Right to Work" Policy and Economic Growth: A Kaleckian Alternative

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Abstract

We argue that Right-to-Work policies are a net negative for a state's economy. Such a policy produces a state of underinvestment, low level of employment and increasing inequality. We present evidence that suggests that Free-to-Bargain states should avoid implementing Right-to-Work laws. We propose to clarify the connection between labor and economic growth. Within a Kaleckian theoretical framework, economic growth is demand constrained, which takes us to adopt a public policy grounded on better wages, reducing income inequality, and increasing the relative bargaining power of labor. Modern economies need to be inclusive and founded on knowledge, and not on the feudal resemblances of inequality and low living standards. We point out that Kaleckian's insights can redirect economic policies towards a path for capital accumulation and economic prosperity.

Keywords: economic growth, labor policies, right-to-work.

JEL: J58, O43, R58

Introduction

Since the economic recession of 2009, three states in the Midwest have enacted Right-to-Work laws (RTW) to bar labor unions from negotiating security clauses and collecting agency fees from non-members covered by collective bargaining agreements for the cost of union representation. The recent resurgence in interest has spurred intense discussion on the subject in Missouri where the bill passed the Legislature before Governor Nixon vetoed it. However, we feel the nature of the discussion overlooks evidence and findings from nearly a half century of research on the topic. We resolve to incorporate this research to analyze the present policy implications of RTW, and offer a new evaluative framework for gauging the effects of labor policies in Missouri, Illinois, and Kentucky.

To disentangle the rhetoric on the subject for our analysis, we need to iterate the function of a labor union as a market institution. A union is a cooperative organization of workers designed to enhance the relative bargaining power of a single worker vis-à-vis the capitalists. Adam Smith points out in the *Wealth of Nations* the necessity of a labor union when he describes the inequity in bargaining power in the labor market.

> It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workmen. We

> have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate (Smith 1776, I.8.12).

Labor unions provide workers recourse to avoid exploitation, and receive fair compensation for their work. Unions help to reduce the inefficiencies borne in the labor market by inequities in bargaining power.

Labor unions have declined in the United States. Membership rates stand just below 8.4% of the workforce in Missouri, a 26-year low in 2015. In Illinois and Kentucky, the rates stand at 15.1 and 11 percent respectively. Traditional unionized manufacturing jobs have moved overseas due to neoliberal macroeconomic policies. With fewer production jobs remaining in the country, states have chartered policies focused on using incentives to transfer wealth and jobs over state lines rather than enacting policies to create new wealth (Allegretto and Lafer, 2011). In this environment, policymakers are looking for opportunities to turn their state's economic forecast around, which has some lawmakers proposing RTW as their solution.

Proponents of RTW laws rely on a philosophical and economic argument to support their position. Under federal law, an NLRA certified union exclusively represents all workers in a bargaining unit. Some workers who object to union representation can opt out of joining the union, yet pay dues or agency fees to cover the costs incurred by the union to negotiate on their behalf. Unions have to disclose this option, known as the Beck right, following the *Communication Workers of America v. Beck* in 1988 (NLRB). Yet proponents of RTW claim that compulsory unionism violates a worker's inherent individual liberty by abridging their freedom of association. According to this logic, a worker should not have to pay dues or agency fees to an organization against their choosing (Vedder, 2010).

This rationale contains problematic assumptions that undermine the coherency of their argument. Primarily, it presupposes that a worker first exercises their freedom to associate with an employer and union after being hired. In reality, a worker who applies for employment at a union shop must understand the necessary requirements to

remain employed after hiring on, of which contributing to the associated union is one. The moment when the worker actually exercises their freedom of choice is during their job hunt when they choose a firm with which they want to associate. A rational actor willingly choosing to seek employment with a union shop despite their desire not to contribute to the associated union has already made their decision, and legislating to force a company and union to let such a worker withdraw from the established bargaining agreement exudes false moralism and governmental paternalism.

Likewise, an employee working for a firm where a majority of workers vote to establish a union is not obligated to remain with the firm if the conditions to remain employed are no longer favorable in their mind. Yet the logic behind RTW relies on this assumption that individual workers have this right. This reasoning proves problematic in RTW states when firms begin looking for employees who will not join the union or pay agency fees to undermine the voice of the workers who did choose to join (Harcourt and Lam, 2007).

When considering that advocates also tout RTW laws as tools of economic development, their philosophical argument becomes more perverse. This argument contends that labor unions cartelize the supply of labor, which raises the wages of their members by putting nonunion workers out of work (Sherk, 2015). By passing RTW laws to hinder the monopoly effect of unions, policymakers insist they are helping employers in the labor market. The extent to which unions distorted the market may have made worthwhile debate decades ago, but one can positively say that the effects of unions are substantially smaller today than anytime in last sixty five years. One must assume with stagnant wages, declining incomes, and low union membership rates that workers do not have the bargaining power today to exert an upward effect on wages.

This argument also overlooks the fact that union members receiving fair compensation for their labor do spend their extra income. We contend that growth is demand constrained. Therefore, the ability of unions to minimize income inequality and to put more money in the pockets of workers helps to stimulate job growth (Western and Rosenthal, 2011). By slashing wages through RTW, such neoliberal policy drives profit-led periods. This last point proves that businessmen are winners with such decision (Nikiforos, 2014). Even if RTW does attract jobs from around the Midwest or nation to Missouri, Illinois or Kentucky, the result will be a fall in the marginal productivity of labor. With low labor marginal productivity, the economy's output cannot be expanded, which is clearly a sign of inefficiency. Thus, even within the neoclassical theory, RTW laws do not overall add to the growth of the American economy or states economies.

