ILEPI Economic Commentary #2 October 16, 2013

BROKEN PROMISES
Right-to-Work's Early Track Record in Indiana

Frank Manzo IV, MPP
Policy Director

A Higher Road for a Better Tomorrow
ILLINOIS ECONOMIC POLICY INSTITUTE
ILEPI

Illinois Economic Policy Institute
www.illinoisepi.org
(708) 375-1002

Broken Promises: Right-to-Work's Early Track Record in Indiana

ILEPI Economic Commentary #2

INTRODUCTION

On February 1, 2012, Governor Mitch Daniels of Indiana signed a "right-to-work" (RTW) law.[1] Once Governor Daniels signed the law, the policy immediately went into effect. Collective bargaining agreements in place as of March 14, 2012, however, were deemed valid; RTW's provisions would only apply once those contracts expired, were modified, or were renewed.[2] Throughout the state, RTW was sold to the public as a policy which would generate positive economic benefits to the state, including the attraction of new businesses to the state, the creation of new jobs, and an increase in wages.[3]

In actuality, a RTW law is merely a statewide policy which bars labor unions from including union security clauses in collective bargaining agreements with employers. Union security clauses ensure that all members of a bargaining unit who receive the benefits of collective bargaining each contribute their fair share of dues. RTW law, however, makes the payment of dues or fees optional for bargaining unit members, allowing workers to free-ride and enjoy all the benefits earned from the contributions of others, such as a good wage, health insurance benefits, retirement benefits, and employee representation in the workplace through the grievance system.

In September 2013, Indiana's RTW law was ruled by Judge John Sedia of the Lake County Superior Court to violate the state's Constitution.[4] Judge Sedia found that the law violates Article I, Section 21 of Indiana's Constitution, which states, "No person's particular services shall be demanded, without just compensation. No person's property shall be taken by law, without just compensation; nor, except in case of the State, without such compensation first assessed and tendered."[5] Given that those who do not pay dues or fees still receive all the benefits and services of collective bargaining, it was thus ruled that Indiana's RTW law wrongly requires labor unions to represent free-riders. Shortly after Judge Sedia's decision, Greg Zoller, Indiana's Attorney General, appealed it to the Indiana Supreme Court. Until the State Supreme Court rules on the matter, the RTW law remains in effect.

While the legal and political battles continue over right-to-work in Indiana, economic data are increasingly becoming available to assess the actual effect, if any, that the policy has had on the state's economy. Given the grandiose claims made by RTW's proponents in Indiana and that a RTW measure was proposed in the Illinois General Assembly (HB3160[6]) by Republican State Representative Jeanne Ives of Wheaton, the residents of both states deserve to be updated on the impact that RTW has had on Indiana's workers and businesses.

This ILEPI Economic Commentary therefore examines the Indiana economy prior to and since the state adopted its right-to-work law. The commentary first explores private sector business openings and closings in Indiana. The commentary then analyzes measures of employment in the Indiana economy. Wage and hour data pre-RTW and post-RTW are subsequently discussed before two industries (construction and manufacturing) are briefly examined. Throughout the report, Indiana is compared and contrasted to the performance of the United States, of Indiana's neighboring states, and of Illinois. The commentary concludes by offering a policy recommendation and by recapping key findings.

DATA AND METHODOLOGY

All data utilized in this ILEPI Economic Commentary are derived from the United States Department of Labor Bureau of Labor Statistics (BLS).[7] The BLS' "Databases, Tables & Calculators by Subject" feature includes monthly data on employment, hours, and earnings for both the national population and individual states, which can be broken down further by industry. The tool also includes monthly data on the national and state unemployment rates. Furthermore, quarterly (i.e., three-month) data on business openings and closings can be obtained from this BLS source as well. All employment estimates in this report are seasonally adjusted to reveal underlying labor market trends.

BLS data is often preliminary until additional information becomes available. To avoid analysis based on preliminary data, this ILEPI Economic Commentary analyzes only official estimates which have been reviewed and accepted. Presently, the official BLS data is available through the month of July 2013 and the fourth quarter of 2011. Since RTW was passed at the beginning of February 2012 (the first quarter of 2012) in Indiana, this means that there are 18 months and 4 quarters of administrative economic data available since Indiana's RTW law went into effect. To understand monthly trends both before and after the law, this report thus focuses on the three years (36 months) from August 2010 to July 2013, which include 18 months of data before and 18 months of data after the law was passed. Quarterly data stretches 9 quarters (2.25 years) from the fourth quarter of 2010 (2010Q4) to the fourth quarter of 2012 (2012Q4): 5 quarters prior to RTW went into effect and 4 quarters since RTW became law in Indiana.

Performance in the Indiana economy is compared to the performance of three other regions. One comparison group is the United States as a whole, contrasting Indiana with the national average. Indiana is also compared to Illinois as a case study. Finally, except in instances where there is missing data, Indiana's performance is compared to the aggregate performance of nine neighboring Midwest states. The nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, *and* Illinois. The nine-state group allows for a determination of whether Indiana's performance diverges from regional trends. For example, if RTW has attracted more businesses to open in Indiana, then the state should stand out compared to the rest of the region.

