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5. Myths of a Miracle

A review of David Kendrick's *Economic Development and Right to Work — Case Study: Idaho*

BAD WORK # 5 — BRIEFLY

Economic Development and Right to Work — Case Study: Idaho

David Kendrick, National Institute for Labor Relations Research, Virginia

David Kendrick compiles figures to illustrate growth in jobs, high tech industries, construction, and new businesses in Idaho following the introduction of a "right-to-work" law in 1987. He argues that Idaho has been among the leaders in job and income growth in the United States. Kendrick concludes that "right-to-work" laws are essential to an attractive business climate and that such laws are perhaps the most influential tool for fighting unemployment, high costs, and low productivity.

Summary: David Kendrick provides paltry evidence to support his contention that a market freed from unions will lead to greater economic development and higher incomes. Idaho's "boom" is part of a growth spurt in the Pacific Northwest, aided by huge natural resources, a computer software boom, and migration from California. Idaho's own Department of Commerce is unwilling to attribute Idaho's growth to "right-to-work," and many new jobs are poor quality, low-paid, and low-skilled jobs. There is concern about the growing gap between the "haves and have-nots," and little question that "right-to-work" adds to the generally negative environment for workers.

[ed.note: This article is a condensed version of "More Misgivings about 'Right-to-Work' Laws" by Dr. Albo, May 1997]

Idaho: Myths of a Miracle

The paper by David Kendrick, released by the Fraser Institute under the title *Economic Development and Right-to-Work — Case Study: Idaho*[1] is a salvo in favour of flexible labour market policies against the securities of income, employment and arbitrary work conditions favoured by workers and communities. Kendrick's brief is to challenge unions, and to defend "right-to-work" laws, via the argument that a market freed from the interferences of unions will be attractive to business and hence lead to greater economic development and higher incomes. Idaho, since joining the "right-to-work" fold in 1987 with the full implementation of these laws, is said to have had such an experience. The lack of eloquence of the paper—which recites its own research studies—is only bested by the paucity of the evidence to support the "right-to-work" analysis.

Context

Since the end of the postwar economic boom in the mid-seventies, the New Right mantra of "free markets, less government, deregulation and privatization" has spread across North America and, indeed, the world. The result has been an assault on government spending and institutions, an undermining of the redistributive programmes that comprise the welfare state, a strengthening of the economic role of central banks and money markets to dictate economic policy, and a reversal of policy measures that attempted to provide employment and income security for workers.

A central component of this policy regime has been the attempt to restructure the labour market. This has gone under the rubric of needing to introduce "flexibility" into the labour market to overcome the "rigidities" of past labour policies (in fact, the policies of the postwar boom when unions were stronger, economic growth faster and workers' incomes rising). Some of the previous labour policies provided "security" to workers against loss of income—workers' compensation, unemployment insurance, universal health care, welfare, and so on. The neoliberal strategy has been to limit access, eliminate programmes, and cut benefit levels in the name of wage flexibility, but which may accurately be termed cheapening labour.[2]

Unions provide a further defense — however inadequate — against the insecurities of the market by partly offsetting the unequal relations of power between individual workers desperately needing work and capitalists with the enormous class advantages of wealth and privileged access to governments. Workers have thus historically formed unions to provide more equal relations at work, regulate common working conditions and attempt to ensure that productivity gains at the workplace are shared-out through increased real wages. These measures are a direct outcome of union struggles, but they have the indirect consequence for all in providing more democratic workplaces and more egalitarian societies. Market policies of flexibility have attempted to limit unions by imposing restrictions on organizing and bargaining activity to the favour and benefit of employers.

Claims and Counter-claims

Since Idaho adopted "right-to-work" laws in the mid-80s (after a much-contested referendum), the state has become another one of the economic cases highly-touted by the free-marketeers. Only in the most flimsy kind of empirical analysis, however, can it be contended that Idaho has become a free market paradise due to "right-to-work" laws.[3] The claims Kendrick repeats are: in comparison to other states, Idaho's "right-to-work" laws have corresponded with, and thus are the cause of, increased economic growth, increased manufacturing growth, lower unemployment, and higher incomes.