Let us expand more on the last remark. RTW laws cut wages (and other transaction costs) (Zullo, 2011) and increases the proprietors' income

(Stevans, 2009). In the neoclassical theory, this encourages businessmen to hire more labor instead of using more capital in their firms. This means a reduction of the capital-labor ratio. In terms of Solow's economic growth model, it could mean underinvestment not only in capital but also in human capital in the long-term. This is because a lower capital-labor ratio takes the economy to growth under its golden-rule potential. This indicates inter-temporal consistency problems between short-term profit maximizing behaviour and long-term economic growth in the neoclassical rationale behind RTW laws. Considering the main point, we want to underline here, this suggests that RTW laws do not support economic growth strategies even within the orthodox perspective.

Despite labor union's diminished stature, proponents insist RTW policies as pro-economic growth by nature. These proponents include business groups and likeminded legislators, who argue against government regulations limiting the laissez-faire flexibility of business owners. The incongruity in the pro-business caucus' beliefs unfolds when their economic argument is placed within the greater philosophical argument. In order for them to recognize the primacy of the individual's freedom to association, the government must supersede the decision-making capacity of the firm who has a bargaining agreement with a labor union, and thus restrict their right to negotiate contracts with union security clauses. For these groups that advocate for the pre-eminence of firms to dictate their own terms, including employment policy, such a stance as RTW appears contradictory.

For a topic spanning generations with intense political flare, the body of academic literature on the relationship between RTW laws and economic growth is relatively non-existent. The absence of academic studies allows policymakers to continue debating this point. The economic outcomes of RTW are difficult to assess because the law's effects are entangled with the effects of other business friendly policies that affect firm formation and employment growth (Collins, 2014). T.J. Holmes examined business friendly policies, including RTW laws, and their effect on firm movement across state lines. While he found business-friendly states witnessed manufacturing move from bordering states, he stressed that prevalence of intervening factors, such as population migration to the South with the widespread adoption of air conditioning, and that his findings offered no prescriptive policy advice for lawmakers about passing RTW (Holmes, 1998).

We claim that one can still descriptively infer conclusions from empirical trends, and that the economic rationale of RTW is moot. Big businesses favour RTW policies because the law weakens the bargaining power of labor unions, and gives the firm greater relative power to dictate pay and operations unimpeded (Garofalo and Malhotra, 1992). The law theoretically proposes to promote a healthy business climate and encourage growth, but just in the short

run before actual profits are realized (Abraham and Voos, 2000). Missouri, Illinois, and Kentucky would still have to compete for firms with 25 other states with RTW laws.

Thus, other policies and incentives will serve as the deciding factor in a firm's decision to establish in Missouri. In the current global, knowledge-based economy, firms are searching for states with educated and skilled workforces, proximity to markets, low energy costs and transportation according to business consultants (Allegretto and Lafer, 2011). Even the Missouri Chamber of Commerce cites the fact that CEOs of Missouri's largest companies foremost want a prepared workforce to meet the challenges of tomorrow's economy (2015, p.13). Rather than seeking two contradictory policies, the Chamber might realize their goals quicker by collaborating with unions to train Missouri's workforce for the future demands cited in their reports.

RTW does substantively impinge on other economic outcomes. Part of the reason that RTW laws are considered business friendly is that the policy hurts labor unions (Huston and Davis, 1995). Labor unions maximize their efficiency when all members of a bargaining unit contribute. RTW forbids agency fees so that a worker can seek employment with a union shop without having to pay their share of representation. Scholars view union representation as a non-excludable good meaning that all workers benefit from a union's presence once they establish themselves whether they contributed or not. As a result, union representation will be underprovided in the presence of free riding member (Delaney, 1998).

To demonstrate RTW's effect on the labor movement, we should observe unions as a social institution within the labor market. By mobilizing the bargaining power of workers, labor unions negotiate higher wages, safe working conditions, and defined procedures for conflict management and resolution (Barth, Bryson, and Dale-Olsen 2013; Garofalo and Malthotra, 1992; Zullo 2011). When labor unions have free-riding members, their ability to bargain for the fair wage diminishes. In return, workers sell their labor below the equilibrium in the market, which produces social tension and income inequality. For this reason, average wages for workers are lower in RTW states than Free-to-Bargain states (Collins, 2014).

One dimension of discussion about RTW that lawmakers tend to overlook when debating is the social effects that labor unions have on their members. Employees are the most valuable resources for a firm. The firm's management searches for policies and practices to maintain a healthy workplace culture, and maximize employee satisfaction, productivity, and perceptions of organizational justice. Unions moderate the negative effects of organizational change and minimize job anxiety by giving employees an outlet for involvement separate from the company (Luchak

and Pohler, 2014). Labor unions can complement and synergize management techniques designed to improve business.

Other economic consequences result when workers receive compensation at less than market rates for their labor. The erosion of labor unions in the United States has steadily led to higher wage inequality. It has been inferred that the decline of unions accounts for a third of wage inequality of men and a fifth of it of women (Western and Rosenfeld, 2011). It is also found that a union's ability to indirectly raise wages for other non-union workers in an industry had diminished with their erosion, meaning RTW laws produce deflationary effects on wages.

Proponents often argue that the result of low unionization rates is due to workers simply rejecting union representation. However, RTW coupled with the current legal structure regulating labor unions is responsible for a reduction in unionization. The growth of workers who desire union representation has risen among non-union workers to the point where the unionization rate would have stood at 58% in 2005 if workers who wanted union representation received it (Allegretto and Lafer, 2011). RTW laws and the creation of free riding members affects the rate of union organizing by undermining collective resources, which causes a permanent reduction of 5% in union density within 10 years (Ellwood and Fine, 1987). That is partially why effects of the law in Michigan or Indiana as examples are not yet possible three years later.

