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Collective-Bargaining, Right-to-Work, and the Business Location of America's Top Companies

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Introduction

A "right-to-work" (RTW) law is a government regulation that bars businesses and labor unions from including union security clause in collective bargaining agreements. Union security clauses ensure that each member of a bargaining unit who receives benefits of collective bargaining – e.g., a higher wage, health and retirement benefits, a voice at work – also provides his or her fair share of dues or fees to the union. Today, twenty-five states have adopted a "right-to-work" law. Three Midwestern states have passed the policy since 2012: Indiana, Michigan, and Wisconsin.

Many government officials and business owners argue that corporations want to expand or relocate their headquarters in RTW states because the law stimulates economic growth. CEO Rich Meeusen of Badger Meter, a Milwaukee liquid flow measurement and control company, claimed that the company "chose to expand [in Wisconsin over Mexico] because of right-to-work." Kurt Bauer, CEO of Wisconsin Manufacturers & Commerce, also expressed this sentiment prior to Wisconsin adopting the legislation in 2015 (Umhoefer, 2014).

However, the actions of large companies tend to speak louder than the claims made by opponents of labor unions. This Economic Commentary, conducted by researchers at the Illinois Economic Policy Institute and University of Illinois at Urbana-Champaign, investigates the location of America's Top 1,000 companies with respect to collective-bargaining (CB) states and "right-to-work" (RTW) states. Ultimately, economic data reveal that business owners and decision-makers are not shunning collective-bargaining (CB) states.

Sources and Limitations

All data are obtained from the 2015 *Fortune 1000*, an annual list of the 1,000 largest American companies ranked according to total annual revenues (Fortune, 2015). The list comprises companies that are authorized to do business in the United States and have publicly-available revenues. In 2015, the list includes data for the 998 largest corporations in the 50 U.S. states plus the District of Columbia, and includes two corporations based in Puerto Rico. The two Puerto Rican-based companies are excluded from the RTW and CB analysis. For online readers, a comprehensive spreadsheet of the *Fortune 1000* data compiled by ILEPI is available at this link (ILEPI, 2015). In addition, this report includes demographic information from the 2013 *American Community Survey* by the U.S. Census Bureau, the latest year for which data are available (Census, 2013).

There are three limitations to the analysis. First, note that Michigan and Wisconsin are two newly-RTW states with a large amount of *Fortune 1000* Corporations (5.3 percent). All of the companies were headquartered in Michigan and Wisconsin prior to their respective adoption of RTW laws. Similarly, companies located in Indiana prior to their passage of a RTW law in 2013 are counted as part of the RTW total. These state changes in labor law have the effect of inflating the RTW state numbers. For the purposes of simplicity, these two states and Indiana are classified as RTW states. Second, this Economic Commentary uses the physical location of a top company's headquarters as a proxy for its business operations. Most of these companies have production and sales facilities in multiple states– e.g., Wal-Mart and McDonald's stores. The focus on headquarters, however, provides suggestive evidence on the states where companies are able to find both the best, brightest, and most innovative employees and the most cost-effective infrastructure to connect markets. Finally, the data are for a single year (2015) and do not provide information on business location decisions over time (i.e., a growth rate). Nevertheless, if RTW laws are as significant of an economic development tool as claimed by their staunchest advocates, it might be expected that states where the policy has been in place would have a larger share of America's top companies. But this, as the next section demonstrates, is not the case.

COMPANIES ARE DISPROPORTIONATELY HEADQUARTERED IN COLLECTIVE-BARGAINING STATES

According to corporate executives and decision-makers, the two most-important factors in choosing a location to expand business operations are infrastructure (91 percent) and skilled labor (89 percent). The data analyzed is from *Area Development*'s "Annual Survey of Corporate Executives" from 2012 to 2015, and are based on corporate respondent's rating of "very important" and "important" factors. Figure 1 lists the Top 10 most important location factors for companies, averaged over the four years. Though infrastructure and skilled workers are the most important characteristics businesses consider when relocating or expanding, corporations are also interested in the availability of energy and buildings as well as accessing major markets for employees and customers. Additionally, companies are attracted to areas where the costs of doing business can be minimized, locating where labor, construction, occupancy, and taxes are relatively lower. With 77 percent of respondents indicating that "right-to-work" is an important factor, the characteristic ranks 9th on the list.