Kendrick claims that "right-to-work" laws have caused an economic resurgence in Idaho pushing it toward exceptional growth rates. The evidence is deeply conflictual. Any "boom" that may have occurred, and it is appropriate to use that term very carefully for reasons of historical comparison, has been part of a growth spurt since the late 1980s that has encompassed all the Pacific Northwest states (and Alberta and B.C.), many of which have had stronger economic performances and lack "right-to-work" laws. This has been part of the growth pull that has been occurring across the economic regions of the Pacific Rim and in the U.S. Northwest, aided by huge natural resources, the exodus from California and the computer software boom in Washington (a non-"right-to-work" state).

The software boom has especially encompassed Boise, located in the southwest corner of Idaho, through, for examples, Hewlett-Packard and Micron Technologies. Yet the growth that has occurred should be interpreted cautiously. Idaho has followed a similar pattern to the rest of the United States: growth is not above the postwar boom levels, and much of the post-1987 growth has been recovery from the sharp recessions of the early 1980s, a period when Idaho was hit much harder than average among American states.[4] The 1995 Alberta Joint Review Committee *Right-to-Work Study* cites Idaho's own Department of Commerce as unwilling to attribute any responsibility to "right-to-work" for Idaho's growth.[5]

"Right-to-work" advocates have also made much of the business recovery and expansion. While a boom undoubtedly has had this impact in Idaho (as it has in neighbouring non-"right-to-work" states), not too much should be made of it either. According to the Federal Reserve Bank of San Francisco, the boom is linked "to catch-up" from prior problems, technological change and changes to the California economy cited earlier. Part of the business startups have simply been a recovery from the mid-eighties when Idaho had the highest rate of business failures and fewest startups. Part of it also stems from Idaho's very small manufacturing base so that the growth in technology firms has a greater proportionate impact on output composition. And another part is the demand-side linkages to consumer goods and services from the generally strong growth in the region and the level of in-migration to Idaho.[6]

Moreover, even in business circles the quality of the employment expansion has been widely questioned for their low wages and contingent working hours. Of twenty-seven occupations projected by the Idaho Department of Employment to be in high demand for the next ten years, only five require some level of college training; the rest are low-skill, low-paid jobs.[7] It is hard to ascertain any of the particular positive impacts that are claimed for"right-to-work" laws.

Like much of the U.S., Idaho's unemployment rate has trended down since the mid-eighties, although still remaining above the average levels of the postwar period. Not too much should be made, as Kendrick attempts to do, of the employment recovery in terms of "right-to-work." As a much less urban economy than other states, Idaho has long had unemployment rates slightly better than the U.S. average and it continues to do so. As in the rest of the U.S., there has been a great deal of controversy over the composition and of the employment growth. One dimension is the occupational quality of the jobs, as mentioned above; another is the earnings that these jobs generate for workers. Idaho only stands out in this regard from non-"right-to-work" states in that, despite sharing in the Pacific-Cascadia regional boom of the last decade, it is plagued by the same problems of low wages and income polarization as the rest of the United States.

Idaho has done little to improve the regional low wage status it earned in the 1980s. So, for example, annual wages for all categories of workers remained stagnant (and to a degree declined) in constant dollars from 1984 to 1994 — an astonishing figure given higher output and productivity levels. Average weekly earnings in Idaho, moreover, have not recovered from the brutal beating they took from 1979-89 when they declined by 7 per cent in real terms (and dramatically more for low and median earners).[8] Indeed, in 1996 Idaho's per capita income ranked 43rd of 50 states, increased at a rate near the bottom of all states, and thus renewed the concerns voiced in some quarters about falling per capita incomes for the state as a whole.[9] The further income polarization (in an already highly polarised state in the country with the most unequal and unfair distribution of wealth in the developed world) that the increase in net output alongside stagnant wages implies can be seen in other ways as well. Net taxable income was actually lower in 1992 than in 1989; tax filings of Idaho citizens grew most in the income extremes, and especially in the lowest income bracket; and two-fifths of Idahoans remain dependent upon Medicaid (a typical index of low pay in the U.S.).[10]

There has been, therefore, much concern voiced in popular circles across the state about the quality of jobs, the low incomes and "the haves and the have-nots getting further apart."[11] It is hard not to find agreement with the Director of the Idaho State University Center for Business Research on "right-to-work" contributing to a generally negative environment for workers: "We're in a situation where market forces can keep wage levels down. It sets a tone in the labor force. It sets a negative tone, a cooling tone."[12]