For unions to maximize their effectiveness in a RTW state, they have to focus on member satisfaction to receive dues from them to finance operations. Proponents insist that security clauses make unions unresponsive to the interests of the membership since the union's leadership does not have worry about free riders. Yet RTW creates a detrimental Catch-22 for unions and their members. Law requires unions to be the exclusive representative of a bargaining unit to provide their services to non-contributors on the backs of their members (Huston and Davis, 1995). To convince free riders to contribute, the union must become more effective on fewer resources. This process will encourage contributing members to become free riders, who have no incentive to keep paying if the union is providing services more efficiently, and will gradually erode the union's effectiveness and responsiveness (Harcourt and Lam, 2007).

In sum, the evidence in the literature generally sides with opponents of RTW, who advocate for keeping Missouri, Illinois, and Kentucky as free bargaining states. Research on the subject documents the negative effects. In terms of public policy, the reduction in the relative bargaining power of workers through the weakening of unions creates undesirable economic outcomes. Therefore, the guiding criteria for labor policy should be if

proposed laws affecting the labor market augment or do not affect the relative power of workers.

Other researchers have taken the initiative to provide alternatives to RTW laws to attempt to maintain the relative bargaining power of workers while accommodating business interests (Delaney 1998; Harcourt and Lam, 2007). Yet, we deem that these policies would cause a reduction in the bargaining power of labor, hamper the efficiency of unions and impose heavy transactional costs for firms and labor unions during negotiations. We have observed these shortcomings, and seek to reframe the discussion on RTW by incorporating Kaleckian economic models into labor policy debates, which we show empowers workers and boost profits for firms. Michel Kalecki desired an efficiently functioning capitalistic market system, yet pointed out tendencies in human behavior which prevented the optimal utilization of resources including labor. To Kalecki, the labor market naturally operates at some unemployment equilibrium under laissez-faire capitalism meaning that firms will not provide jobs for all workers. The firm chooses this route because the full utilization of labor would create full employment, which in turn provides to workers strong, individual bargaining power.

Big businesses have a rational self-interest in opposing full employment according to Kalecki. When full employment exists, employees maximize their bargaining power, discretion in the management of the firm, and influence over terms of compensation and working conditions. Rather than cede this power, big businessmen underinvest in their firm even though this choice makes the firm less profitable than under conditions of full employment to maintain as much discretionary power as possible. Also, from the neoclassical perspective, businessmen face an issue of inter-temporal type (Hogler, 2005; Robinson, 2012). Today's managers would like to show they can increase profits, so RTW laws that immediately cut labor costs are supported by them. If they do not support RTW laws today higher profits only will be obtained in the future, by then they will not be in charge and someone else would take advantage of their past decisions. The reasoning is clear. Managers know their compensations depend upon keeping the shareholder perceiving high profits. Hence, from the individual perspective of a manager it is rational sense to support RTW laws and refuse to get concerned with long-term path of beneficial economic growth for all. Besides, there is the fact that RTW laws increase negotiation costs (transaction costs) in the short-term. Ceding power to the unions means less profits in the short-term, which is a sign of bad performance by the manager. Therefore, with neoclassical theoretical elements, such as time inconsistency between short-term and long-term managerial decisions. It is evident that inclusive economic growth for all is not more important that keeping the shareholders happy and taking the compensations for such good performance as manager. This is another way to point out that RTW laws are inconsistent with income equality and

an economic growth that benefits all. RTW laws just offers more incentives for managers to keep themselves richer and richer while the remaining of the society deals with less and less income.

Kalecki's theory did not stop with an economic analysis. He concluded that capitalists would involve lawmakers to pass legislation to prevent policies that promote full employment and the bargaining power of workers (Kalecki, 1943). The fight over RTW in Missouri, Illinois, and Kentucky is emblematic of business interests attempting to permanently hamper the bargaining power of workers to reduce wages and negotiation costs at the expense of a more profitable economy in the long-term. The tell-tale signs are present to support this model, which would explain why corporate interests are masquerading as pro-worker in the RTW debate.

This model of capitalism may help fill the gap in the literature on RTW. Currently, researchers have provided little and inconclusive insight on the effects of RTW laws on economic growth. Kalecki's model should demonstrate that an anti-worker' policy leads to under investment, and less private profits in the economy. If this is the case, Missouri, Illinois, and Kentucky lawmakers should realize that RTW, while the law appears business friendly in the short term, is anti-growth, and a legislatively binding inefficiency foisted onto the labor market.

Contextual Data

The Midwest states around Missouri present a unique opportunity to analyse RTW laws. Most states are RTW states, which enacted such laws in 1947. The exceptions are Kansas (1958) and Oklahoma (2001). Of Missouri's neighbours, only Kentucky and Illinois are not RTW states. The fact that Missouri, Kentucky, and Illinois are not RTW states does not mean that their conservative advocates are not pushing legislation to RTW. To revisit, sympathizers of RTW in Missouri contend that is the path to attract business, increasing wages, and liberate workers (Grace, 2015; Stuckey and McDermott, 2015).

Conservative claims follow supply-side economics that has dominated policy design in the United States and around the world since early 1980s. Right-to-Work follows other neoliberal economic policies, which have led to the decline of the bargaining power of workers. These policies are based on a trickle-down effect where the cost of production must be reduced so that profits and the level of investment increase and more job opportunities emerge. The logical result should be an increase in the prosperity of the middle class. The problem is that this model has failed to materialize in the states that have adopted RTW laws and business friendly policies. We argue that if Missouri, Illinois, and Kentucky want to obtain the promised results that RTW advocates describe, those states need to stay as a free-to-bargain state.