Figure 1: Top 10 Factors for Business Location, Annual Surveys of Corporate Executives, 2012-2015

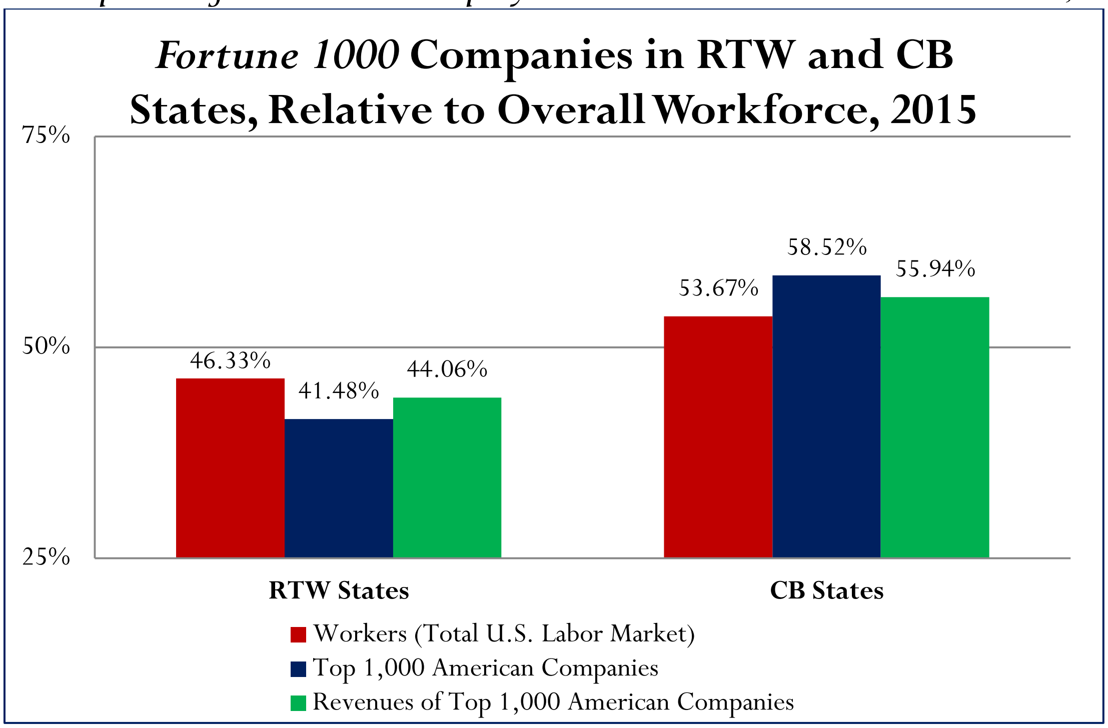
Top 10 Business Location Factors, 2012-2015	
1. Highway accessibility	91%
2. Availability of skilled labor	89%
3. Labor Costs	88%
4. Occupancy or construction costs	86%
5. Energy availability and costs	81%
6. Corporate tax rate	81%
7. Available buildings	80%
8. Tax exemptions	78%
9. Right-to-work state	77%
10. Proximity to major markets	77%

**Source(s):* Area Development. *The 26th, 27th, 28th, and 29th "Annual Survey of Corporate Executives". The Top 10 Factors for location selection were averaged over the four years of data. The cumulative sample size is about 800 corporate executives and decision-makers.*

Businesses pursue locations where they can be competitive, produce their good or service efficiently, and easily bring their product to market. While the presence of a RTW law may come into consideration for some companies, other factors clearly play larger roles. Conversely, corporate decision-makers may prefer to locate in CB states if their highway accessibility, skilled labor availability, and business costs are advantageous.

