FACT SHEET

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Does Compulsory Unionism Make You Poorer?

Seven Lowest-Ranking States For Cost of Living-Adjusted Income Lack Right to Work Laws

Economists who wish to compare living standards among various countries routinely use purchasing power parity (PPP) in their calculations. As its Wikipedia entry explains, PPP is "an economic theory and a technique used to determine the relative value of currencies . . . ." It asks "how much money would be needed to purchase the same goods and services in two countries, and uses that to calculate an implicit foreign exchange rate."

One problem with PPP rates is that they are difficult to calculate with precision. By comparison, official exchange rates are always readily available. But there is a wide consensus that PPP rates, imperfect as they are, enable researchers to make a much more reliable assessment of a country's relative living standards than do exchange rates, which have for many years systematically understated consumer purchasing power for some nations while overstating it for others.[1]

Of course, even within a single country with a single currency, the purchasing power of that currency can differ greatly. Economists who use PPP to compare living standards among various countries should logically also try in some way to control for intranational, regional differences in purchasing power. Financial journalist and Reuters editor Felix Salmon put it this way in a blog post last fall: "[I]f PPP makes sense -- and it does, in many ways -- then shouldn't we be using it when we compare New York to, say, Illinois? The purchasing power of the U.S. dollar varies widely from state to state -- is there some way of incorporating *that* into statistics?"[2]

There is indeed such a way. For a number of years, employees who are considering relocation to another state and businesses seeking to hire capable out-of-state employees have consulted interstate cost-of-living indices that are calculated and published four times a year by the nonpartisan Missouri Economic Research and Information Center (MERIC). MERIC's indices factor in housing, food, utilities, transportation, health care, and other miscellaneous goods and services.

Whence does MERIC get its data? It derives its statewide indices by averaging all the metropolitan-area cost-of-living indices calculated by the Council for Community and Economic Research (C2ER) within each state. As C2ER's web site notes, this organization's cost-of-living data are "recognized by the U.S. Census Bureau, [the] U.S. Bureau of Labor Statistics, CNN Money, and the

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[1] See, e.g., Paul Bergin, Reuven Glick, and Alan M. Taylor, "Productivity, Tradability, and the Long-Run Price Puzzle," Federal Reserve Bank of San Francisco Working Paper, June 2004.

[2] "The Limts of Statistics," Reuters blog post, November 16, 2011.

President's Council of Economic Advisors." Moreover, the C2ER's calculations are "completely transparent to users" and "are reviewed by an Advisory Board composed of academic researchers and government officials."

For a number of years, the National Institute for Labor Relations Research has used MERIC's indices to make apples-to-apples comparisons of wages, salaries, and other forms of income in Right to Work and forced-unionism states. To obtain annual indices for 2011, the Institute simply averaged the quarterly indices for each state.

In 2011, Not One of 16 Most Expensive States to Live In Had a Right to Work Law on the Books

The annualized MERIC data show that, among the 16 states with the highest overall cost of living last year, not one has a Right to Work law on the books. On the other hand, among the 15 states with the lowest overall cost of living, 11 had Right to Work laws in 2011. (One other low-cost state, Indiana, adopted a Right to Work law early this year.) <u>On average, the cost of living in states where forced union dues are permitted was nearly 20% higher than in Right to Work states</u>.

When 2011 disposable personal income (personal income minus taxes) data, as reported by the U.S. Commerce Department's Bureau of Economic Analysis (BEA),[3] are adjusted for differences in living costs,[4] the results show that all of the seven states with the lowest real, spendable disposable incomes per capita in 2011 (Alaska, California, Hawaii, Maine, Oregon, Vermont, and West Virginia) lack Right to Work laws.

Of the nine states with the highest cost of living-adjusted disposable incomes in 2011, Iowa, Kansas, Nebraska, North Dakota, South Dakota, Texas, Virginia and Wyoming all have Right to Work laws. The sole exception among the nine is forced-unionism Illinois. While the Prairie State's relatively high spendable average income is a positive, it should be noted the state is at the same time plagued by high out-migration of families with children and extraordinarily poor job creation.[5]

<u>Overall, the cost of living-adjusted disposable income per capita for Right to Work states in 2011 was more than $36,800, or roughly $2200 higher than the average for forced-unionism states</u>.