Right-to-Work laws intentionally undermine labor organizations. With RTW, labor unions have fewer resources to fund their political projects. Conservatives rarely acknowledge that this is their real objective in policy debates. However, former Republican Speaker of the Missouri House, Steve Tilley, shed light on the political motivations behind Republican support for the law following its passage in the Legislature: "This issue is not a conservative issue… Here's the honest problem. Republicans have a distrust of unions, [and] rightfully so because unions have always typically supported Democrats. So when a Republican comes into the House, I think very few of them really know the mechanics of Right-to-Work, but they are initially for it because the other people are against me so I'm going to be for it" (Herndon, 2015).

	1983	2014	Change
Arkansas	11	4.7	-6.3
Illinois	27.4	15.1	-12.3
Iowa	21.5	10.7	-10.8
Kansas	18.7	7.4	-11.3
Kentucky	20.8	11.0	-9.8
Missouri	23.2	8.4	-14.8
Nebraska	16	7.3	-8.7
Oklahoma	14.7	6.0	-8.7
Tennessee	18	5.0	-13.0
United States	20.1	11.1	-9.0

Table 1. Membership union rates (%)[26]

In the mid-1940s, the United States reached a union membership rate of around to 30 percent of employed workers. Labor unions have seen a sustained decline since then. Once we see these numbers is evident the impact of Taft-Harley act of 1947. Table 1 shows the decline from 1983 to 2014 in percentage points. Notice that Missouri (-14.8) and Illinois (-12.3), without being RTW states, are among the top 3 states that has a considerable drop in membership union rates. We observe that breaking the "monopoly effect" of unions happened without the assistance of RTW laws. These data imply the neoliberal labor policy has successfully accomplished its laissez-faire agenda of flexible labor markets.

The effect of having a smaller unionized population of workers is a loss in income. By increasing the bargaining power of workers, unions maintain fair wages for the middle class. In their decline or absence, one would expect to find a decline in level of wages and salaries.

[26] Source: Bureau of Labor Statistics.

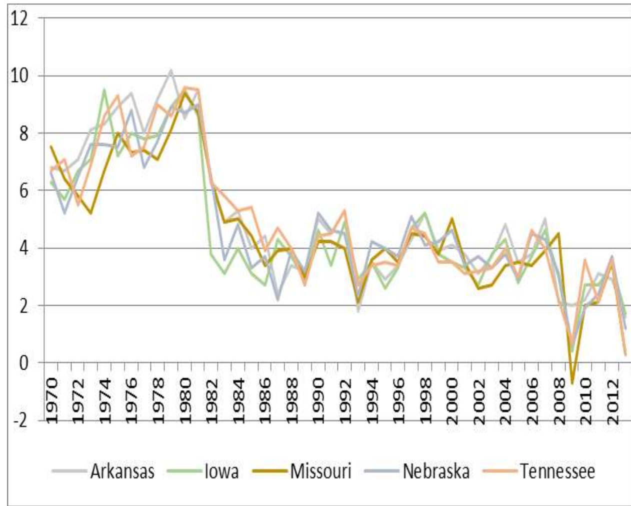

Figure 1. Average wages and salaries, 1969-2013[27]

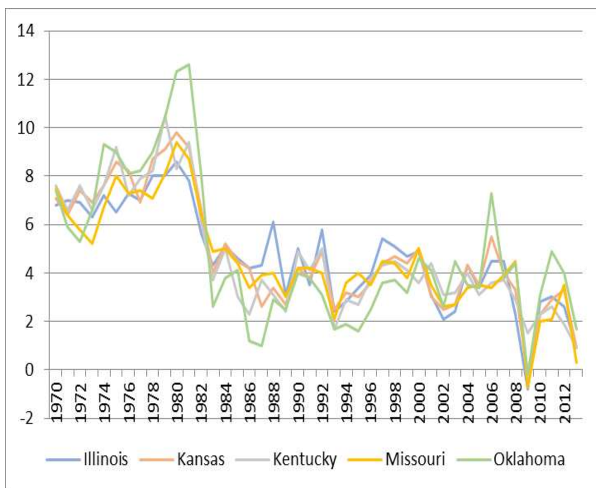

Figure 2. Average wages and salaries, 1969-2013[28]

Figures 1 and 2 are evidence of the wages and salaries decline since 1980 and the large scale implementation of neoliberal economic policies. The Taft-Harley 1947 effect was directly against labor unions. Yet, there was a compensatory force that avoided the debilitation of labor movement affecting aggregate demand considerably. That force was the demand-stimulus "Keynesian" policies between 1940s and early 1970s. By the early 1980s, economic policymakers abandoned Keynesian policies. The new paradigm stressed the deregulation of markets as the path to economic success. Workers no longer had countervailing force protecting wages on the public policy scene in both national and state government.

	Before RTW – 1940	Right-to-Work Enacted	2012	Change (1)	Change (2)
Arkansas	0.37	0.45 [1947]	0.57	0.08	0.12
Illinois	0.40	0.41	0.61	0.01	0.20
Iowa	0.38	0.42 [1947]	0.64	0.04	0.22
Kansas	0.39	0.44 [1958]	0.61	0.03	0.17
Kentucky	0.37	0.43	0.58	0.06	0.15
Missouri	0.41	0.43	0.61	0.02	0.18
Nebraska	0.39	0.42 [1947]	0.60	0.03	0.18
Oklahoma	0.40	0.38 [2001]	0.62	-0.02	0.24
Tennessee	0.40	0.43 [1947]	0.61	0.03	0.18
United States	0.40	0.39	0.64	-0.01	0.25

Source: Bureau of Labor Statistics.

