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National Institute for Labor Relations Research

5211 Port Royal Road, Suite 510, Springfield, VA 22151 • Phone: (703) 321-9606 • research@nilrr.org • www.NILRR.org

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How Can Kentucky Offer More Opportunities to Employees?

Border-County Employment-Growth Data Bolster Case For Enactment of a Bluegrass State Right to Work Law

By Stan Greer

Could becoming the 25th Right to Work state make Kentucky a more attractive place for people in their career-building years?

Right to Work laws, as many readers undoubtedly know, protect employees from termination for refusal to pay dues or fees to an unwanted union. Twenty-four states already have such laws on the books – and 22 of them have prohibited compulsory unionism for at least a dozen years. The two most recent Right to Work laws were adopted in Indiana and Michigan, and took effect in February 2012 and March 2013, respectively.

Kentuckians who favor adoption of such a statute can point to a wide array of data reported by federal agencies such as the U.S. Labor and Commerce Departments showing that long-term economic growth is substantially faster in the Right to Work states neighboring Kentucky than it is in the Bluegrass State and its non-Right to Work neighbors.

(South and southeast of Kentucky lie Right to Work Tennessee and Virginia, while forced-unionism Missouri, Illinois, Ohio and West Virginia border the Bluegrass State to the west, north and northeast. Since Kentucky's other northern neighbor, Indiana, switched from forced-unionism to Right to Work two years ago, it is excluded from the following data analyses.)

From 2002-2012, Private-Sector Employment Growth in Kentucky's Right to Work Neighbor States Was Six Times as Great as That of Kentucky Itself

For example, from 2002 to 2012, total private-sector payroll employment in Kentucky's two neighboring Right to Work states increased by roughly six times as much as the 0.6% job growth in Kentucky. In the region including Kentucky and all of its neighbors, the Right to Work states had combined job growth of 3.8%, compared to an overall loss of 2.2% for the forced-unionism states of Missouri, Illinois, Ohio, West Virginia and Kentucky.[1]

Of course, although portions of Right to Work Tennessee and Virginia are located very near to various portions of Kentucky, these states in their entirety differ substantially from the Bluegrass State in multiple ways that aren't tied to public policy.

<u>To get a clearer picture of whether the slower employment, compensation and other income growth experienced by Kentucky over the years relative to its Right to Work neighbors stems from policy differences, it makes sense to look only at border counties, rather than the entire states</u>.

After excluding counties adjacent to Indiana only, 37 Kentucky counties border on counties located in other states.

Seventeen counties (Allen, Bell, Calloway, Christian, Clinton, Cumberland, Graves, Harlan, Letcher, Logan, McCreary, Monroe, Simpson, Todd, Trigg, Wayne and Whitley) are adjacent to one or more counties located in Right to Work states.

Another 17 Kentucky counties (Ballard, Boone, Boyd, Bracken, Campbell, Carlisle, Crittendon, Greenup, Kenton, Lawrence, Lewis, Livingston, Martin, Mason, McCracken, Pendleton and Union) are contiguous with one or more counties in forced-unionism Missouri, Illinois, Ohio, and West Virginia.

And three Kentucky counties (Fulton, Hickman and Pike) are contiguous with at least one Right to Work state county and a forced-unionism Missouri or West Virginia county.

On the other side of the border, a total of 18 counties located in Right to Work Virginia and Tennessee are adjacent to Bluegrass State counties. Finally, a total of 15 counties in forced-unionism Missouri, Illinois, Ohio, and West Virginia are adjacent to Kentucky counties.

'What Differs at the Border Is Policy'

In a scholarly paper on the economic impact of Right to Work laws published by the Federal Reserve Bank of Minneapolis's research department in the fall of 1996, Thomas Holmes, an economics professor at the University of Minnesota, observed:

> At state borders, the geographic determinants of the distribution of industry, e.g. climate, soil fertility, access to transportation, the level of agglomeration benefits, and so on, are approximately the same on both sides of the border. What differs at the border is policy. . . . [I]f the policies make no difference, there should be no abrupt change at the border.[2]

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[1] See the State and Metro Area Employment, Hours & Earnings page located on the web site of the U.S. Bureau of Labor Statistics.

[2] "The Effect of State Policies on the Location of Industry: Evidence From the State Borders," FRBMRD Staff Reporrt 205, revised September 1996.