PRIVATE SECTOR BUSINESS ACTIVITY

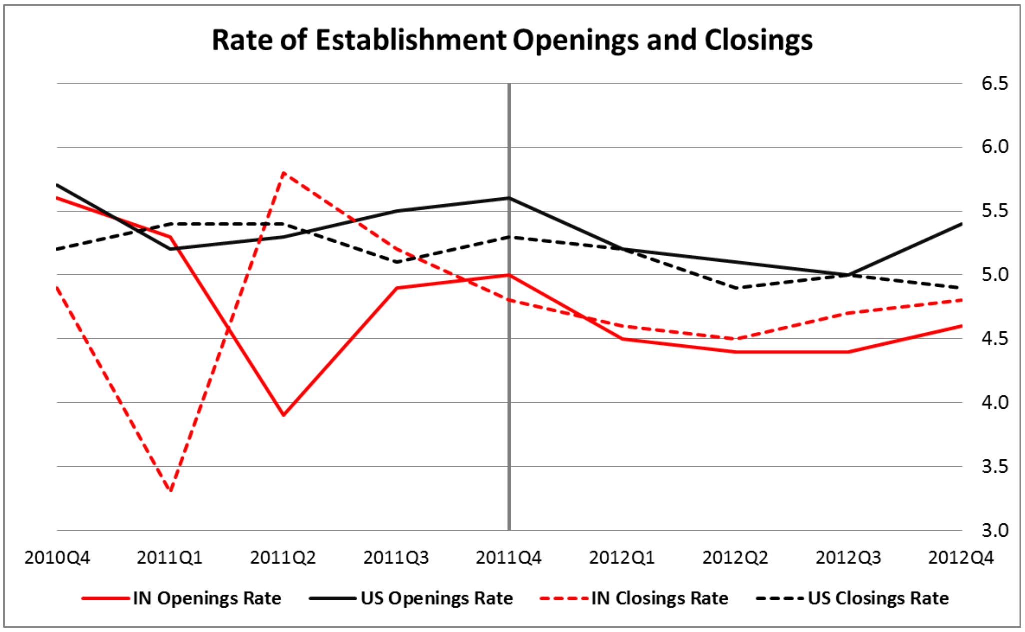
Proponents of Indiana's RTW law claimed that the policy would be an economic development incentive for firms to locate to the state. If RTW is truly an important factor in firms opening shop in a particular state, quarterly rates of private sector establishment openings and closings should demonstrate that business activity has picked up in Indiana since February 2012. At the very least, the rate of business openings should exceed the rate of business closings.

Figure 1 compares quarterly business openings and closings in Indiana compared to the national economy. In the figure, the gray vertical line represents the final quarter in which Indiana was not a RTW state. The bolded lines represent the rates of private sector business establishment openings while the dashed lines correspond to the rates of establishment closings. If the former is above the latter, then there were more businesses opening up in the given region than there were shutting down.

Since RTW was passed in Indiana, the state has experienced a higher rate of business closings compared to business openings each quarter (Figure 1). In 2011Q4, the last quarter before RTW in Indiana, the rate of business openings was 5.0 percent compared to a 4.8 percent rate of business closings. Since then, the rate of business openings *fell* to between 4.4 and 4.6 percent each quarter and more businesses have closed in Indiana than have opened. Indeed, as of the end of 2012, there were 23,409 business establishments that had opened up in Indiana compared to 24,188 that had closed since the passage of the RTW law, for a *loss* of 779 businesses. In contrast, the rate of establishment openings in the United States was greater than or equal to the rate of establishment closings each quarter since Indiana adopted its RTW law. Across America, over 40,000 more businesses establishments had opened up than closed between 2012Q1 and 2012Q4. It is clear that RTW did not attract firms across the nation to relocate to Indiana.

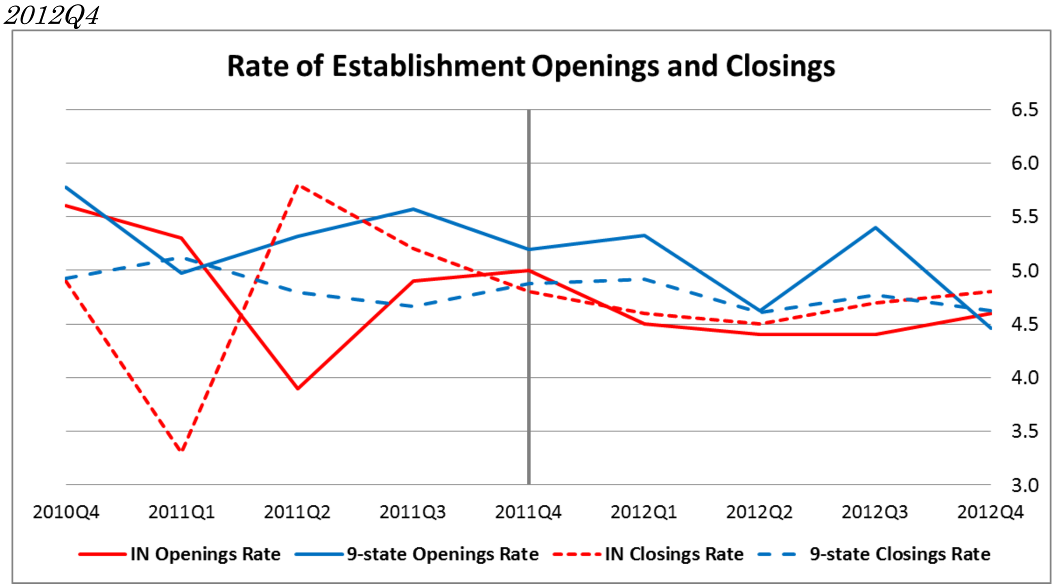
Figures 2 and 3 respectively present the same trends for Indiana compared to nine neighboring Midwest states and to Illinois alone. For both the nine-state comparison group and for Illinois, the rate of business establishment openings was higher than or the same as the rate of establishment closings for 2012Q1, 2012Q2, and 2012Q3 (Figure 2, Figure 3). Over these first nine months since Indiana passed its RTW law, Indiana's neighbors were experiencing an *increase* in the total number of businesses operating within their borders while Indiana was experiencing a *decrease*. In 2012Q4, however, both the aggregated nine-state region and Illinois joined Indiana in losing more businesses than they gained. Regardless of the comparison group, there has not been a noticeable increase in businesses openings in Indiana as a result of its RTW law. In fact, there has not been an increase at all.

