Right-to-Work Laws' Effect on Midwestern State Economies

Amichai Greenberg

In a pivotal moment for labor rights, President Franklin Roosevelt signed the National Labor Relations Act of 1935, also known as the Wagner Act, into law. The bill contained provisions outlining four possible arrangements between employers and unions, referred to as "shops": a closed shop required all employees to be members of the union in order to be hired. Employees who left the union could be terminated. A union shop gave employees a time window before they had to join a union. An agency shop gave employees the right not to join a union, provided they contributed to bargaining efforts. An open shop gave employees the full right to decide whether to join a union, with no penalties for deciding not to.

In 1947, Congress passed the Labor Management Relations Act of 1947, also known as the Taft–Hartley Act, which banned the closed shop and union shop, but left the decision to ban agency shops up to the states. Laws that ban agency shops are referred to as "right to work" (RTW) laws, which prevent agreements that obligate all employees covered by a union contract in a unionized firm to contribute financially to the union, whether or not they are members. Indiana's RTW Law, enacted in 2012, prohibits unions from mandating that non-members pay dues or join (Indiana Code § 22-6-6).

This analysis explores the effects of the RTW Law on factors such as union strength, wages, benefits, workplace safety, employment, productivity, and investment growth. I will also investigate the effects of RTW laws on Indiana by examining the economic outcomes of Midwestern states that adopted RTW laws (Indiana, Michigan, and Wisconsin), as well as states that remained free collective-bargaining (CB) states (Illinois and Ohio). When Midwest-specific data was unavailable, the analysis incorporated controlled national studies.

I argue that RTW laws harm unions and workers, and should thus be repealed, as they allow employees who are not part of a union to free-ride on the union's bargaining efforts while remaining non-members (Ichniowski and Zax 1991). The benefits of free-riding disincentivize union membership, which can lead to reduced funds and diminished bargaining power. While initially benefiting free riders, RTW laws reduce wages for both union members and non-members in heavily unionized industries. Furthermore, RTW laws decrease Gross Domestic Product (GDP) per worker, making economies less productive. These effects have been observed in Indiana and similar states with RTW policies.

Proponents of RTW laws argue that they can increase employment and investment (Nesbit and LaFaive 2022). However, evidence on the causal relationship between RTW laws and employment rates is contested, as other factors such as demographic, educational, and geographic differences can also influence employment. While RTW laws can attract investment, this is mostly due to the decreased labor costs, which hurt employees. Additionally, many variables, such as availability of land, energy, and skilled labor affect investment. RTW laws are often bundled with other pro-business policies, so it is difficult to determine which policies increased investment. Furthermore, CEO salaries rise with RTW laws, suggesting that surpluses are being transferred from workers to executives.

Union power is unobservable and can be difficult to measure. However, two useful statistics that can help discern such power are the number of collective bargaining agreements (CBAs) and union membership rates. When states passed RTW laws, they experienced a change of -7.75 CBAs per state-year, compared with an average of 17.9 CBAs per state-year. This finding suggests that RTW laws can almost halve the amount of CBAs per state-year. Thus, RTW laws affect a union's power to negotiate, thereby confirming the "story that RTW laws reduce wage growth through their effect on union strength" (Chava, Danis, and Hsu 2018). When free-riding becomes an option, unions lack the means or power to negotiate agreements, thereby decreasing the number of workers covered by the union and reducing union power over wages.

Additionally, RTW laws cause a decrease in union membership. In the private sector, unionization decreases by an average of 1.75 percentage points, which is significant relative to the private sector's average union membership rate of 10.75%. For the public sector, the decrease is 4.88 percentage points, down from an average union membership of 41.78% (Chava, Danis, and Hsu 2018). Union membership is a good proxy for union power, as higher membership means more dues to fund bargaining efforts and legal and political advocacy. More membership also means more voices in elections, which amplifies unions' political influence.

RTW laws decrease wages primarily by decreasing unionization rates, which inherently decreases union power. Looking at overall unionization rates can be misleading, as some industries, such as construction, manufacturing, and public service, have higher unionization rates than industries like the financial and personal service sectors. Therefore, the effects of RTW laws on unionization would be more pronounced in highly unionized industries.

A study tracked five states (Indiana, Michigan, Wisconsin, West Virginia, and Kentucky) that adopted RTW laws in the 2010s. When compared to CB states that did not adopt those laws, as well as states who already adopted RTW laws, these states showed a 4% decrease in unionization, with 1% lower wages five years after adoption (Fortin, Lemieux, and Lloyd 2022). When examining highly unionized industries, they found that unionization decreased by an average of 13% and wages by 4%, a much larger effect. Oftentimes, researchers struggle to draw conclusions about union power when comparing the wages of unionized and non-unionized workers. Fortin, Lemieux, and Lloyd argue that because RTW laws lower wages only by indirectly limiting union power, they can serve as instrumental variables for measuring unions' effects on wage growth. In this methodology, they estimate that unionization is correlated with a 35% increase in wages.

