Facing Reality 2013

Ideas to Reset Oregon's Budget and Recharge Its Economy

AMERICANS FOR PROSPERITY FOUNDATION™ OREGON

Cascade Policy Institute OREGON

1. http://www.oregon.gov/Gov/priorities/Pages/oregon_jobs.aspx

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Introduction

Americans for Prosperity-Oregon and Cascade Policy Institute published our first *Facing Reality* report in 2010, offering state legislators an opportunity to "reset" state government using the time-tested principles of limited government and pro-growth economic policies. We provided a series of proven ideas to balance our state's budget without tax or fee increases, plus policies to stimulate private businesses to "recharge" our economy.

We called this approach "Reality Based Budgeting," believing it was time that our leaders face reality, bite the bullet, quit kicking the can down the road, and adopt ideas to lower the cost of government and get the economy going again.

Decades of well-meaning politicians, bureaucrats, and special interests have grown state government spending without regard for long-term consequences, producing an unsustainable budgetary premise that threatens Oregon's financial stability. Long-term debt, unfunded liabilities, inefficient programs, unnecessary spending, and bloated bureaucracies all contribute to this bleak future. Along with higher tax rates, fee increases, and unfunded mandates that make it harder for businesses to produce a profit, we face the perfect storm that manifests itself in Oregon's budget and economy today. Without a drastic change in direction, it will only get worse.

Governor Ted Kulongoski acknowledged this fiscal reality when he formed his Reset Cabinet in 2009. While we agreed with some of its recommendations, it did not address ideas for economic growth. Any policy to restructure state spending must be accompanied by proven concepts to grow the private sector economy, as this is the most reliable manner to ensure long-term state budget stability. Governor John Kitzhaber seemed to acknowledge this truth last year when he said:

> "We need more than an economic recovery to improve the lives of Oregonians for the long term. 'Recovery' implies going back to doing things the way we did in the past—we need economic reinvention."

Unfortunately, the demonization of corporations and small businesses during the debate over tax-increase Measures 66 and 67, along with proposed regulations and higher state fees, are the antithesis of "economic reinvention" and have reinforced the impression that Oregon is not business-friendly. This must be addressed immediately if long-term investments in expanded business capacity are to occur.

Unfortunately, our recommendations for the 2011-13 biennium were largely ignored, and the state muddled through. Now, we have three major 2013-15 budget proposals from the Governor and legislative Democrats and Republicans. Each proposes to balance the budget in large part through major reforms of the PERS retirement system that, while needed, will be politically hard to achieve. Therefore, we now provide several updates of major proposals we made in 2010, coupled with a new proposal to recharge Oregon's economy at virtually no cost to taxpayers.

While we recognize the enormity of the politics that surround these concepts, we believe they are essential if we are, as Governor Kitzhaber suggested, to "reinvent" our economy and to ensure Oregon's long-term future. Without them, the future is every bit as dim as Governor Kulongoski's Reset Cabinet acknowledged. With them, the future is as bright as we want it to be.

The choice is ours.

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Contributors

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Steve Buckstein, Founder and Senior Policy Analyst at Cascade Policy Institute, Oregon's free market public policy research organization. In 2007 Governor Ted Kulongoski appointed Buckstein to the Task Force on Comprehensive Revenue Restructuring where he represented taxpayers. He earned both his B.S. in Physics and M.B.A. from Oregon State University.

Eric Fruits, Ph.D. is an Oregon based economist and adjunct professor at Portland State University. Fruits has been invited to provide analysis to the Oregon legislature regarding the state's tax and spending policies. His testimony regarding the economics of the Oregon public employee pension reforms was heard by a special session of the Oregon Supreme Court.

About Americans for Prosperity:

Americans for Prosperity (AFP) is committed to educating citizens about economic policy and mobilizing those citizens as advocates in the public policy process. AFP is an organization of grassroots leaders who engage citizens in the name of limited government and free markets on the local, state, and federal levels. AFP grassroots activists advocate for public policies that champion the principles of entrepreneurship and fiscal and regulatory restraint. AFP is more than 2.3 million activists strong, with activists in all 50 states. AFP has 34 state chapters and affiliates.

