



Policy Brief
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Where the Good Jobs Are

A New Look at Right to Work and Employment Growth

By D. Dowd Muska

Introduction

For decades, states with right-to-work (RTW) laws have consistently outpaced their compulsory-union counterparts in job creation. The latest analysis by the National Institute for Labor Relations Research found that between 2003 and 2013, private-sector employment in RTW states grew by 16.2 percent, besting non-RTW states nearly seven percentage points.¹

RTW opponents argue that “correlation is not causation,” a criticism that has validity. Many factors -- including taxes, regulations, energy costs, transportation infrastructure, and workforce skills -- influence companies’ location decisions.

However, site-selection professionals report that their clients prefer states where unionism is voluntary. In 2004, David Brandon, president of the Dallas-based consulting firm The Pathfinders, told *Site Selection* that:

About 35-to-40 percent of manufacturing enterprises in the automotive industry insist on operating in a right-to-work state. Another 20-to-25 percent say it is a very important factor and will be used as a second- or third-tier factor in site selection. More than half of our companies either make it a threshold or a very important factor in making a decision on where to locate a factory and other operations. In the financial services industries, shared-services centers and document centers, where they utilize high numbers of highly trained individuals, roughly half of these companies have included right-to-work as a primary site selection factor. You will probably look at ... other states before

you look at a non-right-to-work state. It is more important than it was a decade ago.²

According to Mark M. Sweeney, a senior principal at McCallum Sweeney Consulting: “The primary reason given for [RTW favorability] is work force flexibility which allows companies to compete more effectively and respond in a timelier manner to opportunities in their highly competitive global markets.”³ When Indiana’s economic-development agency asked corporations and site-selection specialists how to improve the state’s competitiveness, the “issue of right to work was consistently raised as the single largest policy change that could improve Indiana’s business climate.”⁴ After Michigan passed its RTW law in 2012, Brent Pollina of Pollina Corporate Real Estate predicted that the state “will no longer be eliminated because they are not a right-to-work state. As a result, there should be a significant increase in the number of projects that Michigan receives because they are no longer being eliminated at the early stages of searches.”⁵

Do site-selection professionals’ claims stand up to scrutiny? To test their assertions, this analysis applies several levels of disaggregation to the RTW jobs debate. At the broadest level, it examines “quality” jobs -- middle- and high-compensation positions in manufacturing, IT, logistics, research and development, finance, and engineering. (No positions in fast food, convenience stores, eldercare, landscaping, and retail sales are included.)

Further refinements are made for projects that involve “border crossings” -- i.e., when a business headquartered in a non-RTW makes an investment in a RTW state, and vice versa. Relocations -- in which enterprises move entire facilities from one type of state to another -- are examined as well.

Finally, the locations of foreign direct investment (FDI) are scrutinized, in order to determine which type of states draws the most jobs from firms based abroad. According to a 2014 study by the Brookings Institution, “the average worker employed by a foreign-owned firm earned more than \$77,000 in compensation in 2011, compared to just \$60,000 for the average U.S. worker. In addition, foreign firms spend well over double the private sector average on benefits per worker. These firms pay higher wages because they tend to be highly productive and concentrate in capital-intensive, high-skilled industries. Even controlling for those characteristics, foreign firms in the United States hire more skilled workers and invest more in worker training than domestic firms.”⁵

Methodology

Expansions, relocations, and greenfield investments explored herein were all posted on *Area Development’s* website during the six months between January 1, 2015 and June 30, 2015. Founded in 1965, *Area Development* “is considered the leading executive magazine covering corporate site selection and relocation.” It is published quarterly, with a circulation of 60,000. Its editor explained that items for *Area Development’s* announcements listing are “culled from RSS feeds and press releases that are emailed to us from various sources, including economic

development organizations, PR agencies, businesses, etc. We usually highlight ones that represent large numbers of new jobs and/or investment in industrial projects.”⁶

Announcements included a mix of blue- and white-collar employment. Many were in manufacturing, a sector that pays an average annual U.S. wage of \$43,320.⁷ Non-factory positions varied greatly, but included work in IT, finance, research and development, business services, and logistics. Blue Bloodhound, a software firm that bills itself as “Uber meets the transportation industry,” was representative of nonmanufacturing job-creation. In June, it announced the establishment of a North Carolina operation with “customer-service, accounting and marketing positions. Salaries will vary by job but will pay an average of \$46,368 per year, exceeding the Catawba County average of \$36,770.”⁸

