Collective bargaining subsidizes low-wage work in some states

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Workers in collective-bargaining states subsidize the low-wage model of employment in right-to-work states, says a new study co-written by Robert Bruno, a professor of labor and employment relations on the Urbana campus. Credit: L. Brian Stauffer

States with right-to-work laws "free ride" on the higher tax revenues generated by workers in collective bargaining states, says a new study from a University of Illinois labor expert.

According to Robert Bruno, a professor of labor and employment relations on the Urbana campus, workers in collective bargaining states are effectively subsidizing the low-wage model of employment in right-to-work states.

"Our study found that right-to-work laws weaken state economies and strain public budgets," said Bruno, also the director of the Labor Education Program in Chicago. "Right-to-work laws not only sap government revenue in the form of reduced tax receipts, but they also increase government spending in outlays for food stamps and the earned income tax credit."

Bruno and study co-author Frank Manzo IV, the policy director of the Illinois Economic Policy Institute, investigated the impact of right-to-work laws on worker earnings, employment, tax revenues and government assistance.

The authors found that right-to-work laws:

- Reduce worker income from wages and salaries by 3.2 percent on average.
- Lower both the share of workers who are covered by a health insurance plan (by 3.5 percent) and the share of workers who are covered by a pension plan (by 3 percent).
- Reduce union membership rates by 9.6 percent.
- Increase the employment rate (by 0.4 percent), but at the expense of a lower labor force participation rate (by 0.5 percent).

While workers in right-to-work states account for just 37.4 percent of all federal income tax revenues, they receive 41.9 percent of all non-health, non-retirement government assistance, the paper says.

"Essentially, what that means is workers in collective bargaining states –

New York, California and Illinois, to name a few – are subsidizing the low-wage model of employment in right-to-work states such as Mississippi, Louisiana and Texas."

Workers in right-to-work states also receive $0.232 in non-health, non-retirement government assistance per dollar of federal income tax contributions, compared with $0.187 per dollar for each worker in collective bargaining states.

"It's clear that workers in right-to-work states are being subsidized by the efforts of their peers in collective bargaining states," Bruno said. "Poorer right-to-work states are essentially being propped up by the higher income tax revenues generated by workers in collective bargaining states. The net effect is that right-to-work laws weaken state economies and strain public coffers."

A right-to-work law has nothing to do with an individual seeking gainful employment, Bruno cautions.

"It's a government regulation that bars labor unions from including union security clauses in joint agreements with employers," he said.

Union security clauses ensure that each member of a bargaining unit who receives the benefits of collective bargaining – for example, a higher wage, better health care and retirement benefits, grievance representation, a voice at work – also provides their fair share of dues or fees.

In a collective bargaining state, employers and labor unions are able to negotiate a range of union security clauses, Bruno said.

"There's no mandate to do so, but they may agree to a union security clause that requires everyone covered by the contract to pay dues or fees to cover the cost of bargaining activities," he said. "In these states, covered employees are only required to pay for bargaining costs and are not forced to finance non-bargaining or political activities. Some collective bargaining agreements also allow union objectors to contribute their dues to charity."

The study also found that a right-to-work policy decreases a state's labor force participation rate.

"Working-age residents who drop out of the labor force depend more on government assistance, which raises the poverty rate and, in turn, leads to increased government spending on food stamps, as well as a lower share of workers who are covered by a health insurance plan," Bruno said.

To illustrate their conclusions, the authors created a hypothetical case study of what would happen if the state of Illinois were to have adopted right-to-work legislation in 2013. They calculated the state's labor income would have fallen by $12.3 billion, and accompanying declines in government revenue would have totaled $4.8 billion in lost federal income tax revenue as well as about $500 million in lost state income tax revenue.

"Government assistance in the form of food stamps and EITC benefits would have increased by over $440 million during that time," Bruno said.

Although workers in states with right-to-work laws work slightly more hours per week and per year than their counterparts in collective bargaining states, that's likely only because workers need to offset the effects of lower wages, Bruno said.

"The question for policymakers is whether a small increase in the employment rate is worth a significant decrease in total labor income, a considerable decline in state income tax revenues, an even larger drop in federal income tax revenues and an increased erosion of public budgets," he said. "Ultimately, the negative impact of right-to-work laws greatly outweighs the uptick in employment rates it creates."

More information: The paper, "Free-Rider States: How Low-Wage Employment in 'Right-to-Work' States is Subsidized by the Economic Benefits of Collective Bargaining," is available online: www.ler.illinois.edu/labor/applied_research.html

Provided by University of Illinois at Urbana-Champaign

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