To join the more than 31,000 Oregonians currently championing AFP's mission in Oregon and to find more information, visit www.americansforprosperity.org. Americans for Prosperity does not support or oppose candidates for public office.

About Cascade Policy Institute:

Founded in 1991, Cascade Policy Institute (www.cascadepolicy.org) is Oregon's premier policy research center. Cascade's mission is to explore and promote public policy alternatives that foster individual liberty, personal responsibility, and economic opportunity. To that end, the Institute publishes policy studies, provides public speakers, organizes community forums, and sponsors educational programs. Cascade Policy Institute is a tax-exempt educational organization as defined under IRS code 501(c)(3). Cascade neither solicits nor accepts government funding and is supported by individual, foundation, and business contributions. Nothing appearing in this document is to be construed as necessarily representing the views of Cascade or its donors. The views expressed herein are the authors' own.

Summary of Proposal Benefits

Proposals	Benefit Summary
Privatize liquor distribution and sales	$8 million biennial revenue
Reduce corrections costs	$68 million biennial savings
Eliminate the PERS pick-up	$772 million biennial savings
Align state employee compensation with private sector compensation	$160 million biennial savings
Enact Right-to-Work legislation	50,000 more people working in five years; 110,000 more working in ten years. $2.7 billion more in wage and salary income in five years; $7.0 billion more in ten years. 14 percent more taxpaying families per year moving into Oregon from non-right-to-work states.

Privatize Liquor Distribution and Sales

Oregon is one of only 18 states that sell hard liquor through state-controlled stores. The Oregon Liquor Control Commission (OLCC) is the monopoly distributor of distilled spirits to these retailers. The OLCC has the conflicting missions of generating revenue for state and local governments through alcohol sales, fostering economic development, and protecting the "safety, welfare, health, peace and morals of the people of the state."[2]

The wholesale activities of the OLCC are relatively straightforward. The state purchases distilled spirits products from suppliers, warehouses the products, and ships them to retail outlets statewide, who sell the product at prices set by the Commission. The OLCC claims its market power as a buyer allows it to negotiate lower prices from distributors. At the same time, OLCC uses its market power as a seller to charge higher prices to retailers and, in turn, consumers. This "double monopoly mark up" produces net revenues that are distributed to state and local governments. The OLCC says its net revenue is $194 million a year with $110 million of that amount placed in the state's general fund.[3] The remainder is disbursed to cities, counties, and mental health and alcohol services.

Although each liquor retailer in Oregon is privately owned and operated, many aspects of store operations are dictated by the OLCC. For example, OLCC contracts regulate conditions and the appearance of stores and require agents to pay overhead expenses. Commission regulations and contracts mandate numerous other requirements, such as hours of operation and what non-liquor items may be sold.

State employees perform all the activities from negotiation of wholesale prices to warehousing product and overseeing liquor store operations, except that common carriers are used for delivery to retail outlets. The most recent Governor's Budget

2. ORS 471.030.
3. Oregon Liquor Control Commission (2012). Allocation of liquor revenue, FY 11–12 revenue distribution (http://www.oregon.gov/OLCC/pages/allocation_of_liquor_revenue.aspx, retrieved January 24, 2012).

indicates that the OLCC spends more than $10 million a year and employs nearly 70 state workers related to its distribution business. A compensation report published by the state compares state compensation with market compensation for two of these positions.[4] The state's analysis indicates that the average compensation for these positions is 12.4 percent higher than the market rate for comparable positions.

Recommendation

Eliminate Oregon's three tiered liquor control system and allow retailers to buy directly from manufacturers and private distributors. Close down or sell off the state's wholesale distribution business. Liberalize the liquor retail system to provide store operators more freedom to manage their operations, marketing, and merchandising. Allow retailers of any size to sell distilled spirits.

