



## **Siting a New Factory: Do Right-to-Work Laws Matter?**

*Keith B. Belton, September 2018*

States often seek to attract manufacturers by offering incentives that reduce the cost of doing business. Manufacturing is highly desired by state economic development organizations because of its multiplier effect: \$1 in final sales of a manufactured good generates \$1.89 in economic activity through the supply chain (National Association of Manufacturers 2017). This is a higher impact than other major sectors of the economy. Also, new factories have been shown to improve the productivity of nearby factories—a phenomenon economists refer to as “agglomeration spillovers.”

Understanding which incentives attract manufacturing is an important area of research inquiry. It is especially relevant for economic development efforts at the state or local level. One public policy incentive that is getting a great deal of attention is the presence or absence of a right-to-work (RTW) law. Under right-to-work, no employee can be forced to pay dues to a labor union as a condition of employment. Therefore, while unions that have been recognized as the representative of all covered employees have a legal obligation to represent all employees, the union’s income may be substantially reduced.

How enticing are such state laws to manufacturers seeking to locate a new factory? It’s a complicated question because it is very difficult to untangle one particular policy from other policies and other factors (some observable, some not) that influence a siting decision. Empirical research suggests RTW does play some role in attracting new manufacturing capacity, but a quantitative estimate is elusive.

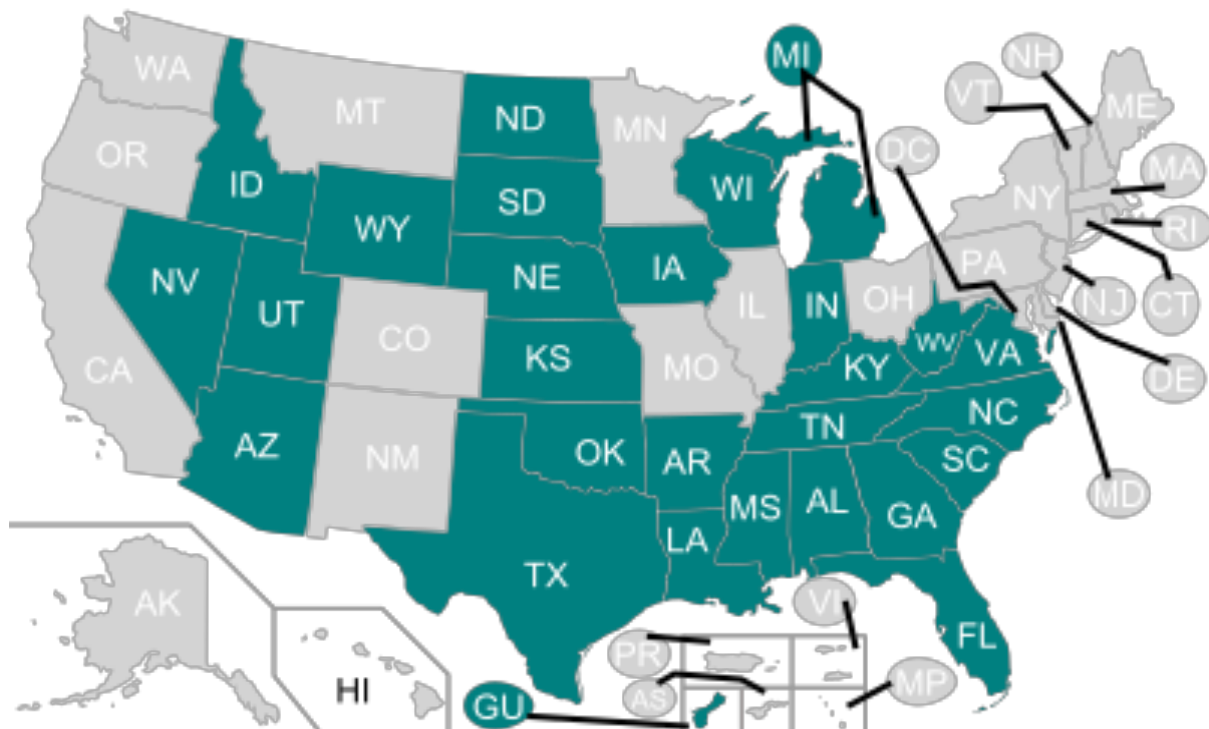
### **Right to Work**

The National Labor Relations Act of 1935 (the Wagner Act) permitted unions to enforce membership by all employees represented by the union (i.e., it allowed for so-called “union shops”). The 1947 Taft-Hartley Act altered this law by allowing states to ban the union shop through enactment of state legislation. Currently, 27 states have enacted RTW laws, the most recent was Kentucky in 2017. (Missouri enacted RTW legislation in 2017, but Missouri voters rejected the new law via referendum in August 2018.) See Figure 1 for a map of RTW states.

RTW laws generate significant advocacy efforts, with business groups largely in favor and organized labor opposed. Businesses favor RTW because it offers companies more flexibility in work rules and hiring because they avoid collective bargaining with unions. From an organized labor perspective, RTW erodes the strength of unions to bargain, which may reduce the wage premium for workers and other outcomes of interest to workers.

### Research Challenges

Two simplistic approaches have been used to determine the impact of RTW on the siting of manufacturing plants. One approach is to ask manufacturers why they chose to locate in a particular location. The second approach is to compare growth in manufacturing in RTW states to that of non-RTW states.