Big Labor apologists sometimes contend without evidence that, if the real, spendable average after-tax income is higher in Right to Work states than it is in forced-unionism states, that is only because a small number of extraordinarily high-income people living in the first group of states are bringing up the average. Last year, for example, David Madland, Karla Walter, and Nick Bunker of the

[3] See "Personal income, per capita personal income, disposable personal income, and population" in the "State Annual Personal Income and Employment" section of the BEA web site.
[4] Each state's cost of living-adjusted disposable income for 2011 equals the BEA-reported total divided by the state's annual cost-of-living index for 2011, expressed in percentage terms.
[5] See, e.g., "Right to Work = Teacher Job Opportunities," *National Right to Work Newsletter*, September 2012, p. 3, and "Right to Work States Have Superior Job Growth," *National Right to Work Newsletter*, October 2012, p. 6.

union-label Center for American Progress wrote: "Studies find that right to work laws increase owners' average income, but there is little 'trickle-down' to the workers in these states."[6]

The sole source Madland, Walter and Bunker offer as support for this bald assertion actually does not address the issue of income distribution in Right to Work states vs. forced-unionism states at all. And the available data suggest the opposite of what they contend: The average spendable income in compulsory-unionism states would be even lower relative to the average in Right to Work states if individuals and households with adjusted gross income (AGI) of $200,000 or more were factored out of the equation.

Highest-Income Households Are Evidently Hurt
Less Than Everyone Else By Compulsory Unionism

Internal Revenue Service (IRS) data indicate the miserable business climates and job-creation records of high-cost forced-unionism states like California, New York, New Jersey, and several New England states hurt the highest-income households less than others. As of 2009, IRS Statistics show that 3.03% of individual and joint federal tax filers in forced-unionism states reported annual adjusted gross income (AGI) of $200,000 or more, compared to just 2.37% of filers in Right to Work states.[7]

Nine of the 10 states with the highest shares of tax filers reporting an AGI of $200,000 or more are forced-unionism states (California, Colorado, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York and Washington). The sole exception is Right to Work Virginia.

Without a doubt, one reason America's highest earners are heavily concentrated in several forced-unionism states (California, Connecticut, Maryland, Massachusetts, New Jersey, and New York) is that their cost of living is far above the national average. A nominal income of $200,000 a year does not go nearly so far in California as it does in Texas.

But another highly relevant factor is that people with the highest incomes are far less apt to move to another state than people in any other income bracket. California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey and New York all have experienced heavy net domestic out-migration in recent years.[8] However, as California sociologists Charles Varner and Cristobal Young found in a recent analysis, "[M]igration declines with income. Individuals at the very top seem to be more strongly attached to their current state than other slightly less wealthy individuals."[9]

Therefore, contrary to what Madland, Walter and Bunker would have you believe, it seems to be the highest earners who are hurt least by compulsory unionism. For everyone else, compulsory unionism is correlated with lower incomes.

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[6] See "Unions Make the Middle Class," Center For American Progress Action Fund, April 2011, p. 7.
[7] See http://www.irs.gov/uac/SOI-Tax-Stats---Historic-Table-2 -- "Tax Year 2009: Historical Table 2 (SOI Bulletin)."
[8] See, e.g., U.S. Census Bureau, *Statistical Abstract of the United States: 2011,* Table 15 ("State Resident Population -- Components of Change: 2000-2009").
[9] "Millionaire Migration in California: The Impact of Top Tax Rates," 2012 working paper, p. 23

This correlation does not in itself prove that Big Labor monopoly control over employees *causes* lower incomes.

But unless and until union-boss apologists can somehow show that real incomes in forced-unionism states would be even lower relative to incomes in Right to Work states if labor policy became uniform nationwide, the data do establish one important thing. Namely, they discredit Big Labor claims that compulsory unionism is a formula for prosperity.

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Nothing here is to be construed as an attempt to aid or hinder the passage of any bill before Congress or any state legislature.