Potential Savings and Other Benefits

Research by the Tax Foundation suggests that the same revenues could be achieved with a tax of $24.63 per gallon (or $4.88 per 750 ml bottle) on distilled spirits.[5] This is supported by information from the Oregon Liquor Control Commission, that indicates that a tax of $4.38 per 750 ml bottle would provide the same amount that the OLCC currently turns over to state and local governments—assuming that sales remained unchanged.

Washington State's distribution center has been valued at $30 million.[6] Virginia's governor estimates the state could generate a short-term windfall of $500 million by privatizing its liquor stores.[7] Mississippi's governor has proposed turning over the distribution of wine to private industry, which could raise an additional $2.5 million annually. Washington and Virginia have much larger populations and, in turn, liquor distribution systems.

Information from Figures 1 and 2 suggest that privatization combined with a reasonable tax would reduce the average checkout price by about 5 percent. As with all goods, as the checkout price of spirits declines, the quantity demanded increases. A comprehensive study of consumer responsiveness to alcoholic beverage prices indicates that a 5 percent decline in prices would be associated with a 3 percent increase in the amount purchased.[8] The added convenience associated with improved accessibility also likely would increase sales.

If privatization produced a 3 percent increase in distilled spirits sales, such a tax would add approximately $4 million annually in revenues for state and local governments on top of the $194 million currently distributed to state and local governments.

Lessons from Washington

In November 2011 Washington voters approved Initiative 1183, which privatized the sale of spirits by allowing stores bigger than 10,000 square feet and some specialty shops to sell spirits. Now, there are more than 1,600 licensed stores selling spirits in Washington, up from roughly 350 state-owned or state-contracted locations before the initiative went into effect.

In an effort to make the Washington privatization initiative "revenue neutral" and more acceptable to voters, the measure includes two taxes that are applied to purchases at checkout. One is a $3.77 per liter tax ($2.83 for a 750-milliliter bottle or $6.60 for 1.75 liters). On top of that, Washington imposes a 20.5 percent sales tax on spirits.

The result has been sticker shock in that the reduction in prices associated with competition have been overwhelmed by the steep taxes imposed on sales of spirits. Figure 1 provides a breakdown of the pre-tax and after-tax prices of selected spirits sold in Washington. Figure 2 shows that Washington's high taxes go a long way toward explaining the state's higher spirits prices. In some cases—especially with lower priced brands—taxes can make up more than one-third of the final checkout price.

Despite the higher after-taxes prices of spirits in Washington, the improved convenience and availability of spirits has increased demand. In particular, since the initiative went into effect, Table 1 shows even though the average checkout price per bottle is almost 14 percent higher, sales to consumers have increased 7.1 percent over the same period in the prior year.

A Win for Consumers and Government Budgets

A key lesson from Washington's experience with reform is that consumers respond to both price and convenience. The steep increase in taxes dampened demand and sent many shoppers over state lines. Nevertheless, distilled spirits sales increased largely because consumers were able to make their purchases at times and locations that were convenient to them.

Oregon can turn over to the private sector the distribution and sale of distilled spirits at virtually no cost to taxpayers or state and local government revenues. A reasonable tax on the newly private sales would ensure customers benefit from lower prices while adding revenues for use by state and local governments.

4. The positions are Liquor Distribution Worker 1 and Liquor Distribution Worker 2. See Total Compensation Market Comparison Report: 6/30/09 add/drop step (2010).
5. Tax Foundation (2010). State sales, gasoline, cigarette, and alcohol taxes, as of February 1, 2010.
6. Sullivan, C. (2012). Liquor board to auction off its remaining bottles. KIRO. October 30.
7. Kesmodel, D. and Spain, W. (2010). "States look to the bottle." The Wall Street Journal. February 8, 2010.
8. Fogarty, J. (2010). The demand for beer, wine, and spirits: A survey of the literature. Journal of Economic Surveys, 24(3), 428–478.