Table 2. Before and after Right-to-Work Laws[29]

With declining wages and incomes, Table 2 documents the growth of inequality through the Gini coefficient. The results on column change (1) is obtained through the subtraction of the values of column "before RTW-1940" from the values of column "right-to-work enacted". The result on column change (2) is obtained through the subtraction of the values of column "right-to-work enacted" from the values of column "2012".

[27] Source: Bureau of Economic Analysis.

[28] Source: Bureau of Economic Analysis.

[29] Note: For the Oklahoma case, on column Change (1) we use the data corresponding to 1947 (0.384) to obtain the result that is showed. Oklahoma became a RTW state in 2001. That explains the 2001 in brackets.

Before RTW laws were in vogue, the change (see column change (1)) in the income inequality was less than after the RTW laws were enacted (1947) (see column change (2)). Curiously, the case of Oklahoma reflects, between 1940 and 1947, that income inequality fell 0.02 points, whereas in the other states under our analysis went up. All these numerical features prove the times before RTW laws were better in terms of inequality. After those times, RTW laws were going to be put next to deregulation. This deteriorated the economic conditions of working people. The results of column change (2) show increases of two-digits.

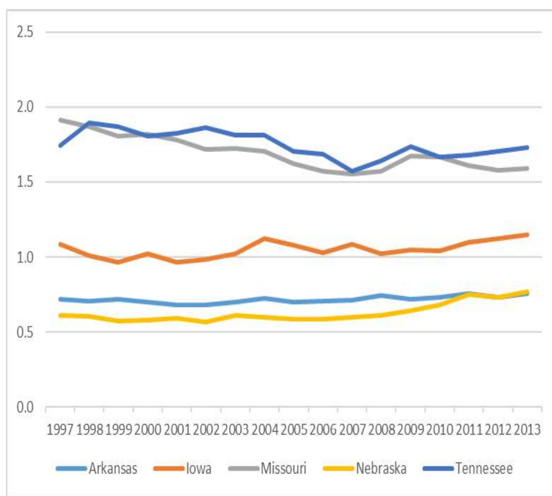

Figure 3. Share of states' gross operating surplus in the U.S. total (%)[30]

Figure 3 contrasts Missouri, as a non-RTW state, with RTW states who enacted it back in 1947. It depicts the gross operating surplus share of these states in the United States total of gross operating surplus[31]. Conservative advocates claim that RTW transfers capital and investment from non-RTW to RTW states. If this assumption was true, we would observe that businesses' income in RTW states will have a greater share than in non-RTW ones. The contrary is indicated. Missouri even follows the same tendency with Tennessee. This suggests that RTW is not necessary to increase the profits of businessmen and investors. The same results are observed when Missouri, Illinois, and Kentucky are compared to the most recent RTW states, Kansas (1958) and Oklahoma (2001). Missouri and Illinois are above the other states. Kentucky shares the same tendency with Oklahoma, which proves that RTW is not necessary to incentive higher profits[32].

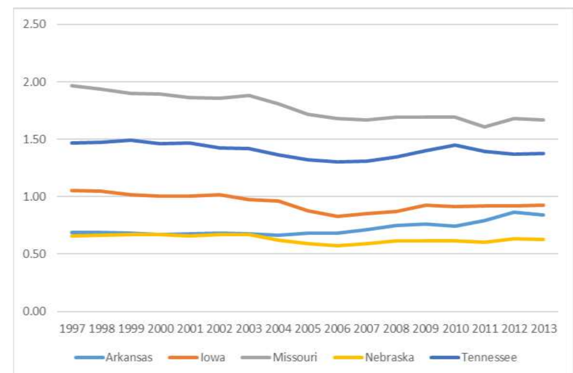

Figure 4. Share of states' dividend, interests, and rent in the U.S. total (%)[33]

In Figure 4 the non-RTW state, Missouri, is at the top among the RTW states that enacted such

[30] Source: Bureau of Economic Analysis.

[31] Gross operating surplus refers to business income of private domestic enterprises, i.e., corporate profits before tax excluding capital depreciation.

[32] The authors will show the graph used to defend this point under request of the reader.

[33] Source: Bureau of Economic Analysis.

law in 1947 with respect to percentage share in the U.S. total of dividend, interest, and rent[34]. The same results are obtained if we include Illinois along with Missouri, and the most recent RTW states, Kansas and Oklahoma. The difference is that Illinois is way above the share hold by Missouri. It has to do with the influence of Chicago as industrial city in the Midwest economy[35]. All this confirms that the non-RTW states do not need of such legislation to have better levels of profits. Without RTW laws, these states have been able to consolidate a share greater than those of RTW states.

Our brief review of the statistics reveals that RTW laws are not necessary to have better performance regarding profit rates. In fact, they indicate that another approach regarding wages and labor organization is fundamental to enhance even more the conditions of capital accumulation, i.e., better rates of profits. This simple look over the numbers offers validation for the following conclusions:

1. RTW laws only diminish the political empowerment and influence of unions. The membership rates in the unions have declined constantly in the last 30 years.
2. Without the political counterbalance in the national and local democratic scenarios of unions, the middle class has seen their income go down and rising inequality. Wages and salaries have been reduced since the consolidation of two economic policies: Taft-Harley act of 1947 and deregulation (i.e. promotion of free market economy).
3. RTW laws are not necessary to promote better levels of profit. Income/investment property and the business income of private domestic firms are greater in non-RTW states than in RTW ones.