**Figure 1. Right-to-Work states (in green).**

Unfortunately, these simplistic approaches are not likely to be revealing. Publicly stating its decisional criteria can subject a company to legal challenge. Legal implications aside, a manufacturer may not want to disclose the true reason for choosing one location over another (e.g., for competitiveness reasons). Finally, a company executive may choose to provide an alternative rationale for strategic reasons.

Simple correlations of new factories with RTW states presumes that RTW states are not systematically different from non-RTW states, but this is false. For decades, RTW states were geographically concentrated. The first states to adopt RTW (all before 1958) were in the south (every state that was a member of the Confederacy is a RTW state) and systematically different from northern states in terms of, for example, transportation infrastructure. The establishment of the interstate highway system would be expected to attract manufacturing to the south, even in the absence of a RTW law. Other factors unrelated to policy also would be expected to confound any positive correlation between RTW and new manufacturing growth.

So how do we know if RTW laws affect the siting decision of manufacturers? A review of the academic literature shows that a well-designed study takes one of the following approaches:

- Looks at manufacturing activity near state borders. Many potentially confounding factors unrelated to policy can be eliminated just by focusing on differences that arise when crossing from one state to another.
- Compares the chosen site location with the runner-up location. Larger companies will often reveal a short list of possible locations in order to generate competing offers of incentives (e.g., tax breaks, subsidies) from local or state governments. Comparing the winning location to the runner-up location creates a fair comparison.
- Accounts for systematic differences between RTW and non-RTW states using one of several known statistical methods.

### **Empirical Evidence**

Very few well-designed studies have been conducted to explore the location decision, but the results are enlightening.

Schmenner et al. (1987) used a database of 164 new plant openings by large companies between 1970 and 1980. Plant managers were surveyed to provide details about their plant and the location decision. The researchers modeled the siting decision as a two-stage process, where a subset of states were first chosen before a more detailed analysis was done to support a final decision. RTW was found to be a significant factor in favor of a state being eliminated from consideration in stage 1. No single factor was found to be significant in explaining the stage 2 (final) location decision. The researchers concluded that RTW is used by many major companies as an initial screen.

This staged approach to making a siting decision is widely acknowledged and reflected in more recent research. For example, Greenstone et al. (2010) compared the impact of a new manufacturing plant on nearby industry (i.e., the winning location) to that of manufacturing in the runner-up (i.e., losing) location.

Holmes (1998) looked closely at manufacturing growth at the border between adjacent states: those with pro-business policies and those with anti-business policies. The

enactment of a RTW law was used as a proxy for pro-business policies in a state. His careful analysis showed a clear difference—the manufacturing share of total employment increases by about one-third when crossing from an anti-business state to a pro-business state. The study design, however, cannot be used to distinguish among the various pro-business policies or policy variables in a state (e.g., pro-business governors and/or state legislatures, low corporate tax rates, etc.).

Holmes (2014) describes why unions continue to influence manufacturing location by focusing on siting decisions by two large US exporters: Boeing and GE. He finds that recent siting decisions by both companies reflect the influence of unions and unionization. In particular, both companies make location decisions for new plants based on the presence or absence of a state RTW law. However, for capacity expansions at existing plants, companies may choose a location in a non-RTW state if the perceived benefits (higher productivity due to the presence of both R&D with manufacturing at an existing site) outweigh the perceived costs (related to greater unionization). Holmes' analysis is intriguing and worthy of testing across a larger sample of firms and industry sectors.

### **Future Research**

Given our current understanding, there are several policy-relevant questions that are worthy of additional research, such as:

- How important is RTW versus other pro-business policies in attracting manufacturing to a state? How does the answer differ across manufacturing subsectors (e.g., those with the highest percentage of organized labor)?
- Which of the various public indices of “pro-business state policy climate” are best? Perhaps the presence or absence of a state RTK law is not the best proxy.
- How impactful is a RTW law on outcomes of interest--on unionization, on wages, on employment, on productivity? And how does this differ across subsectors of manufacturing (e.g., capital-intensive versus labor-intensive manufacturing)?

These questions, if answered with greater confidence than we have today, would greatly aid our understanding of how domestic manufacturers make siting decisions.

### **Conclusion**

Even if RTW had no impact on siting a new factory, one would still expect to see a strong positive correlation between manufacturing growth and RTW due to systemic differences between RTW and non-RTW states. Research must therefore be carefully designed to address this issue. Such studies show that pro-business policies (including RTW) positively impact the siting decision of manufacturers. Furthermore, RTW matters more in the initial screening process when manufacturers narrow their locational choices than when making a final siting decision.

Presuming RTW laws do matter when siting a new factory, an important question is the impact on unionization rates, worker wages, and various measures of manufacturing performance (productivity, etc.). If there is very little impact, then perhaps a RTW law is not the best screening tool to use when making a siting decision. For a broader perspective on the impact of RTW, see review articles in the academic literature (Moore 1998) and more recently published peer-reviewed studies, such as Stevans (2009) on the impact of RTW laws on business and labor markets, Eren and Ozbeklik (2016) on the impact of Oklahoma's RTW law on labor market outcomes, and Hicks et al. (2016) on the impact of RTW on productivity and population growth.

The future of RTW legislation in the US is unclear. Some states adopted RTW laws after the GOP captured control of many state legislatures and governorships in the landslide election of 2010. This process could reverse itself if the Democrats have a landslide victory in November 2018, since labor unions are a core constituency of the Democratic Party. On August 7, 2018, Missouri voters rejected the state's recently enacted RTW law, 67% - 32%, via referendum after a concerted campaign by organized labor. It is an open question whether this labor victory will reverberate beyond Missouri.

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### **For Further Reading:**

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