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Boeing and the Union Berlin Wall

Between 2000 and 2008, 4.8 million Americans moved from forced union states to right-to-work states—that's one person every minute of every day.

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The Obama administration's National Labor Relations Board filed a complaint last month against Boeing to block production of the company's 787 Dreamliner at a new assembly plant in South Carolina—a "right to-work" state with a law against compulsory union membership. If the NLRB has its way, Dreamliner assembly will return to Washington, a union-shop state, along with more than 1,000 jobs.

The NLRB's action, which Boeing will challenge at a hearing next month, is a big deal. It's the first time a federal agency has intervened to tell an American company where it can and cannot operate a plant within the U.S. It lays the foundation of a regulatory wall with one express purpose: to prevent the direct competition of right-to-work states with union-shop states. Why, as South Carolina Gov. Nikki Haley recently asked on these pages, should Washington have any more right to these jobs than South Carolina?

A recent New York Times editorial justified the NLRB decision by arguing that unions are suffering from "the flight of companies to 'Right-to-Work' states where workers cannot be required to join a union." That's for sure, and quite an admission. We've been observing that migration pattern for years, but liberals have denied it's actually happening—until now.

Every year we rank the states on their economic competitiveness in a report called "Rich States, Poor States" for the American Legislative Exchange Council. This ranking uses 15 fiscal, tax and regulatory variables to determine which states have policies that are most conducive to prosperity. Two of these 15 policies have consistently stood out as the most important in predicting where jobs will be created and incomes will rise. First, states with no income tax generally outperform high income tax states. Second, states that have right-to-work laws grow faster than states with forced unionism.

As of today there are 22 right-to-work states and 28 union-shop states. Over the past decade (2000-09) the right-to-work states grew faster in nearly every respect than their union-shop counterparts: 54.6% versus 41.1% in gross state product, 53.3% versus 40.6% in personal income, 11.9% versus 6.1% in population, and 4.1% versus -0.6% in payrolls.

For years, unions argued that right-to-work laws were bad for

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workers and for the states that passed them. But with the NLRB complaint, they've essentially thrown in the towel. If forced unionism is better for the economy of a state, why would the NLRB need to intervene to keep Boeing from leaving Washington? Why aren't businesses and workers moving operations to heavily unionized places like Michigan, New York, Ohio and Pennsylvania and fleeing states like Georgia, Tennessee, South Carolina and Texas?

In reality, the stampede of businesses from forced-union states like Washington has accelerated in recent years. A 2010 study in the Cato Journal by economist Richard Vedder of Ohio University found that between 2000 and 2008 4.8 million Americans moved from forced-union states to right-to-work states. That's one person every minute of every day.

Right-to-work states are also getting richer over time. Prof. Vedder found a 23% higher per capita income growth rate in right-to-work states than in forced-union states, which over the period 1977-2007 amounted to a $2,760 larger increase in per-person income in those states. That's a giant differential.

So now the unions concede that this migration is indeed happening, but they say that it is unhealthy and undesirable because workers in right-to-work states are paid less and get worse benefits than the workers in union states. Actually, when adjusting for the cost of living in each state and the fact that right-to-work states were poorer to begin with, a 2003 study in the Journal of Labor Research by University of Oklahoma economist Robert Reed found that wages rose faster in states that don't require union membership.

Employers that move away from forced-union states mainly do so not to scale back wages and salaries—although sometimes that happens—but to avoid having to deal with intrusive union rules, the threat of costly work stoppages, lawsuits, worker paychecks going to union fat cats, and so on.

Boeing officials have admitted that their decision to build the new Dreamliner plant in South Carolina was due in part to the fact that the company could not "afford a work stoppage every three years" as had happened in Washington state over that past decade. (By the way, this is the comment the NLRB complaint cites as proof of "retaliation" against union workers.)

Boeing is merely making a business decision based on economic reality. In fact, the company chose South Carolina for the new plant even though Washington has no income tax and South Carolina does. The two of us are often accused of arguing that income tax rates are the only factors that influence where businesses and capital relocate. Taxes certainly matter. But Boeing's move shows that taxes are not always the definitive factor in plant location decisions. In the case of Washington the advantage of its no income tax status is outweighed by its forced-union status. Lucky are the six states—Texas, Tennessee, South Dakota, Nevada, Florida and Wyoming—that are both right-to-work states and have no income tax.

While there are only six right-to-work states that also have a zero earned income tax rate and three zero earned income tax rate states that have forced- union shops, their performance differences over the past decade (2000-09) are revealing. Of the nine zero income tax rate states, those six that are also right-to-work have grown a lot faster than the three with forced-union shops: 64.9% versus 53.8% in gross state product, 59.0% versus 46.8% in personal income, 15.5% versus 10.3% in population and 8.2% versus 6.9% in payrolls.

The Boeing incident makes it clear that right-to-work states have a competitive advantage over forced-union states. So the question arises: Why doesn't every state adopt right-to-work laws? Four or five are trying to do so this year, and have faced ferocious opposition from the union movement.

But that shouldn't stop state legislators in forced-union states from doing what's in their workers' best interests. They need to decide whether they want to continue to see jobs and tax receipts exit their states, or whether they want to adopt laws that afford their workers the right to join a union or not. The only alternative is to build a regulatory Berlin Wall around their borders to keep their businesses from leaving.

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