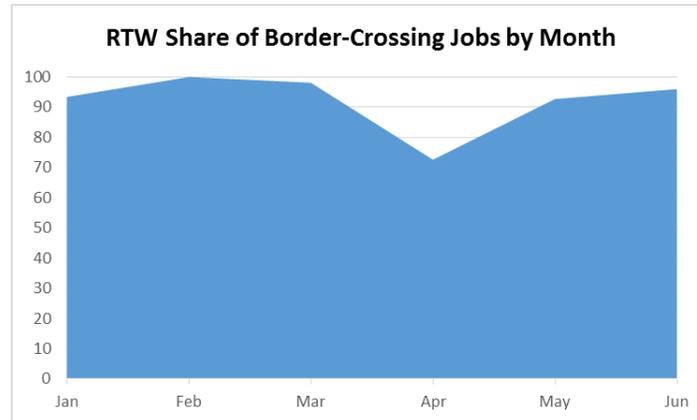
All announcements posted on *Area Development’s* website were scrutinized. If a posting described an investment that did not add jobs -- e.g., equipment upgrades for greater productivity -- it was discarded. In addition, relocations within the RTW/non-RTW boundary were ignored. (For example, a firm moving from suburban to downtown Chicago was not counted.) Items listed by *Area Development* during the period studied totaled 92,923 positions. RTW states were slated to receive 79.2 percent of employment -- a sum, not surprisingly, far in excess of the 46.8 percent of private-sector jobs found in RTW states.⁹

Of the ten states that were to create/relocate the most jobs, nine were RTW. It’s notable that high-population, non-RTW states such as California, New York, Illinois, Pennsylvania, New Jersey, Washington, and Massachusetts did not rank in the top ten. Also interesting were the performances by two Rust Belt states: Indiana (which became RTW in 2012) and Michigan (which became RTW in 2013).

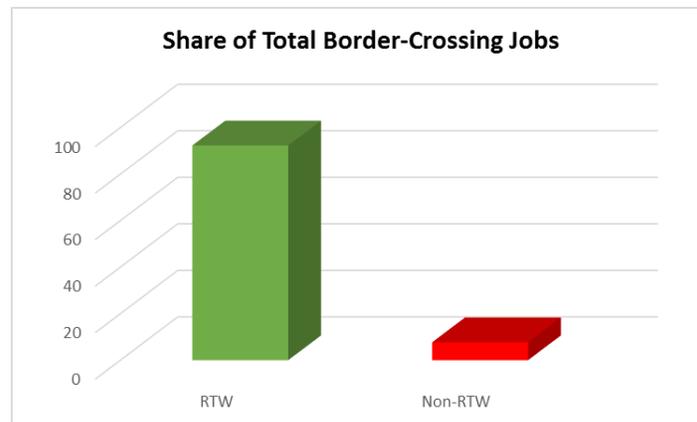
| <i>Rank</i> | <i>State</i> | <i>Population Rank</i> | <i>Jobs</i> | <i>RTW?</i> |
|-------------|----------------|------------------------|-------------|-------------|
| 1 | South Carolina | 24 | 8,859 | Y |
| 2 | Tennessee | 17 | 8,787 | Y |
| 3 | Michigan | 10 | 7,464 | Y |
| 4 | Georgia | 8 | 5,910 | Y |
| 5 | North Carolina | 9 | 5,621 | Y |
| 6 | Louisiana | 25 | 5,251 | Y |
| 7 | Indiana | 16 | 4,871 | Y |
| 8 | Virginia | 12 | 4,512 | Y |
| 9 | Ohio | 7 | 4,022 | N |
| 10 | Florida | 3 | 3,174 | Y |

Crossing the Boundary

In total, 113 border-crossing announcements were listed. Ninety-six -- 85 percent -- crossed from non-RTW to RTW. Job-creation followed suit. In each of the six months examined, more positions were to be created in RTW states by non-RTW-based firms than vice versa.



As for total jobs, RTW prevailed, garnering 92 percent of the positions to be created.

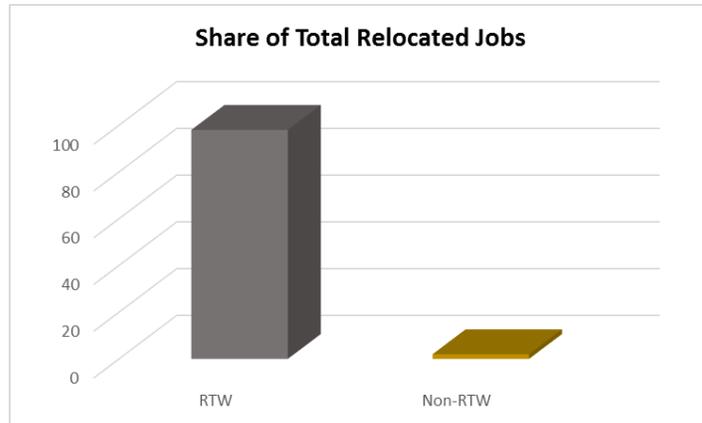


Prominent border-crossing projects to the benefit of RTW states included:

- Minnesota-based Polaris announced the creation of “up to 2,000 new jobs” in Alabama.
- New York-based IBM chose Louisiana for a 400-worker development and innovation center.
- California-based Kaiser Permanente chose Georgia for “a new IT campus” and 900 jobs.
- Massachusetts-based EMC Corporation announced the addition of 700 positions in Utah.
- Illinois-based Northern Trust picked Arizona for a 1,000-employee regional operations center.