Of the top *Fortune 1000* companies, 58.5 percent are headquartered in CB states while 41.5 percent are located in RTW states (Figure 2). Top companies in CB states also account for 59.6 percent of all *Fortune 1000* business revenues. By contrast, 53.7 percent of all workers across America work in CB states while 46.3 percent are now in RTW states. Thus, relative to the overall labor force (53.7 percent), Top 1,000 American businesses are disproportionately located in CB states (58.5 percent) and are generating disproportionately more business revenue in CB states (59.6 percent). The "location quotient" of the Top 1,000 companies is 109.0, meaning that there are 9.0 percent more *Fortune 1,000* firms headquartered in CB states than would be expected if location decisions simply mirrored the population split between CB and RTW states.[1] This data from the Top 1,000 companies in the country counters claims by RTW proponents that businesses tend to locate in RTW states.

Figure 2: Comparison of* Fortune 1000 *Company Location Relative to Overall Labor Market, 2015



**Source(s):* Fortune 1000 *(2015) and the* American Community Survey *by the U.S. Census Bureau (2013).*

Figure 3 illustrates the number of Top 1,000 companies in a given state for every one million employees in that state. Nationwide, there are 8.4 *Fortune 1000* firms per million American workers. A total of 19 states surpass this rate of 8.4 major companies per million workers, including 11 collective-bargaining states and 8 "right-to-work" states. However, among the 8 RTW states are both Michigan (12.7 top companies per million employees) and Wisconsin (9.6 top companies per million employees). In these states, RTW was not a factor in the location of corporate headquarters, since the companies were established within state borders prior to their respective RTW enactments. With 12.1 *Fortune 1000* companies for every one million workers, Illinois placed 6th on the list. Major companies are attracted to

[1] Economic development organizations use the "location quotient" to determine the relative specialization of their regional market. The location quotient is simply the share of Top 1,000 firms in CB states divided by the share of workers in CB states. A location quotient greater than 100.0 indicates that a particular industry is more concentrated in a particular region. In this analysis, a 109.0 location quotient means that CB states "specialize" in locating Top 1,000 American businesses.

Illinois' highly-educated workforce, top universities, vast infrastructure (especially for freight transportation), relatively low energy costs, and access to major Midwestern markets (Manzo, 2013).

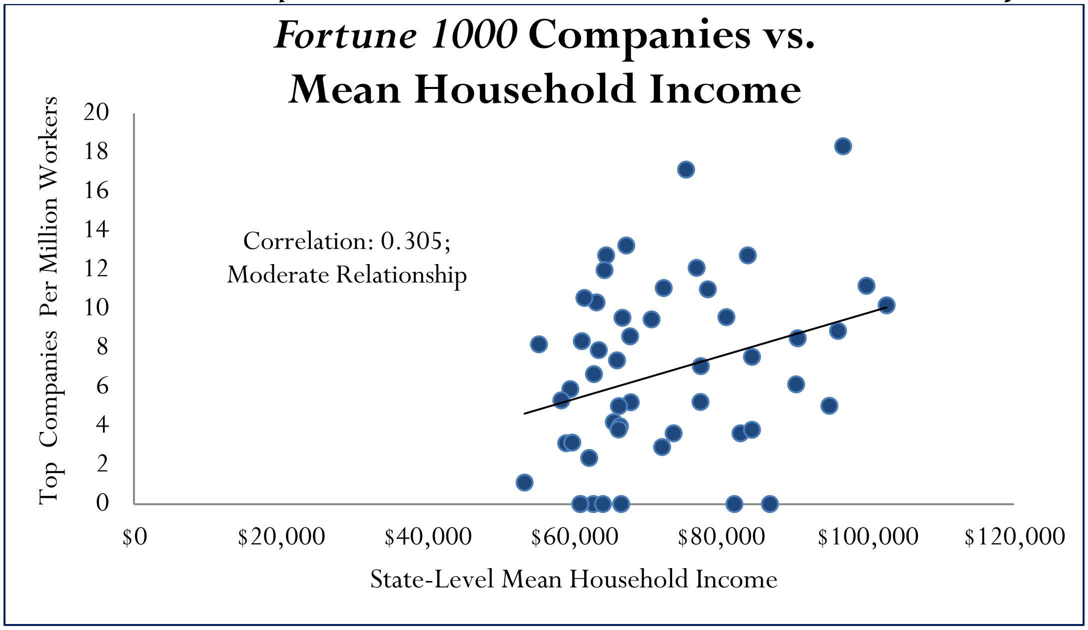
Figure 3: Comparison of* Fortune 1000 *Companies Per Million Workers, By State, 2015