Figure 1: Rate of Business Establishment Openings and Closings, Indiana and the United States, 2010Q4 to 2012Q4



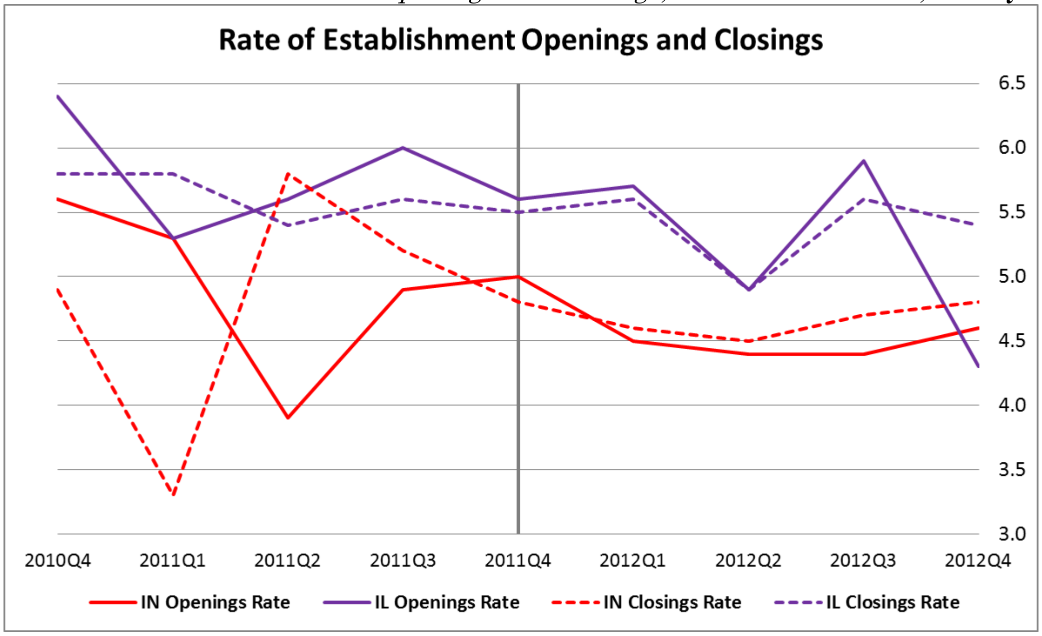
Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Quarterly Census of Employment and Wages (QCEW). US data includes Indiana.

Figure 2: Rate of Business Establishment Openings and Closings, Indiana and Nine Neighboring States, 2010Q4 to 2012Q4



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Quarterly Census of Employment and Wages (QCEW). The nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Figure 3: Rate of Business Establishment Openings and Closings, Indiana and Illinois, 2010Q4 to 2012Q4



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Quarterly Census of Employment and Wages (QCEW).

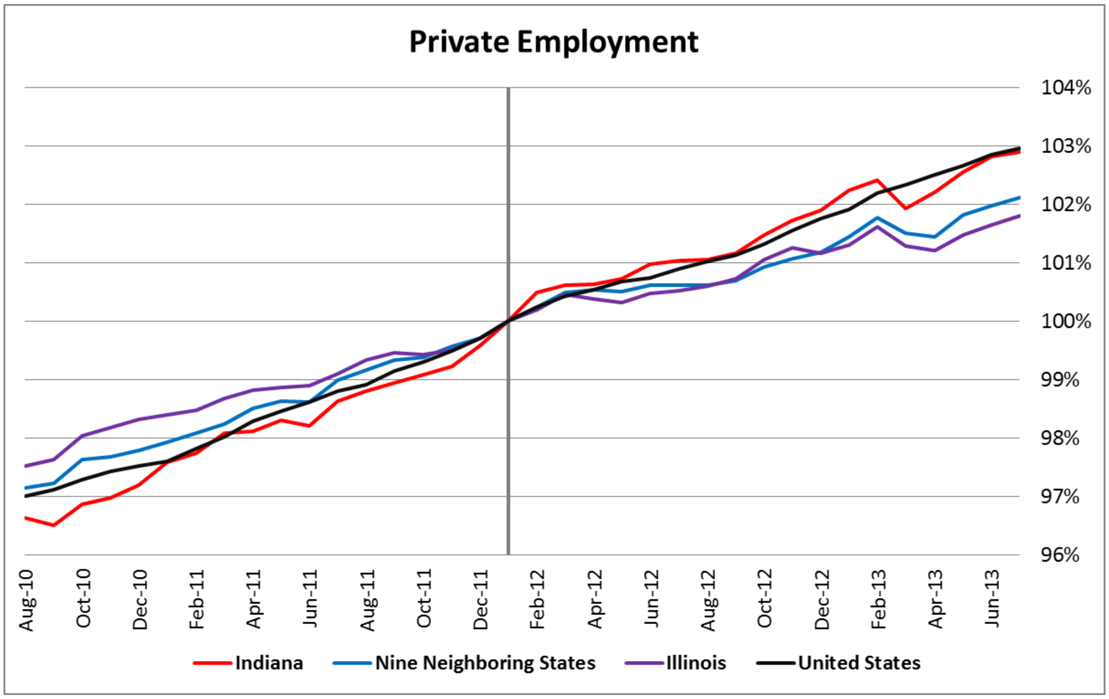
EMPLOYMENT OUTCOMES

Even though RTW has failed to substantiate the claims of its proponents that new businesses will be attracted to open in Indiana, proponents may nevertheless believe that existing firms have been able to add more jobs as a result of the policy. Figure 4 displays monthly data on private sector job growth in each of the four study regions. For comparability, the data are represented as a percentage of the number of private sector jobs as of the end of January 2012, the final days before RTW went into effect in Indiana. Thus, all data cross the vertical axis at 100 percent. For ease of interpretation, if a region begins on the left at a *lower* percentage than other regions, then that region grew faster than the others. On the right, the inverse is true: if a region ends at a *higher* percentage than the other regions, then it grew faster than the others.