While the world economy has changed a great deal over the past couple of decades, the same basic approach Holmes came up with to “control for nonpolicy variables” in his 1996 paper can easily be applied to more recent data measuring overall private-sector employment growth. Following Holmes’ method, we can compare job growth in Kentucky and its neighboring states solely with regard to counties located along the borders.

A data base that tracks total annual private-sector payroll employment by county is available on the Quarterly Census of Employment and Wages page of the U.S. Bureau of Labor Statistics (BLS) web site.

When only data from counties located directly on both sides of the Kentucky border are considered, the long-term job-growth advantage held by the Bluegrass State’s Right to Work neighbors is substantially wider than what is revealed by the statewide data. Following Holmes’ reasoning, the disparity suggests <u>the overall edge Right to Work Tennessee and Virginia have over forced-unionism Kentucky is primarily a consequence of public policy differences</u>.

To be precise, BLS data show that, from 2002 to 2012, total private-sector payroll employment in the 20 Kentucky counties bordering Right to Work Tennessee and Virginia (including Fulton, Hickman and Pike, which also border forced-unionism states) fell by 3.5%. Over the same period, the total private-sector payroll employment for the 18 Tennessee and Virginia counties bordering Kentucky increased by 2.7%.

‘States That Have Right-to-Work Laws Tend to Pursue Other Pro-Business Policies . . . ‘

A number of the overwhelmingly rural counties in Kentucky’s Right to Work neighbors as well as in Kentucky itself had shrinking workforces. Since the share of the overall U.S. population living in rural areas fell from 20.2% to 17.4% between 2002 and 2012, according to the World Bank’s estimate, this fact isn’t surprising.

Right to Work states’ employment-growth advantage over Kentucky is therefore concentrated in counties with populations of between 35,000 and 200,000. (There are no large-population counties on either side of the border.) Montgomery, Robertson and Sumner, the three most-populated Tennessee counties along the state’s northern border according to the 2010 Census, saw their total private-sector employment grow by 15.7% from 2002 to 2012.

<u>Meanwhile, the three most populous Bluegrass State counties along the Kentucky-Tennessee border, Calloway, Christian and Graves, chalked up an aggregate job gain of just 3.8%</u>. This was far from sufficient to make up for the losses in the more rural Kentucky counties.

While the fact that Right to Work Tennessee and Virginia’s aggregate 2002-2012 private-sector job-growth advantage over Kentucky is 6.2 percentage points in border counties only, compared to 3.2 percentage points using statewide data, strongly suggests that policy differences are the key reason for the disparity, it doesn’t tell us which policy difference is most important.

It is certainly true that an array of tax and regulatory policies other than Right to Work laws have an impact on states' ability to attract job-creating investments. However, as Holmes observed in the paper cited above, "right-to-work states tend to pursue other pro-business policies, so the presence of a right-to-work law is a proxy of a pro-business climate."

Moreover, there is ample reason to believe that Right to Work laws actually foster less burdensome taxes and regulations, because Big Labor is undoubtedly the most powerful lobby for heavier taxation and more bureaucratic interference in business decisions. Wherever union officials maintain forced-dues privileges, the Tax-and-Spend lobby inevitably wields far more clout.

In Kentucky Counties Bordering Forced-Unionism States, Private-Sector Jobs Grew by 2.3% From 2002 to 2012

Long-term job-growth data from the border areas it shares with fellow forced-unionism states suggest that Kentucky's lack of a Right to Work law is indeed hindering its economic progress.

Apparently, Kentucky's current package of tax and regulatory policies is generally less averse to job-creating investments than those of its non-Right to Work neighbors. Along Kentucky's borders with Missouri, Illinois, Ohio, and West Virginia, overall private-sector jobs increased by 2.3% from 2002 to 2012 on the Bluegrass State side, even as private-sector employment fell by an aggregate 8.2% in counties neighboring Kentucky located in the four other states.

In short, Kentucky is competing successfully with other forced-unionism states for investment dollars, but its failure to match the attractiveness of Right to Work states keeps the Bluegrass State as a whole stuck in a slow-growth rut.

Right to Work laws' fundamental appeal is based on principle. The vast majority of Kentucky citizens agree that employees shouldn't be fired for refusal to bankroll a union they don't want, and never asked for. But Kentuckians may find it reassuring to know that, based on the best available evidence, doing the right thing will benefit employees and businesses economically.

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Stan Greer is the National Institute for Labor Relations Research's senior research associate.
Nothing here is to be construed as an attempt to aid or hinder the passage of any bill before Congress or any state legislature.