Rank	State	Top Companies Per Million Workers	RTW or CB?	Rank	State	Top Companies Per Million Workers	RTW or CB?
US	*USA*	*8.44*	*N/A*	26	IN	6.65	RTW*
1	CT	18.32	CB	27	WA	6.14	CB
2	RI	17.14	CB	28	ID	5.88	RTW
3	NE	13.25	RTW	29	KY	5.31	RTW
4	NY	12.75	CB	30	DE	5.23	CB
5	MI	12.74	RTW*	31	KS	5.22	CB
6	**IL**	**12.09**	**CB**	32	MD	5.04	CB
7	OH	11.99	CB	33	OR	5.01	CB
8	VA	11.18	RTW	34	FL	4.21	RTW
9	TX	11.07	RTW	35	HI	3.98	CB
10	CO	11.00	CB	36	IA	3.83	RTW
11	OK	10.56	RTW	37	VT	3.81	CB
12	MO	10.33	CB	38	UT	3.63	RTW
13	DC	10.18	CB	39	NH	3.62	CB
14	WI	9.58	RTW*	40	SC	3.16	RTW
15	GA	9.54	RTW	41	AL	3.12	RTW
16	PA	9.46	CB	42	ND	2.92	RTW
17	NJ	8.88	CB	43	LA	2.37	RTW
18	NV	8.59	RTW	44	MS	1.11	RTW
19	MA	8.49	CB	51	AK	0.00	CB
20	TN	8.35	RTW	51	ME	0.00	CB
21	AR	8.18	RTW	51	MT	0.00	CB
22	NC	7.89	RTW	51	NM	0.00	CB
23	CA	7.54	CB	51	SD	0.00	RTW
24	AZ	7.36	RTW	51	WV	0.00	CB
25	MN	7.07	CB	51	WY	0.00	RTW

**Source(s):* Fortune 1000 *(2015) and the* American Community Survey *by the U.S. Census Bureau (2013). An asterisk (*) indicates a state that has only recently become a "right-to-work" state and where RTW is unlikely to have played any role in company HQ location decisions.*