Initially, it may seem that RTW has had a positive effect on private sector employment in Indiana, since private sector job growth has been higher in Indiana than in Illinois or in neighboring Midwest states (Figure 4). However, private sector employment has only grown by about the same as the national average. If the RTW law was an overriding factor in bringing jobs to Indiana, then Indiana's private sector job growth should exceed the national average.

It is important to note that, even though jobs in Indiana's private sector have expanded by 1.09 percentage points faster than in Illinois and 0.77 percentage points faster in the nine neighboring states, private employment was already growing faster in Indiana than in any of the other study regions prior to the RTW law. Attributing job growth since February 2012 exclusively to RTW would be to ignore this underlying trend. In fact, since RTW was passed, private sector job growth has actually *slowed* in Indiana compared to its rate before adopting a RTW law (Figure 5). In the 18 months prior to RTW, Indiana's private sector employment grew faster than any other region, at 3.37 percent. But since RTW, private sector employment has slowed down to 2.89 percent, less than the comparable U.S. rate of 2.96 percent. The acceleration of private sector job growth *due* to RTW that proponents were promising has yet to materialize.

Figure 4: Private Sector Employment as Percentage of Jan. 2012 Level, Select Regions, Aug. 2010 to July 2013



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. All months on the horizontal axis represent the final day of the month. The gray vertical line represents RTW's effective date in Indiana. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

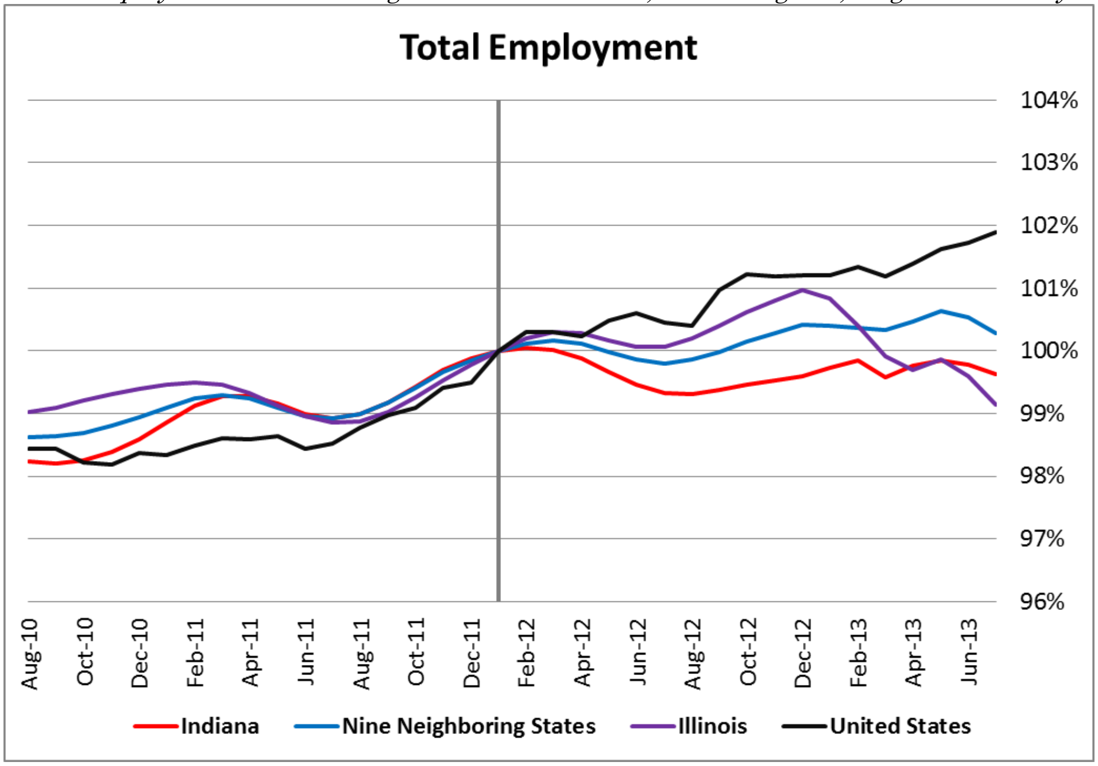
Figure 5: Private Sector Employment Growth, Select Regions, Aug. 2010 to July 2013

Private Employment (Number of Jobs)	18 Months Before RTW	18 Months Since RTW
State of Indiana	3.37%	2.89%
State of Illinois	2.47%	1.80%
Nine Neighboring States	2.78%	2.12%
United States	2.99%	2.96%

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Private sector employment numbers conceal the fact that fewer Indiana residents are *actually* working today than before RTW was passed (Figure 6). The data on total employment– which includes the private sector *plus* government employees, farm workers, private household employees, and employees of nonprofit organizations– illustrate that the number of people with jobs has increased in the United States and in neighboring Midwest states since the beginning of February 2012. In Indiana and Illinois, on the other hand, total employment has fallen since then. Indeed, prior to enacting its RTW law, the total number of jobs in Indiana had improved by 1.77 percent over 18 months. In the 18 months since the law, Indiana's total employment has *shrunk* by 0.38 percent (Figure 7). If RTW helps to create jobs, the demand for *all* jobs should increase as additional workers have incomes to spend in the economy. However, since RTW, these other sectors have combined to lose jobs in Indiana.

