small to be statistically meaningful in a model that estimates total employment and incomes in the largest sector of the state's economy.
- D. As the original report clearly stated, the analysis of the state's manufacturing sector is not a complete analysis of the efficacy of Right to Work in Indiana.
- 2. Questions should be directed to Michael Hicks at mhicks@bsu.edu