While decreasing most workers' wages, RTW laws do have a positive effect on CEO salaries. Using the ExecuComp database and a spline regression design that includes Indiana as a case state, Chava, Danis, and Hsu (2020) find that CEO base salaries rise by approximately 9.5% three years after RTW laws are adopted and by approximately 10.8% after five years, both statistically significant ($p<.05$ and $p<.01$, respectively). Moreover, option-based compensation increases significantly by approximately 83.7% five years after RTW laws are adopted ($p<.01$), while other compensation, including pension contributions, rises significantly by approximately 82.6% in year five ($p<.05$). The one exception is that no statistically significant effect is found for stock-based grants.

No comparable increases in compensation are observed in the pre-RTW period, satisfying the parallel-trends assumption and supporting a causal interpretation (Chava, Danis, and Hsu 2020). While RTW laws lower wages for the middle class and blue-collar workers, CEO compensation rises as union power deteriorates, even when controlling for factors such as firm size and productivity. This increase implies that RTW laws exacerbate workplace inequality by shifting bargaining power and wages from workers to CEOs and firms.

Weakening CB and union strength through RTW laws is not only harmful to workers' wages. Workers' benefits also decline in both quality and quantity under RTW laws. In a nationwide study that included unionized and non-unionized workers, the Economic Policy Institute found that private-sector benefits decrease with RTW laws. Healthcare coverage is 2.2 percentage points lower in RTW states than in CB states. If CB states received healthcare at the same rate as other states, two million fewer people would have access to healthcare. The rate of employer-sponsored pensions in the private sector is 4.8 percentage points lower in RTW states than in CB states. Similarly, if CB states received healthcare coverage at this rate, 3.8 million fewer workers would have pension benefits (Gould and Shierholz 2011).

Employee wages and benefits are not the only advantages of a union. Unions have a significant role in bargaining for safer working conditions. Since RTW laws weaken unions, they are associated with poorer workplace safety outcomes. A study using state-year data from the US Bureau of Labor Statistics (1992–2016) finds that for each 1% decline in unionization, fatal workplace injuries rise by about 5%. A preferred estimate implies that RTW laws increase occupational mortality by 14.2% overall (Zoorob 2018).

One of the arguments in favor of RTW laws is that they help reduce unemployment, as, theoretically, unions increase barriers to hiring more workers. According to the Illinois Economic Policy Institute, from 2012 to 2016, unemployment rates fell significantly more in three midwestern RTW states than in non-RTW states in the control group, by 0.5% and 2.2%, respectively (Manzo and Bruno 2017). However, unemployment rates in the RTW states were already higher than in other states before RTW laws were adopted. As of 2016, the unemployment rates were on average 4.9% in the

RTW states and 5.1% in the CB states, indicating a nominal difference in employment.

After controlling for demographic, educational, and geographic factors, RTW laws are associated with a 1.2% increase in employment compared to 0.9% in the control group. Manzo and Bruno (2017) also report a coefficient of determination of 0.08. Statistically, this means that "92% of the change is explained by factors or policy changes other than the variables included in the regression, including RTW. These impacts on unemployment should therefore be taken with a grain of salt" (Manzo and Bruno 2017).

While RTW laws do increase employment, they also lower worker productivity. Worker productivity is measured by dividing the total GDP in a sample by total employment in that sample. In 2018, the United States as a whole produced $141,400 of GDP per worker. CB states produced $154,300 per worker in economic activity, while RTW states produced $127,700 per worker. Thus, productivity was about 17% lower in RTW states (Bruno 2021).

Comparing worker productivity in manufacturing across Midwestern states, RTW states experienced significantly slower growth from 2012 to 2022. Indiana, Wisconsin, and Michigan, the RTW states, grew by only 2.3%. Among the CB states, Illinois grew by 2.8 percentage points and Ohio by 3.1 percentage points (Weger 2023). States with strong unionization experiencing a rise in productivity may also provide an alternative explanation for CB states having slightly lower employment rates . In CB states, workers tend to be more productive, and as a result, firms may not need to hire additional workers to maintain the same level of productivity (Weger 2023).

Another argument in favor of RTW laws is that it attracts investment and therefore will bring more economic growth. Evidence suggests a general correlation between RTW laws and increased investment (Chava, Danis, and Hsu 2018). RTW laws alter firms' financial incentives by weakening union bargaining power, and firms are found to respond by increasing investment while reducing financial leverage. Chava, Danis, and Hsu (2018) suggest that the investment response is strongest in more unionized settings, where the policy implementation shifts bargaining power from labor toward management. However, other studies suggest the RTW laws have a much weaker effect on investment growth, and this growth can be attributed to other pro-business policies that are often correlated with RTW laws (Collins 2014).