Figure 6: Total Employment as Percentage of Jan. 2012 Level, Select Regions, Aug. 2010 to July 2013



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. All months on the horizontal axis represent the final day of the month. The gray vertical line represents RTW's effective date in Indiana. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Figure 7: Total Employment Growth, Select Regions, Aug. 2010 to July 2013

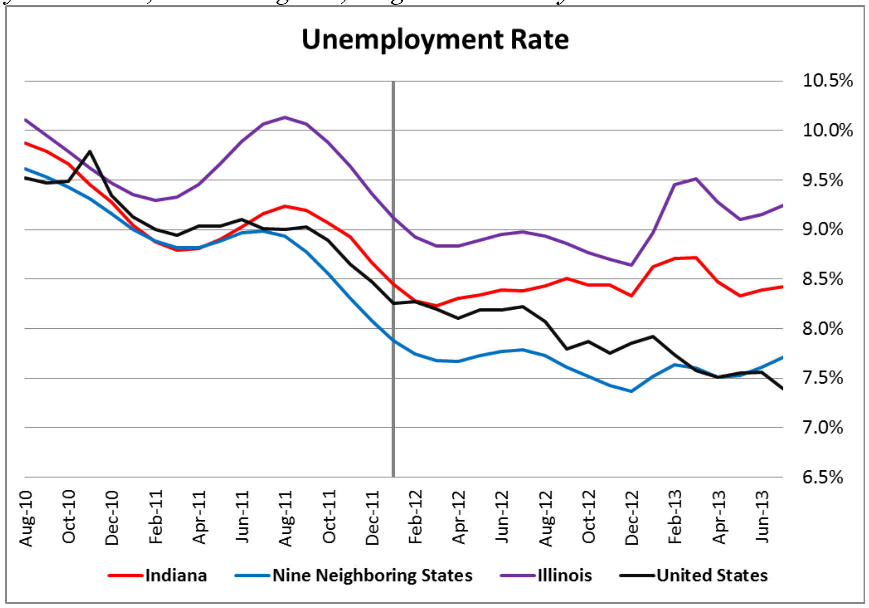
Total Employment (Number of Jobs)	18 Months Before RTW	18 Months Since RTW
State of Indiana	1.77%	-0.38%
State of Illinois	0.98%	-0.87%
Nine Neighboring States	1.37%	0.29%
United States	1.56%	1.89%

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

A final economic indicator to measure RTW's potential impact on jobs is the unemployment rate. Figure 8 presents the unemployment rates of the four study regions over the past three years. Since RTW was enacted, the Indiana unemployment rate has stayed around 8.5 percent (Figure 8). Over that time, the national unemployment rate and unemployment rate for the aggregated nine-state comparison region have each fallen.

Before RTW, the Indiana unemployment rate was declining by more than the national average (Figure 9). The Indiana unemployment rate fell by 1.43 percentage points in the months prior to RTW's passage compared to a 1.26 percentage point drop for the United States. Since then, Indiana's unemployment rate has been essentially unchanged, falling by only 0.03 percentage points (from 8.45 percent to 8.42 percent), while the U.S. rate has declined by 0.87 percentage points (from 8.26 percent to 7.39 percent). Thus, RTW has had no impact on Indiana's unemployment rate.

Figure 8: Unemployment Rate, Select Regions, Aug. 2010 to July 2013



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Population Survey (CPS) Local Area Unemployment Statistics (LAUS). All months on the horizontal axis represent the final day of the month. The gray vertical line represents RTW's effective date in Indiana. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Figure 9: Unemployment Rate Changes, Select Regions, Aug. 2010 to July 2013

Unemployment Rate	18 Months Before RTW	18 Months Since RTW
State of Indiana	-1.43%	-0.03%
State of Illinois	-0.99%	+0.13%
Nine Neighboring States	-1.65%	-0.17%
United States	-1.26%	-0.87%

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Population Survey (CPS) Local Area Unemployment Statistics (LAUS). US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

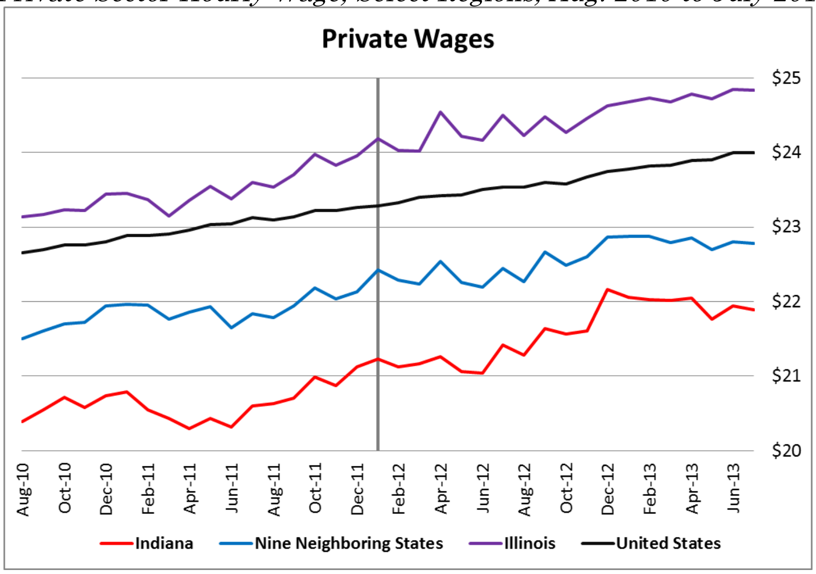
Private Sector Wages and Hours

Proponents of Indiana's RTW law also claimed that the policy would actually raise wages. Figure 10 displays the average hourly wages of private sector workers in the four study areas. If RTW has a significant impact on earnings, there should be a noticeable closing of the wage gap between Indiana and the three other regions. But RTW has not led to an increase in private sector hourly wages (Figure 10). While the wage gap seemingly begins to close for Indiana, since November 2012, wages in Indiana have started to decline while those in both Illinois and the nation have been increasing. Ultimately, the average private sector hourly wage has increased by the same amount for Indiana and Illinois (i.e., there is no statistically significant difference between the $0.66 per-hour increase in Indiana and $0.64 per-hour increase in Illinois). Since passage of RTW in Indiana, hourly wage growth has increased the most for the national comparison group ($0.72 per hour) (Figure 11).