Recent tendency for Economic Growth: Innovation and Knowledge based Capital

It is problematic to support an economic theory that postulates cutting the costs of production as a way to incentive economic growth. Kalecki and Keynes have been clear in this regard. Such postulate, i.e. cutting wages, is only valid at the microeconomic level of the firm. It cannot be extended to the macroeconomic level, which is the total of firms that are part of national economy or state's economy. The rationale is simple. If an individual firm cuts its costs of production via less wages due to a RTW law allows it, the profit rate of that firm will increase as long as the other firms do not cut their costs of production and lower their prices. Only under this scenario a firm will be able to do so. Notice that no other firm can compete against the firm who is taking advantage of the RTW law.

[34] Dividend, interest and rent refers to the income originated on property or investment. This statistical reference is also called "property income" or "investment income".

[35] The authors will share the graph used to defend this point under request of the reader.

Notwithstanding, we know that once the incentive to cut production costs paying less wages is out there, the dominant strategy will be to lower prices as well as to try to gain a portion of the market by other firms – within an oligopolistic market structure like we live in (Lavoie, 2009).

If all the firms cut their production costs, and leave their prices unchanged, they should expect higher profits. Yet, we have to recall that they pay now a lower wage, which means less available income in the economy to spend by the households (who are composed of wage earners). Less consumption means fewer sales. This definitely will collide against the expected high profits that businessmen set at the moment of cutting their employees' wages. In an oligopolistic world where we live in, low profits means less internal capability by the firms to increase the funding of future investments (Kalecki, 1945; Kregel, 1972). We claim that RTW laws only benefit the pecuniary culture of rent-seeking behavior, especially in the capital markets. RTW laws create the expectation of higher profits which causes stock prices to go up (Abraham and Voos, 2000; Veblen, 1901). But this "positive behavior" of the capital market with respect to RTW is based upon artificial facts. It is based upon profits that have not yet realized. We state that an economy's foundation have to be real (physical output, services, and intangible knowledge-based assets) and not speculative.

	Ranking	Patents
Illinois	8	4,644
Missouri	24	1,184
Kansas	25	1,018
Tennessee	26	1,003
Iowa	28	933
Kentucky	32	553
Oklahoma	33	548
Nebraska	40	307
Arkansas	43	159
United States	---	133,582

Table 3. Utility patents issued to state residents, 2013[36]

Within the area of reference, we are studying, we find that non-RTW states are better ranked although away of the first places regarding number of patents. This suggests that what they need to do is to keep generating profits to fund along with governmental assistance innovative ideas to expand the asset of a twenty-first century society: knowledge-based capital. In particular, Kentucky should be aware of this tendency. It is quite close to lower places in the national scenario. Precisely, that is the condition of Nebraska and Arkansas, pioneers on RTW. Currently, notice that Kentucky is doing patents as much as Oklahoma, which adopted the

[36] Source: National Science Foundation.

RTW policy to encourage economic growth. This reflects the failure of such policy.

This potential outcome with RTW laws is worrisome. The United States' economy is behind with respect to investment in intangibles assets if we compare it to other developed nations (Hulten, 2013). Intangible assets investment includes all that refers to Knowledge Based Capital (KBC). KBC depends on innovation. However, tons of news ideas are not worthy if there is not the necessary reorganization that allows firms to adapt to the changing environment imposed by innovation. Innovation that does not go along with knowledge applications to the process of production and organization of a firm just produces more products but not better. Naturally, when innovation is tied to knowledge there is an exercise of harmonizing between what we know and how we could improve our current knowledge. This is when we produce more and *better* products. Let us think in simpler terms: the cell phone. We went through a quite large number of cell phones designs and models until we are can check the weather or to make a bank transaction. We argue more products are better when they help to resolve human being's problems. This regardless of the mainstream economics' reasoning that resources are scarce; resources are not scarce they become scarce through the social construction by seller and buyers that interact in the oligopolistic market (DeGregori, 1987).

Our concern with this simplistic policy (i.e. RTW) is that it overlooks the fact that public finances get affected. Lower wages mean less income and sales, and less tax revenues (Kelsay, 2014). In addition, it has to be remarked that capital gains are less taxed than wage income. Thus, even if in the short-term a RTW law is passed, the higher profits do not produce an increase in the government tax revenues. Now, in terms of economic growth, RTW laws mean higher profit rates in the long-term; yet, given that capital gains are not highly taxed, the public finance of states governments can be affected to the point that cannot fund/promote any new project that impact state economic development. In this sense, RTW laws as a strategy for long-term economic growth will not deliver good results. It is important that local government count on financial resources, because in that way can provide public goods and to fund risky projects that the private sector is not going to embrace, but whose social return (represented in greater innovative ideas and increasing the KBC) are high enough to justify the action of public policy in such direction. There are several explanations for the last Great Recession (2007-2008). But particularly the one that appeals to the fact that United States has diminished its level of investment in KBC shows to be very explanatory to the American reality in contrast to other developed countries.

RTW is a policy that conduces to a pre-modern scenario and takes away local and national

economies from the most competitive, promising, and growing scale of businesses that are based on KBC and innovation investments. RTW is too simple as public policy to help a local economy to be competitive in a world complexly based in knowledge and innovation. Kalecki insisted on stimulating private investment to increase the aggregate demand. The process of innovation makes us argue of the potentials to build a prosperous economy. Innovation gives a region the advantage of being the pioneer of a product or service. Also, innovation has significant expansionary effects on employment. For instance, information technology has had ramification over other sectors of the economy. Finally, innovation leads to higher productivity, better wages, and lower prices (Atkinson and Stewart, 2012). All these benefits will not be the result of cutting wages via a RTW law.

