

The Economic Effects of Adopting a Right-to-Work Law: Implications for Illinois

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This study, conducted by researchers at the University of Illinois at Urbana-Champaign and University of Michigan-Ann Arbor provides both a national assessment and Illinois forecast on the effect of right-to-work (RTW) laws on important labor market outcomes, including earnings, employment, unionization, and inequality. Right-to-work laws were nationally evaluated in those targeted areas and then a separate analysis was applied to Illinois. This comprehensive investigation has culminated in six key findings:

1. RTW lowers worker earnings.

- RTW laws reduce private sector annual earnings by over \$2,000, lower manufacturing worker earnings by almost 9 percent and construction worker earnings by more than 22 percent.
- RTW's effect on earnings growth is unclear. In general, RTW appears to be associated with a very small positive effect on wage growth, but the effect diminishes over time and never compensates for the policy's prominent downward effect on wages.
- Over ten years, the effect of RTW on incomes would be a loss of almost \$24,400 for all workers, more than \$31,200 for manufacturing workers, and over \$60,600 for construction workers. Simply put, RTW is a recipe for lower lifetime earnings.

On the other hand, unions have fared far better at raising and protecting worker earnings than RTW laws.

- Nationwide, union membership is correlated with approximately a 12 to 13 percent increase in earnings.

2. The evidence is inconclusive on RTW's employment effect.

The general conclusion is that RTW's impact on job gains is mixed.

- For the private sector, RTW laws are also associated with a 0.4 percent increase in employment each year, but the effect diminishes over time.
- The law's ultimate effect on Illinois' employment may at best be slightly positive but temporary and at worst negative.
- When isolated and measured against other job creation variables, RTW has no proven record of stimulating economic growth.

3. RTW reduces union membership.

- While the industry in which a worker is employed has the largest impact on the probability of being a union worker, RTW has a clear negative impact on union membership.
- The effect of RTW on union membership may be as little as less than a 2 percentage point reduction and as large as an almost 10 percentage point decline.

4. RTW increases gender and racial wage inequality.

- For employed African-Americans, RTW laws lower African-American worker earnings by between almost 2 percent and 9 percent.
- Similarly, RTW's effect on the wages of female workers is generally negative as well. RTW laws lower the average female worker's wages by between almost 2 and 8 percent.
- For Latino/a workers, the results are less clear: RTW may reduce hourly wages by as much as /or more than 8 percent for Latino/a workers but may cause a minimal 0.8 percent increase in wages.

5. RTW reduces employee benefits and increases workplace fatalities.

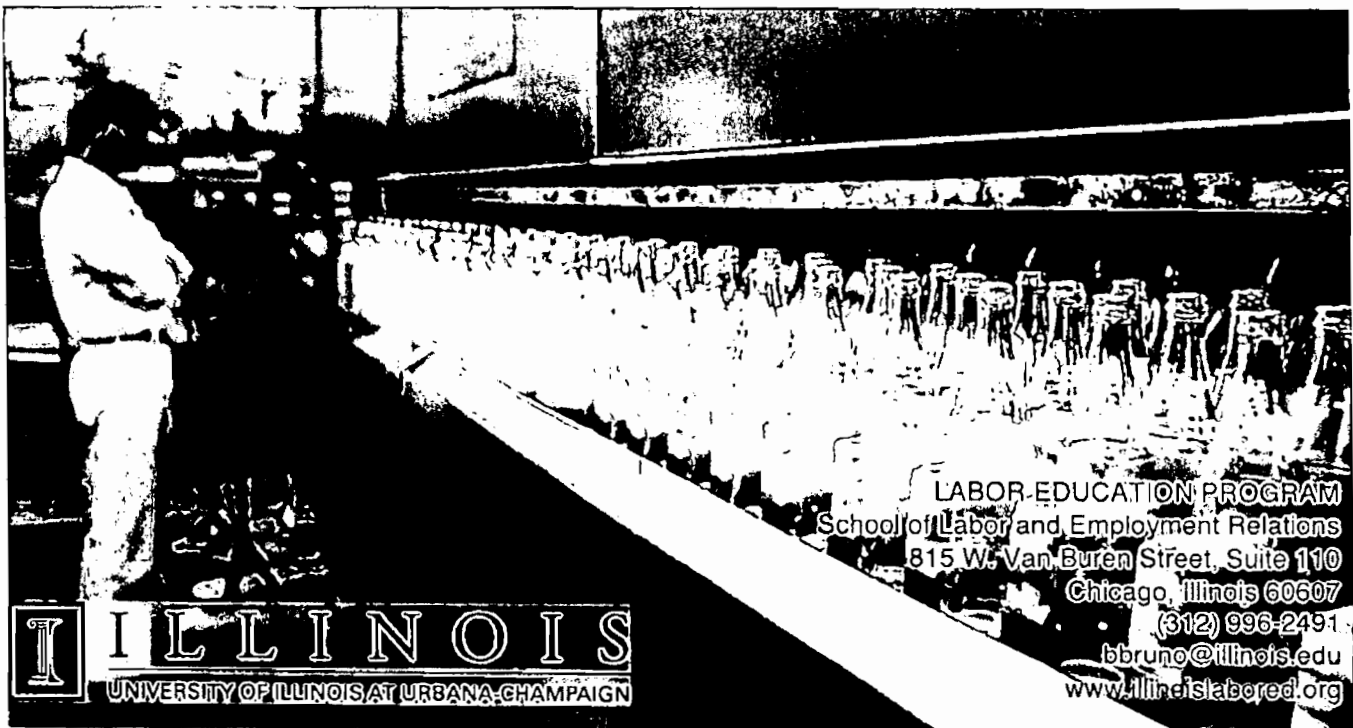
- Employers in the construction sector, as a case study, spent roughly a little more than \$5,000 and \$4,600 per employee on respective legally required benefits and fringe benefits in RTW states.
- In comparison, construction firms in CB states spent over \$1,200 *more* per employee on legally required benefits and over \$2,900 *more* on fringe benefits.
- Construction fatality rates in RTW states were higher than those in CB states.

6. Adopting a RTW law would have negative impacts on the Illinois economy and budget.

If Illinois adopted a RTW law:

- Over time, worker earnings would fall by between 5 and 7 percent, manufacturing earnings would drop by almost 9 percent, construction earnings would decline by 22 percent, and the union wage premium would fall by about 2 percentage points.
- The state's unemployment rate could fall from 9.1 percent to 8.4 percent but the drop could be temporary.
- The unionization rate would decline from 14.6 percent to between 4.7 percent and 13.1 percent.
- Over time, the hourly wages of African-American workers would decrease by 2-9 percent, the hourly wages of women would fall by between 2-8 percent, and the hourly wages of Latino/a workers could fall by as much as 8 percent.
- The benefits packages offered to construction workers would decline roughly \$4,100 annually and approximately 107 additional Illinois workers would lose their lives due to work-related injuries in construction sectors over 10 years.
- After the third year of adoption, annual total labor income in the state would drop by between \$2 billion and \$9 billion and by \$35 billion to \$40 billion over the next five years.
- After the third year of adoption, annual state income tax revenues would decline by \$75 million to \$355 million and by about \$1.5 billion over the next five years.

Right-to-work laws have overall negative impacts for American workers. By and large, as a policy prescription, RTW would generate harmful effects to Illinois' economy, lower its capacity to provide essential public services, and degrade the quality and condition of the state's labor force.



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