Additionally, there is no evidence that RTW has had a significant impact on the average workweek of private sector employees in Indiana (Figure 12). Prior to implementing RTW, average hours worked fell by almost a full hour in Indiana. By contrast, private sector workweeks increased or were constant for the comparison regions. Since RTW, however, the average workweek has not gotten any longer for Indiana.

Hours worked have actually declined by -0.1 hours for all regions studied except for Illinois (-0.3 hours). Currently, the average workweek for private sector workers is 34.4 hours each for Indiana, Illinois, and the United States.

Figure 10: Average Private Sector Hourly Wage, Select Regions, Aug. 2010 to July 2013



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. All months on the horizontal axis represent the final day of the month. The gray vertical line represents RTW's effective date in Indiana. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Figure 11: Average Private Sector Hourly Wage Growth, Select Regions, Aug. 2010 to July 2013

Average Wage (Private Sector)	18 Months Before RTW	18 Months Since RTW
State of Indiana	$0.84	$0.66
State of Illinois	$1.05	$0.64
Nine Neighboring States	$0.82	$0.35
United States	$0.62	$0.72

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Figure 12: Average Private Sector Hours Worker per Week, Select Regions, Aug. 2010 to July 2013

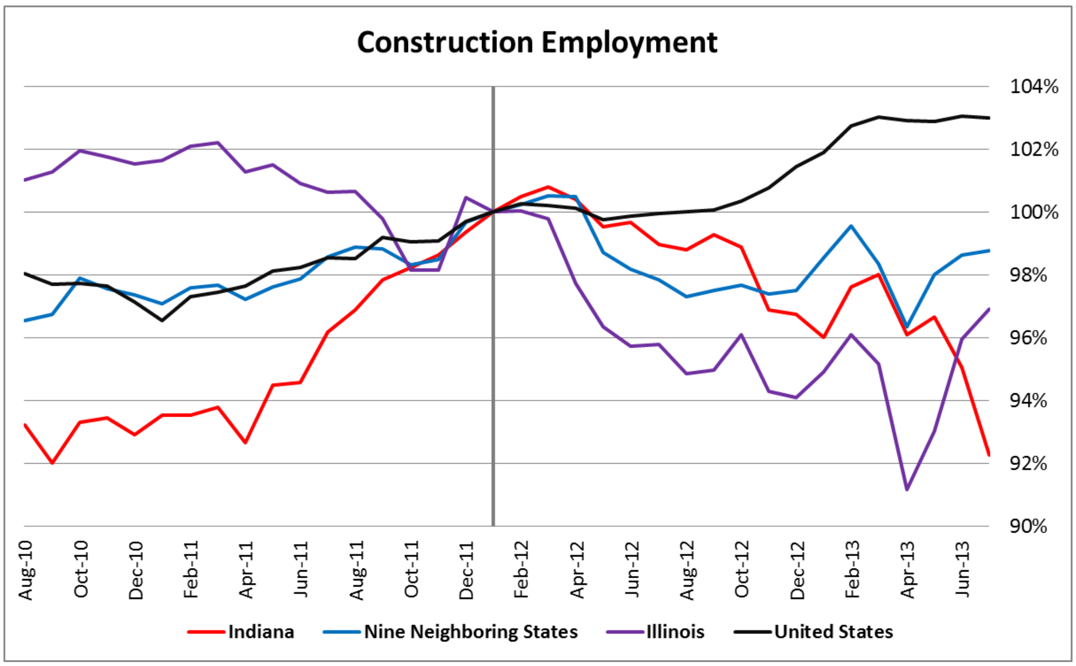
Average Hours Worked (Private Sector)	August 2010	January 2012	July 2013	18 Months Before RTW	18 Months Since RTW
State of Indiana	35.4	34.5	34.4	-0.9	-0.1
State of Illinois	34.3	34.7	34.4	0.4	-0.3
Nine Neighboring States	34.3	34.3	34.2	0.0	-0.1
United States	34.2	34.5	34.4	0.3	-0.1

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

CONSTRUCTION INDUSTRY

RTW appears to have had a negative effect on construction workers in Indiana. Prior to RTW being passed, construction employment was rising considerably in Indiana. Despite an initial bump in construction employment after RTW was passed, there has been a noticeable decline in construction jobs in Indiana since the end of March 2012. As of the end of July 2013, construction employment had fallen by more than any other region (Figure 13). Meanwhile, the number of construction jobs nationwide had been consistently increasing over the past three years. Indeed, in the 18 months prior to February 2012, construction employment expanded by 1.95 percent in America; since then, national construction employment has grown by 3.00 percent. By contrast, construction jobs had boomed by 6.77 percent in Indiana before the state's RTW law was passed; since then, employment in the industry has plummeted, declining by 7.73 percent (Figure 14). It is obvious that RTW has not led to any job gains for construction workers in Indiana, and may have caused job losses in the industry.

Figure 13: Construction Employment as Percentage of Jan. 2012 Level, Select Regions, Aug. 2010 to July 2013



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. All months on the horizontal axis represent the final day of the month. The gray vertical line represents RTW's effective date in Indiana. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