A Demand Constrained Growth Model

Our theoretical approach is Kaleckian. It is a growth model that is demand-constrained. Although Kalecki's theory is mainly macroeconomic based and not intended to explain the economic growth of a territory, we argue that his model has fruitful insights that can be brought to the regional economic growth theoretical grounds. Economic growth is about capital accumulation. It becomes possible by means of increasing the rate of profits. What does make profit rates to increase? Kalecki's answer is appealing to this question.

In the Kaleckian framework, workers do not save and the businessmen both save and consume. This assumption is not irrational. In the current unequal economic, social, and political conditions throughout the world, it can be stated that workers have limited resources to save. This takes us to well-known equation *profits = consumption out of profits + investment*. Such equation clearly makes the businessmen's decisions the key to expand the rate of profits. Businessmen get what they decide to spend and invest. In Kalecki, the income (wages + profits) and expenditure (consumption + investment) approaches will take us to the same conclusion (Lavoie, 2009; Chilosi, 2008; Kriesler and Halevi, 1991; Nell, 1989).

It is also important to notice the aggregate demand (AD) depends upon the wage bill (wN) and the autonomous expenditures (pa). The equation should be $AD = wN + pa$[37]. There are two things that are important to underline. First, the wages (w) has a positive relationship with the amount of employment (N). This goes against the negative relationship that the neoclassical theory predicates in their labor market demand curve. Second, autonomous expenditures refer to all the consumption and investments decisions made by businessmen. In consequence, the businessmen whenever they decide

[37] The AD can be represented in real terms as RAD = (w/p)N + a.

to spend and invest, both the AD and the rate of profits increase. If there is not demand there are no profits. In other words, if there are not sales, the profits cannot be realized. When the rate of profits is not growing, the possibilities of capital accumulation vanishes (Flassbeck, 2004; Mott, 2004; Kregel, 1989; Sardoni, 2011, 1989).

One of the main conclusions reached by Kalecki, the labor market can have multiple equilibriums. Without institutions like unions and other mechanism that make possible labor empowerment, the level of employment and wages will be lower, which reproduces low living standards. This is the situation that the economies around and even Missouri, Illinois, and Kentucky face today. The economic inequality is a real threat for economic growth in these states. Let us present a formalized version of the Kaleckian model, following the guidelines introduced by Marc Lavoie (2009), to make the case for higher wages and stronger unions.

The investment equatio

$$g^i = \alpha + \beta(u - u_n) \tag{1}$$

Where:

α: the trend growth rate of sales expected by firms.

u: the actual rate of capacity utilization.

u_n: the normal rate of capacity utilization.

The saving equation:

$$g^s = S_C r \tag{2}$$

where:

S_C: the saving out of businessmen's profits

r: the realized/actual profits

The profit rate equation from the cost side:

$$r^{PC} = \frac{\pi u}{v} \tag{3}$$

π: profit share in income (P/Y)

v: inverse of the technical coefficient (Y/K)

The effective demand profit rate:

$$r^{ED} = \frac{(\alpha - \beta u_n + \beta_u)}{S_c} \tag{4}$$

This equation is obtained by combining (1) and (2).

The saving equation as a function of the rate capacity utilization:

$$g^s = \frac{S_c \pi u}{v} \tag{5}$$

Equation 5 is obtained by combining equations (2) and (3).

The equilibrium rate of utilization:

$$u^* = \frac{(\alpha - \beta u_n)}{\left(\frac{S_c \pi}{v - \beta}\right)} \tag{6}$$

Equation 6 is obtained by combining (3) and (4).

For simplicity, we assume v is constant. This allows the profit rate to depend on the rate of capacity utilization and the profit share in income. Another assumption is that the profit margins of firms is given, which implies that the real wage is constant. This model is founded on the principle of effective demand. This offers that all adjustments are through quantities. This makes sense since Kaleckian models are based on administered markets in which prices are set over an estimation of costs (the mark-up). Firms behave in this way to be able to fund their investments; in this context profit generation is essential for the process of capital accumulation (Laramie et. al., 2004; Meacci, 1989).

Let us introduce two hypothetical situations that are in favour of our main objective: higher wages and stronger unions should be the guidelines for a better economic policy that promotes economic growth and attacks the rising income and inequality (Flakierski, 2004). It can also contribute to reduce the lack of power balance in democracy. A working class politically empowered helps to guarantee a chance to participate in the political process (Jossa, 1989). Therefore we recommend stronger unions.

Situation 1. Assume that the AD has increased via a reduction in the propensity to save (or an increase in the autonomous expenditure) by the businessmen. Notice the effect on (4) is to increase the effective demand profit rate. The effect of less propensity to save or to expend more is reflected on (6) with a higher rate of capacity utilization. Higher capacity utilization and profit rate will increase the profit rate from the cost side. This means that businessmen will enjoy more profits and funds to invest. This is the consequence of positive capital accumulation which enhances economic growth.

Situation 2. Assume that workers now earn higher real wages, due to a labor policy that encourages unionization and better wages and salaries. Higher wages reduce the costs margin of firms and their profit share. Less profits have an impact on equations (3), which is negative due to profit share is reduced, and (4), which is positive, because of the less propensity to save out profits. But look at the effect on equation (6). A reduction in the profit share translates into a less propensity to save of the economy (less $S_c\pi$) whose effect is to increase the rate of capacity utilization. This means there has been a market induced redistribution of income in favour of workers. The workers have more income they will spend, which increases consumption and sales. A higher rate of capacity utilization is

translated into higher profits. The paradox of thrift is accomplished and has significant macroeconomic effects. The fact that workers now earn more income means less profits share only temporarily (Paladini, 1989; Vianello, 1989). Eventually, the long-term rates of accumulation and capacity utilization increase making possible economic growth. This explains why Missouri, Illinois, and Kentucky even though are not RTW states have better level of profits and good economic growth performance.