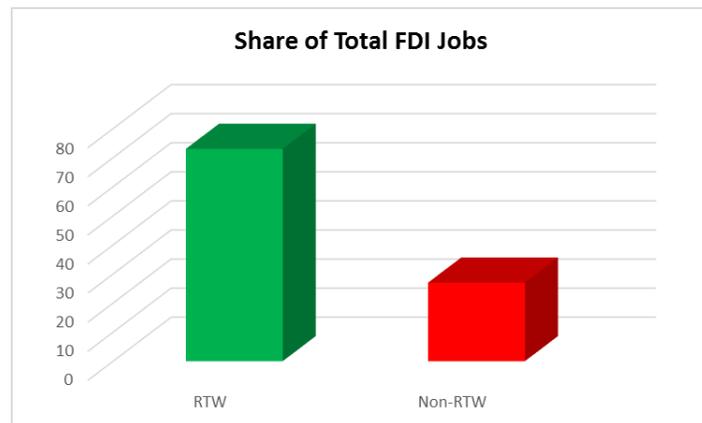
Relocations

Fourteen facilities announced journeys from non-RTW to RTW, while just three planned to go the other way. As for total job-creation, RTW states garnered 98 percent of jobs.



Investment from Abroad

In total, 132 FDI announcements were listed. Ninety-six -- 73 percent -- were made in RTW states. Eighty-three percent of jobs were slated for RTW states.



Of the 12 nations that announced more than one FDI, ten indicated a preference for RTW states.

| Rank | Country | Ratio (RTW:Non-RTW) |
|------|----------------|---------------------|
| 1 | Germany | 21:7 |
| 2 | Japan | 19:5 |
| 3 | Canada | 11:5 |
| 4 | United Kingdom | 9:6 |
| 5 | France | 8:1 |
| 6 | Italy | 6:1 |
| 7 | Spain | 4:1 |
| 8 | Brazil | 3:1 |
| 9 | Australia | 2:1 |
| 10 | China | 1:2 |
| 11 | Israel | 3:0 |
| 12 | Switzerland | 1:2 |

Prominent FDI projects announced for RTW states included:

- Canada's CGI IT commenced construction on a "services delivery center" in Louisiana, a facility that will employ 400.
- Japan's DENSO Manufacturing announced an expansion of its "gasoline direct injection" factory that will create 400 jobs in Tennessee.
- Spain's Gestamp Automoción, a manufacturer of "components for automotive body frames," will expand in Tennessee workforce by 500 positions.
- Sweden's Volvo picked South Carolina for its "first manufacturing facility in the Western hemisphere." The factory will "create 2,000 new jobs over the next decade and up to 4,000 jobs by 2030."
- Germany's ZF Friedrichshafen AG announced the expansion of its Michigan-based technical center. It will "enable to firm to undertake additional research and development services to design, develop and test new vehicle components and systems," and employ 571.

Not a single foreign-based corporation moved a U.S.-based facility from a RTW state to a non-RTW state. The three FDI relocations to RTW states totaled 1,529 jobs.

Conclusion

Jobs grow faster in RTW states -- that much has been established. But the data presented herein suggest that banning compulsory unionism does not foster a "race to the bottom." To the contrary, worker freedom is correlated with employment in well-compensated industries. Furthermore, firms based in non-RTW states appear to favor expansion in and relocation to RTW states. And RTW states substantially outperform their non-RTW competitors in FDI.

It's clear that while it is no panacea, a New Mexico right-to-work law would make the Land of Enchantment more attractive to companies looking to find sites for new facilities and/or relocate existing assets. With employment in the state *still* below its pre-Great Recession peak, shifting New Mexico into the RTW camp is a sound, and cost-free, policy investment.

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Notes

1. "Right to Work States Benefit From Faster Growth, Higher Real Purchasing Power," National Institute for Labor Relations Research, April 2015.
2. Ron Starner, Mark Arend, and John McCurry, "Locked in on Labor," *Site Selection*, July 2004.
3. Beth Mattson-Teig, "Right-to-Work/Low-Union-Profile States: Making or Breaking a Deal," *Area Development*, November 2012.
4. Ibid.
5. Ibid.
6. Devashree Saha, Kenan Fikri, and Nick Marchio, "FDI in U.S. Metro Areas: The Geography of Jobs in Foreign-Owned Establishments," Brookings Institution, June 2014.
7. Email from *Area Development* Editor Gerri Gambale to author, March 18, 2015.
8. U.S Bureau of Labor Statistics, Table B-8, "Average hourly and weekly earnings of production and nonsupervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted"
9. David Harris, "Software startup to create 191 jobs in Hickory," *Charlotte Business Journal*, June 23, 2015.
10. Author's analysis of U.S Bureau of Labor Statistics data for August 2015.

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