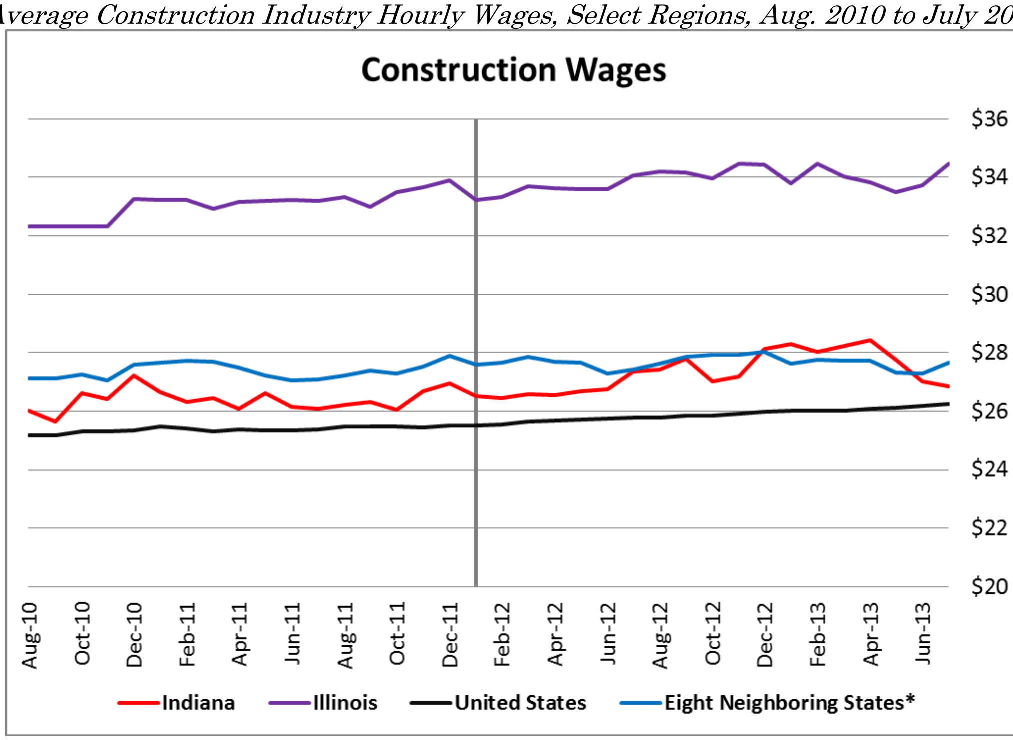
Figure 14: Construction Employment Growth, Select Regions, Aug. 2010 to July 2013

Construction Employment (Number of Jobs)	18 Months Before RTW	18 Months Since RTW
State of Indiana	6.77%	-7.73%
State of Illinois	-1.03%	-3.08%
Nine Neighboring States	3.25%	-1.23%
United States	1.95%	3.00%

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Similarly, there has not been an increase in construction worker wages in Indiana due to RTW. In Indiana, the average hourly wage for a construction worker remains higher than the average for the nation as a whole, but far lower than the average for his or her counterpart in Illinois (Figure 15). Again, if RTW were to cause an increase in earnings in the industry, there should be a noticeable closing of the wage gap between Indiana and Illinois, as well as between Indiana and neighboring Midwest states. Additionally, there should also be a widening of the gap between Indiana and the United States. While the gap appears to be closing between Indiana and its neighbors, Illinois is pulling further away while the nation is inching closer to Indiana. Before RTW, construction wages in Indiana grew by $0.48 per hour over 18 months. Over the last 18 months, hourly wages have slightly ticked upward, by $0.35 per hour, still *less* than the previous period (Figure 16). In comparison, hourly construction wages in Illinois grew by $0.90 per hour until February 2012 and have since grown by $1.23 per hour. For the United States, the analogous figures are $0.33 per hour and $0.73 per hour. To summarize, RTW has not helped construction workers in Indiana.

Figure 15: Average Construction Industry Hourly Wages, Select Regions, Aug. 2010 to July 2013



Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. All months on the horizontal axis represent the final day of the month. The gray vertical line represents RTW's effective date in Indiana. US data includes Indiana and the eight neighboring states are: Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois. Construction wage data was unavailable for Tennessee.

Figure 16: Average Construction Industry Hourly Wage Growth, Select Regions, Aug. 2010 to July 2013

Average Wage (Construction Industry)	18 Months Before RTW	18 Months Since RTW
State of Indiana	$0.48	$0.35
State of Illinois	$0.90	$1.23
Eight Neighboring States*	$0.44	$0.08
United States	$0.33	$0.73

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the eight neighboring states are: Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois. Construction wage data was unavailable for Tennessee.

Manufacturing Industry

Part of the narrative surrounding RTW laws is that they will attract manufacturers to locate within the adopting state. But RTW has not had a positive impact on the manufacturing industry in Indiana. Figures 17 and 18 respectively present the pre-RTW and post-RTW data on manufacturing labor-hours and the average manufacturing wage. Prior to RTW being in effect, total labor-hours (i.e., employment multiplied by average hours worked) in manufacturing expanded by 6.45 percent, more than any other comparison region. Since RTW, however, labor-hours have *declined* by 2.26 percent. The rest of the country has seen minimal growth or decline in manufacturing labor-hours (Figure 17). RTW, therefore, has not increased manufacturing production in Indiana. Furthermore, manufacturing wages in Indiana were growing far faster than in Illinois, neighboring Midwest states, and the United States prior to the RTW law. Since February 2012, manufacturing hourly wage growth in Indiana has been smaller than in neighboring states and in the nation, and about the same as in Illinois (Figure 18).

Figure 17: Change in Total Manufacturing Industry Labor-Hours, Select Regions, Aug. 2010 to July 2013

Total Labor-Hours (Manufacturing Industry)	18 Months Before RTW	18 Months Since RTW
State of Indiana	6.45%	-2.26%
State of Illinois	4.54%	-0.87%
Nine Neighboring States	5.40%	0.89%
United States	4.06%	0.42%

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

Figure 18: Average Manufacturing Industry Hourly Wage Growth, Select Regions, Aug. 2010 to July 2013

Average Wage (Manufacturing Industry)	18 Months Before RTW	18 Months Since RTW
State of Indiana	$1.54	$0.18
State of Illinois	$0.75	$0.15
Nine Neighboring States	$0.31	$0.46
United States	$0.43	$0.52

Source: Author's analysis of U.S. Department of Labor Bureau of Labor Statistics data – Current Employment Statistics (CES) Employment, Hours, and Earnings. US data includes Indiana and the nine neighboring states are: Tennessee, Kentucky, Ohio, Michigan, Wisconsin, Minnesota, Iowa, Missouri, and Illinois.