The paradox of costs is overcome as well using the Kaleckian theory. Higher real wages definitely reduces profits only at the microeconomic level. At the macroeconomic level, it results on higher rate of profits, capital accumulation, and capacity utilization (Sawyer, 2004, 1989). These are the essence of any modern capitalist economy. Lower wages only reproduce the conditions of more inequality, less economic growth and resembles feudal times that we are supposed to have overcome within a capitalist society.

Concluding Remarks

We have demonstrated the true effects of RTW on a state's economy, labor markets, and unions. Drawing on the Kaleckian theory, we documented that RTW makes an economy less profitable and inefficient by lowering wages. In terms of public policy, we identified that policies conducive to full employment based on fair wages is desirable for society. Subsequently, we establish that the best criterion for judging labor policies, like RTW, is based on how a policy would impact the relative bargaining power of workers. A good labor policy augments the relative bargaining power of workers, which we assume will lead to higher wages. For these reasons, we find RTW counterproductive to a capitalistic economy, and argue instead for wage-led growth (Sachs, 2004; Reynolds, 2004).

Kaleckian growth models reach the economic goal of lower levels of income inequality and better living standards. With reduced levels of inequality and higher wages, Kalecki posits that demand constraint models empower a middle class to institutionalize more pro-worker policies. These policies produce efficient markets and a stable democracy. Such an outcome is not only desirable economically, but it is in line with American political values and thought.

We are aware that an economy can be wage-led but the distribution of income might remain unchanged, or moving toward higher profit share. But Kaleckian theory helps us to think in terms of potentiality of an economy. In this sense, an economy that is wage-led (i.e. the "distributionledness") but cannot change its income distribution has wasted potential, and the economy will sink into a crisis (Nikiforos, 2014). We do not believe that only by increasing wages, economic growth will automatically happen. That will reduce our argument to the trickle-down effect reasoning. We know that the distribution of income depends on

social norms and institutional factors. They evolve through the fact that: 1) the power relations between workers and proprietors are unstable. When one class gains relative power over the other, it accumulates power quicker and the distribution of income shifts in its favour (DiPietro, 2015). 2) The direction of the distribution of income depends upon the "distributionledness" of the economy. If an economy is wage-led for instance, but the profit share keeps increasing (i.e. more income inequality), the growth rate will decrease. On the other hand, if an economy is wage-led, and the profit share decreases (more income equality), the growth rate will increase. Finally, 3) there are lagged effects on the dynamics of income distribution. The institutions and social norms that reproduce these lagged effects have a historical memory. Hence, they will continue to influence future events. All these elements make clear that the Kaleckian type of policy we are advocating does not follow a trickle-down pattern.

What is the limit when we talk about economic growth? This question is worth asking because conservatives may think our policy recommendation is populism. Modern developed economies have persistent but bounded economic growth. This implies there are mechanisms that contain economic growth within reasonable bounds. We cannot say the sky is the limit. Every economy faces resource constraints although this is not a dynamic feature in the growth model. We cannot say the hell is the limit. An economy that has a high propensity to consume or invest (i.e. large autonomous demand) will have a higher output floor that contains any downward dynamic in economic growth. That is the valid feature to be underlined out of the pro-wage growth models. Demand is the central constraint over the growth path (Fazzari et. al., 2013). This point makes clear we are not advocating for a populist and universal policy that will always guarantee economic growth beyond the "infinite universe".

Right-to-Work policies are not successful and do not go along with the demands of modern economies. There are alternatives to the repetitive conservative message. The best social policy is to encourage job creation. Recently, Tcherneva (2012) has adopted a Keynesian-Minskian-Kaleckian approach to argue for job guarantee programs that enhance job creation. She even proposes the non-profit and the social entrepreneur sectors lead the job guarantee program. Such an endeavour must be community-centred and community-proposed. It is a bottom-up approach. This is a democratic approach that fits public policy to people, communities, and their needs. The social entrepreneurship aspect of these non-profits will address pertinent problems in line with the values of an area as they arise. These policies will help push the economy towards full employment and the benefits associated with demand constrained growth.

Considering our argument, we challenge the semantic contradiction that is the euphemism "Right-

to-Work" as proponents use the phrase. Right-to-Work engenders the notion that the policy gives workers a freedom previously denied to them. However, as Section 23 of the Universal Declaration of Human Rights states:

> 1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment;
>
> 2) Everyone, without any discrimination, has the right to equal pay for equal work;
>
> 3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection; [and]
>
> 4) Everyone has the right to form and to join trade unions for the protection of his interests.

We have demonstrated that "Right-to-Work" does not bestow any rights already present in Section 23, but facilitates the exploitation of workers, lowers wages, poorer working conditions, weaker unions, greater income inequality, less profitable firms, a lower rate of innovation, and unemployment contrary to the intent of the Declaration. Branding this anti-labor policy to masquerade under the guise of liberating workers only further underlies the false moralism of its proponents. To truly give workers the human dignity associated with their labor, policymakers must reconsider the assumptions supporting their perception of capitalism and the labor market to had better align with realities of the regional economy in the Midwest. We recommend incorporating Kaleckian thinking to achieve an inclusive economy that maximizes benefits for all members of society.

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