Indiana, in particular, has not seen an increase in investment due to RTW laws (Weger 2023). A study of foreign direct investment (FDI) in Indiana and Michigan found that Indiana saw no significant increase in capital expenditure, the number of jobs created by FDI, or the annual count of greenfield FDI investment projects. Michigan, which adopted RTW laws the same year as Indiana, saw increased FDI in these areas, suggesting that factors beyond RTW laws are also incentivizing foreign investment (Cavallo and Peinhardt 2021).

Furthermore, surveys have shown that RTW laws rank relatively low in factors contributing to companies' decisions on regional investment. For 40 years, the Area Development magazine has surveyed companies about which factors they consider important for regional expansion and building new production sites; RTW laws were never a top reason, and in 2025, they ranked 28th on the list (Greiner 2025). Even labor costs, more generally, were only the 13th-most-important factor. Companies prioritize the availability of land, skilled labor, and energy over labor costs and RTW laws, thus demonstrating that RTW laws are not a necessary factor in investment decisions.

In conclusion, RTW laws harm unions and workers. RTW states have lower wages, less healthcare and pension coverage, and more dangerous working conditions. Additionally, the economic output per worker is greater in CB states. Although RTW laws yield minimal improvements in employment and business growth, the causal effect remains contested. Therefore, Indiana should repeal its RTW law to strengthen workers and foster greater economic equality.

References

Bruno, Robert. 2021. *Promoting Good Jobs and a Stronger Economy*. Illinois Economic Policy Institute and Project for Middle Class Renewal. https://illinoisupdate.com/wp-content/uploads/2020/05/ilepi-pmcr-promoting-good-jobs-and-a-stronger-economy-final.pdf.

Cavallo, Paulo, and Clint Peinhardt. 2021. "Foreign Investment and Right-to-Work Laws." *Business and Politics* 23 (3): 406–418.

Chava, Sudheer, András Danis, and Alex Hsu. 2018. *The Effect of Right-to-Work Laws on Workers and Firms*. https://gattonweb.uky.edu/faculty/hankins/conf2018/effect_of_RTW.pdf.

Chava, Sudheer, András Danis, and Alex Hsu. 2020. "The Economic Impact of Right-to-Work Laws: Evidence from Collective Bargaining Agreements and Corporate Policies." *Journal of Financial Economics* 137 (2): 451–469.

Collins, Benjamin. 2014. *Right to Work Laws: Legislative Background and Empirical Research*. Congressional Research Service. https://sgp.fas.org/crs/misc/R42575.pdf.

Fortin, Nicole, Thomas Lemieux, and Neil Lloyd. 2022. "Right-to-Work Laws, Unionization, and Wage Setting." *National Bureau of Economic Research*. https://www.nber.org/papers/w30098.

Gould, Elise, and Heidi Shierholz. 2011. *The Compensation Penalty of "Right-to-Work" Laws*. Economic Policy Institute. https://files.epi.org/page/-/old/briefingpapers/BriefingPaper299.pdf.

Greiner, Andy. 2025. "39th Annual Corporate & 21st Annual Consultants Surveys: What Business Leaders and Consultants Are Saying about Site Selection." *Area Development*. https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/q1-2025/39th-annual-corporate-21st-annual-consultants-surveys-what-business-leaders-and-consultants-are-saying-about-site-selection.shtml.

Ichniowski, Casey, and Jeffrey S. Zax. 1991. "Right-to-Work Laws, Free Riders, and Unionization in the Local Public Sector." *Journal of Labor Economics* 9 (3): 255–275. https://www.jstor.org/stable/2535144.

Indiana Code § 22-6-6. 2012. Right to Work.

Labor Management Relations Act. 1947. Pub. L. 80-101, 61 Stat. 136.

Manzo, Frank, and Robert Bruno. 2017. *The Impact of "Right-to-Work" Laws on Labor Market Outcomes in Three Midwest States: Evidence from Indiana, Michigan, and Wisconsin, 2010–2016*. Project for Middle Class Renewal, Labor Education Program, School of Labor and Employment Relations. https://lep.illinois.edu/wp-content/uploads/2021/08/RTW-in-the-Midwest-2010-2016.pdf.

National Labor Relations Act. 1935. Pub. L. 74-198, 49 Stat. 449. Codified at 29 U.S.C. §§ 151–169.

Nesbit, Todd, and Michael LaFaive. 2022. "Indiana Works with Right-to-Work." *Mackinac Center*. https://www.mackinac.org/blog/2022/indiana-works-with-right-to-work.

Weger, Josh. 2023. “How Has a So-Called ‘Right-to-Work’ Law Impacted Indiana’s Manufacturing Sector? How Effective Is RTW as an Economic Development Policy?” *Midwest Economic Policy Institute*, November 6. https://www.illinoisepi.org/publications/reports/mepi-rtw-and-manufacturing-in-indiana.pdf.

Zoorob, Michael. 2018. “Does ‘Right to Work’ Imperil the Right to Health? The Effect of Labour Unions on Workplace Fatalities.” *Occupational and Environmental Medicine* 75 (10): 736–738.