ILEPI's Policy Recommendation

Right-to-work has had a poor economic track record for Illinois' eastern neighbor. In Indiana, in the 18 months following RTW's passage:

- 779 more businesses have closed than have opened;
- The growth in private sector jobs has slowed by 0.48 percentage points;
- Total employment in all sectors has declined by 0.38 percent;
- The unemployment rate has fallen by 0.03 percentage points compared to 0.87 percentage points nationwide;
- Private sector hourly wages have not been positively impacted by the law;
- Average hours worked for private sector workers have not been impacted by the law;
- Construction employment has plummeted by 7.73 percent;
- Construction wages have fallen further behind those in Illinois and closer to the national average;
- Total manufacturing labor-hours have declined by 2.26 percent; and
- Manufacturing hourly wage growth has been smaller than in neighboring states and in the nation, and roughly the same as in Illinois.

Two cautionary notes should be mentioned. First, none of these findings are derived using advanced statistical approaches which control for a host of other factors. Instead, the case-study approach is utilized and Indiana is compared to similar states with similar economies. Second, all of the data presented are very short-term. Many collective bargaining agreements remain valid today, so the effect of RTW on labor market outcomes may not yet be fully realized in Indiana (e.g., union contracts in place may keep wages high in Indiana; when they expire the average private sector wage is likely to fall). If the Indiana Supreme Court upholds the RTW law and the policy remains in place, future research in a follow-up study is needed when more data is available after three, five, and/or ten years.

Despite these cautionary notes, the data still does not support the notion that RTW has any positive economic impact on states. At best, Indiana's experience illustrates that RTW is not a quick-fix to poor labor market performance. Where are all the new businesses that were suddenly supposed to find Indiana more attractive? Why hasn't the unemployment rate fallen with the rest of the nation? Why are the construction and manufacturing industries not seeing a production boost? At worst, RTW has a negative impact on various labor market outcomes. In fact, scholarly research which *does* use advanced statistics to analyze RTW's impacts over a longer period of time has found that RTW lowers worker wages by 2.3 to 3.2 percent and has no impact on total employment.[8]

Illinois lawmakers should avoid succumbing to the weak, unjustified claims made by proponents of RTW laws. The workers of both Illinois and Indiana need sensible, "high-road" policy solutions that spur the respective state economies and pay long-term dividends. Indiana's experience demonstrates that a right-to-work law is not one of those solutions. Contrary to the impact of investing in infrastructure, education, and new technology, RTW has no proven record of success in growing state economies. Accordingly, Illinois should *not* enact a RTW law.

Conclusion

Right-to-work's economic track record has thus far been poor in Indiana. While private sector job growth continues to outperform Indiana's neighbors, growth has slowed since RTW was signed into Indiana law. In the year following RTW's passage, more businesses closed down in Indiana than opened up. In addition, total employment has declined, the unemployment rate has remained unchanged, private sector hourly wages have not grown by a substantive amount, and average weekly hours worked have slightly declined in the 18 months since RTW was passed. The construction and manufacturing industries have also noticeably underperformed, especially in comparison to the 18 months prior to the state enacting the law.

Ultimately, the purported economic benefits of RTW laws which are espoused by proponents result in broken promises. To create jobs, raise worker incomes, increase consumer demand, and attract businesses to open in the Land of Lincoln, Illinois needs to learn from Indiana's experience and avoid passing a RTW law. Both Illinois and Indiana need high-road policy solutions that invest in residents, increase investment in infrastructure, and foster an environment in which public sector officials, private sector decision-makers, and labor leaders can cooperate to accomplish these goals. Illinois needs policies with *proven* track records. Right-to-work is *not* one of those policies.

ENDNOTES

[1] Davey, Monica. (Feb. 1, 2012). "Indiana Governor Signs a Law Creating a 'Right to Work' State." *The New York Times*, at http://www.nytimes.com/2012/02/02/us/indiana-becomes-right-to-work-state.html?_r=0.

[2] Ogletree Deakins. (Feb. 8, 2012). "Indiana's Right-to-Work Law: Frequently Asked Questions." Ogletree, Deakins, Nash, Smoak, & Steward, P.C., at http://www.ogletreedeakins.com/publications/2012-02-08/indiana%E2%80%99s-right-work-law-frequently-asked-questions.

[3] Olson, Elizabeth. (Jan. 31, 2012). "What Right-to-Work Laws Really Mean." *CNNMoney*, at http://management.fortune.cnn.com/2012/01/31/what-right-to-work-laws-really-mean/.

[4] Malagon, Elvia. (Sept. 9, 2013). "State Judge Rules Indiana's Right-to-Work Law Unconstitutional." *The Times of Northwest Indiana*, at http://www.nwitimes.com/news/local/lake/hammond/state-judge-rules-indiana-s-right-to-work-law-unconstitutional/article_100077d0-6ee9-5d33-88bf-0bc261c9ae3e.html

[5] The Indiana State Constitution is available at http://www.in.gov/legislative/ic/code/const/art1.html.

[6] Representative Ives' bill (HB3160) is called the "Workers Rights Act" and can be found at http://www.ilga.gov/legislation/BillStatus.asp?DocNum=3160&GAID=12&DocTypeID=HB&SessionID=85&GA=98.

[7] Bureau of Labor Statistics. (August 2013). "Databases, Tables & Calculators by Subject." United States Department of Labor, at http://www.bls.gov/data/.

[8] Stevans, Lonnie. (2009). "The Effect of Endogenous Right-to Work Laws on Business and Economic Conditions in the United States: A Multivariate Approach," *Review of Law and Economics* 5:1, 595-614; Gould, Elise and Heidi Shierholz. (2011). "The Compensation Penalty of 'Right-to-Work' Laws," Economic Policy Institute, Briefing Paper 299; and Collins, Benjamin. (2012). "Right to Work Laws: Legislative Background and Empirical Research," Congressional Research Service, 7-7382.