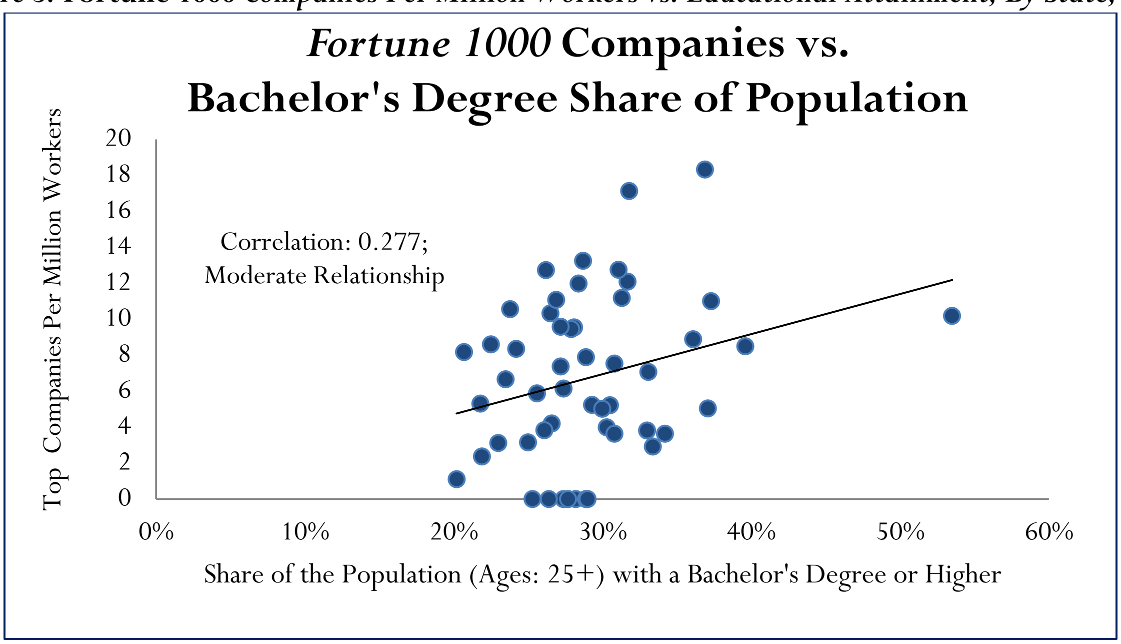
Figures 4 and 5 depict two relationships pertaining to the concentration of Top 1,000 companies per million employees. There is a moderately positive correlation of 0.31 between the Top 1,000 companies per million workers and the mean household income of a state (Figure 4). The higher the mean household income in a state, the more desirable the state tends to be for locating a company headquarters. As economic data demonstrates, CB states have higher worker incomes than RTW states. RTW laws are generally associated with a 3 to 4 percent reduction in worker incomes (Gould & Kimball, 2015; Manzo & Bruno, 2014; Manzo et al., 2013; Gould & Shierholz, 2011; Stevans, 2009). Figure 4 suggests that, although *Area Development* does not ask about consumer demand, high incomes may be a significant factor in company location decisions because households have more money to spend on their product or service.

Figure 4: **Fortune 1000** ***Companies Per Million Workers vs. Mean Household Income, By State, 2015***



**Source(s):* Fortune 1000 *(2015) and the* American Community Survey *by the U.S. Census Bureau (2013).*

Figure 5: **Fortune 1000** ***Companies Per Million Workers vs. Educational Attainment, By State, 2015***



**Source(s):* Fortune 1000 *(2015) and the* American Community Survey *by the U.S. Census Bureau (2013).*

On the other hand, higher household incomes in CB states on average are likely due to the higher levels of educational attainment among residents in CB states. On average, the share of the population with a bachelor's degree or higher is 31.7 percent in CB states compared to 26.3 percent in RTW states. Figure 5 shows another moderately positive correlation of 0.28 between the Top 1,000 companies per million workers and the share of the population that has a bachelor's degree or higher. Thus, top American companies may be disproportionately located in CB states because they have greater availability to skilled labor– the second-most important site selection factor as reported by *Area Development*. Finally, by weakening labor unions, RTW laws also reduce investment in worker training and deteriorate the skill set of the blue-collar workforce. This byproduct of RTW legislation has a negative impact on corporate location decisions. Figure 5 provides suggestive evidence that Top 1,000 companies have assessed that the *benefit* of higher-skilled and productive workers exceeds the higher compensation *cost* in CB states.

CONCLUSIONS

While some politicians and commentators argue that corporations are expanding and relocating to right-to-work states, the data show that a higher number of company headquarters are in fact located in collective-bargaining states. Furthermore, revenue collected among top companies is higher for those in collective-bargaining states. The "right-to-work state" factor is ranked 9th out of the Top 10 reasons corporations locate in a region, but other factors are much more important, such as the availability of skilled labor.

Together, these findings suggest that companies benefit from establishing their headquarters in collective-bargaining states. Due to limitations in the dataset, definitive conclusions cannot be drawn from the analysis. However, if a right-to-work law is a significant economic development tool attracting companies to a state, as espoused by advocates, then the data would be expected to show that America's top companies are already predominately located in "right-to-work" states. On the contrary, as of 2015, America's most successful businesses have disproportionately located in collective-bargaining states. It is therefore unlikely that right-to-work laws have a discernible net-positive impact on business location decisions.

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