Conclusion

Idaho follows the well-established theoretical and empirical conclusions of more than forty years of research on unions and economic development in capitalist societies. That is, the level of union organization bears no strict correlation between aggregate economic performance in terms of economic growth (although there is some positive correlation between economic development and union organization levels). However, strong unions and high levels of union organization do appear to lead to more egalitarian income distributions and the absence of unions to more unequal incomes. The lack of high levels of unionization likely explains much of the problem of income polarisation and stagnant real wage growth for workers in the U.S. as a whole as well as in Idaho in particular (where less than 10 per cent of workers are organized). Moreover, the types of employers attracted by "right-to-work" laws are exactly of the kind likely to add to the problem of low-waged employment. As Kendrick himself notes with respect to business location decisions, "quality of life [is] ranked less important than right-to-work as a decision-affecting factor."[13]

According to the annual *The State of Working America* report, growing numbers of Americans are encountering "labour market distress" in the forms of unemployment, contingent work or poverty wages.[14] Whatever specific conclusions we reach about the post-"right-to-work" period, it is clear that "right-to-work" has not produced a "miracle in the mountains" and, if anything, income polarisation appears to follow the common American experience. The role of "right-to-work" in adding to the market pressures to less egalitarian societies as a consequence of more poorly organized workers is a common analytical result that again appears to be confirmed in Idaho.

Toronto, May 1997

Endnotes

1. Kendrick, David, (1996) *Economic Development and Right to Work — Case Study:Idaho*, Fraser Institute Right-to-Work Conference, Toronto.
2. These are policy processes that "right-to-work" laws are designed to strengthen by decreasing union organizational levels and thus limiting the political capacity of workers. This is, perhaps, the most significant impact of "right-to-work" laws that can be empirically verified.
3. That is, apart from Idaho's knack for attracting the lunacy of right-wing militias to the Idaho backwoods, no doubt partly drawn by the violent and mischievous rhetoric underpinning "right-to-work" policies.
4. Office of the Governor, *Idaho Economic Forecast, 1978-1997* (Boise: GPO, April 1994); "Technology Lets Idaho Boom," The Idaho Statesman, 22 June 1994; and Idaho State AFL-CIO, "Facts and Figures versus Fantasy" (Boise: AFL-CIO, mimeo, 1995).
5. Joint Review Committee (November 1995) *Final Report, Right-to-Work Study*, Alberta Economic Development Authority, p. 20. It should also be pointed that the government fiscal boom that Kendrick and the Fraser Institute also report appears to be eroding and budget shortfalls are being discussed as conservative Governor Phil Batt anticipated that Idaho "would not be on a giddying economic ride forever." See: "Idaho Budget May Wind Up Short," The Idaho Statesman, 20 June 1995.
6. "Technology Lets Idaho Boom," The Idaho Statesman, 22 June 1994; "Idaho's Business Failures Soar by 209%," The Idaho Statesman, 20 August 1987; and "Idaho Power Surges with New Customers in 1993,"' The Idaho Statesman, 5 January 1994.
7. "Job Growth Explodes in Boise," The Idaho Statesman, 9 January 1994; and "Low-Paying Jobs Proliferate in Idaho," The Idaho Statesman, 4 April 1995.
8. Office of the Governor, Division of Financial Management, *Idaho Wage and Salary History* (Boise: GPO, 1994); and L. Mishel, J. Bernstein and J. Schmitt, *The Sate of Working America, 1996-97* (Washington, D.C: Economic Policy Institute, 1996), pp. 360-8.
9. "Idaho Incomes Rank 43rd in Nation," The Idaho Statesman, 29 April 1997; and Idaho AFL-CIO, "Facts and Figures versus Fantasy." This has been a concern also voiced out of the Governor Cecil Andrus's Office by Administration economist Anthony Jones.
10. Office of the Governor, Division of Financial Management, Idaho Personal Income Tax Incidence (Boise: GPO, 1994); and "Medicaid Pays for 42% of Idaho Births," The Idaho Statesman, 29 December 1993. Idaho has above national average poverty rates.
11. "Idaho Boom a Bust for Many," The Spokesman-Review, 11 September 1994; and "For Whom the Boom Tolls," Boise Weekly, 17-23 March 1994.
12. Ibid.
13. "Economic Development," p. 3. The Fantus Company cited in the study is a well-known specialist in seeking out low wage sites for business relocation. In contrast, it might be recalled that the GM Saturn plant was located in Tennessee only after it waived "right-to-work" laws to allow a union shop clause in the collective agreement.
14. L. Mishel, J. Bernstein and J. Schmitt, *The State of Working America, 1996-97* (Washington, D.C.: Economic Policy Institute, 1996).