FIGURE 1

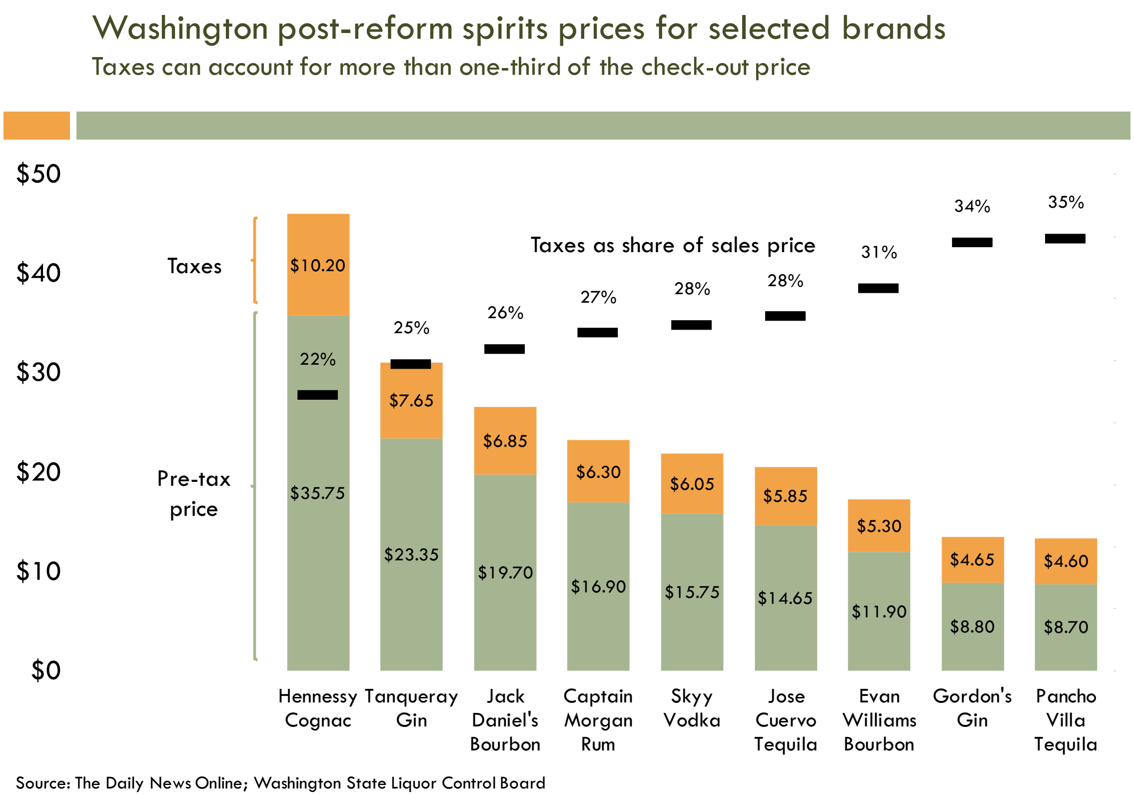

FIGURE 2

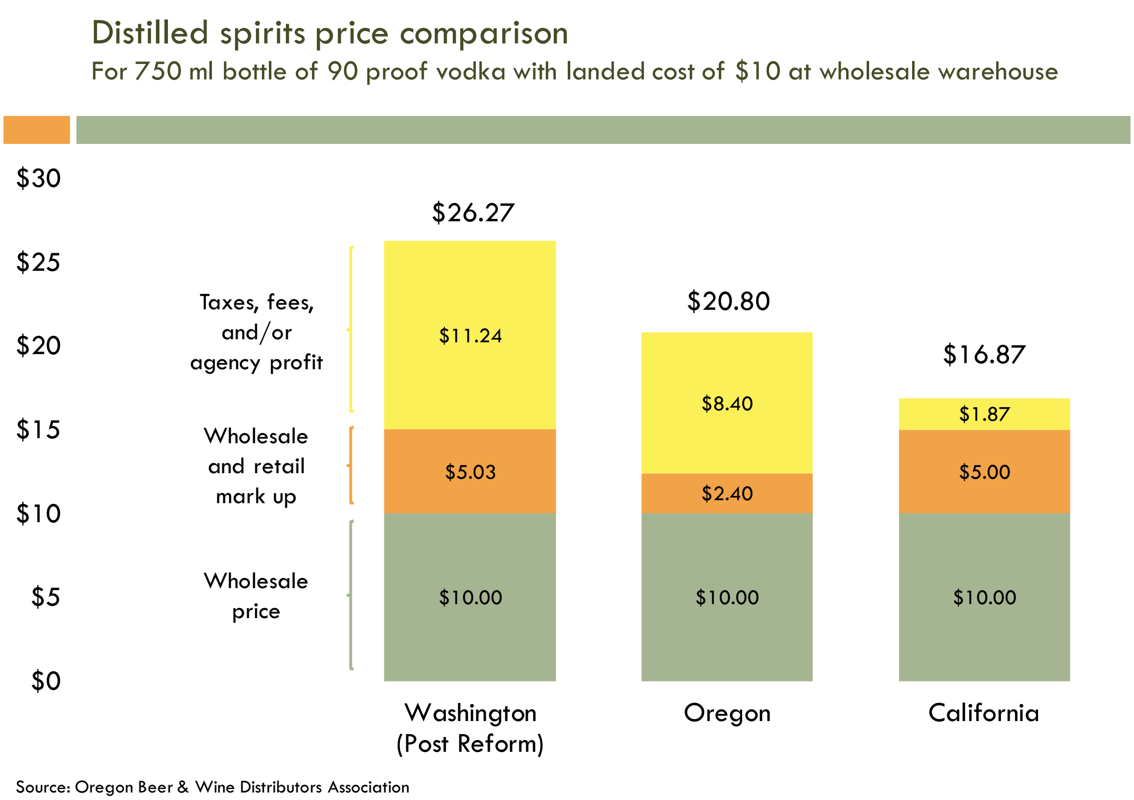

TABLE 1

Sales to consumers	2011*	2012*	Percent Change
Sales, liters	12,406,000	13,282,000	7.1%
Sales, dollars, pre-tax		$226,188,000	
Taxes, dollars		96,453,000	
Total sales, dollars	$265,528,000	$322,641,000	21.5%
Average retail price per liter, pre-tax		$17.03	
Average retail price per liter, after taxes	$21.40	24.29	13.5%
Average taxes per liter		7.26	
Effective tax rate		42.6%	

Sales to on-premises licensees	2011*	2012*	Percent Change
Sales, liters	3,893,000	3,522,000	-9.5%
Sales, dollars, pre-tax		$50,985,000	
Taxes, dollars		15,581,000	
Total sales, dollars	$68,830,000	$66,566,000	-3.3%
Average retail price per liter, pre-tax		$14.48	
Average retail price per liter, after taxes	$17.68	18.90	6.9%
Average taxes per liter		4.42	
Effective tax rate		30.5%	

Total	2011*	2012*	Percent Change
Sales, liters	16,299,000	16,804,000	3.1%
Sales, dollars, pre-tax	$235,770,000	$277,173,000	
Taxes, dollars	98,588,000	112,034,000	
Total sales, dollars	$334,358,000	$389,207,000	16.4%
Average retail price per liter, pre-tax	$14.47	$16.49	14.0%
Average retail price per liter, after taxes	20.51	23.16	12.9%
Average taxes per liter	6.04	6.67	10.4%
Effective tax rate	41.7%	40.4%	

*June through October.

Source: Washington State Department of Revenue

Reduce Corrections Costs

Oregon's Legislative Fiscal Office reports that the Department of Corrections' budget is one of the largest commitments of resources in the state budget.[9] Corrections spending represents roughly 9.1 percent of the combined General Fund and Lottery Funds in the 2011-13 legislatively adopted budget. It is also one of the fastest growing parts of the budget, doubling in its percentage of the General Fund and Lottery Funds portions of the state budget since the mid-1980s.

The growth in the state's prison population accounts for much of the growth in Oregon's corrections costs. While total spending on corrections has increased by approximately 250 percent since the 1993-95 biennium, costs per prisoner per day have increased by 65 percent, or about 3 percent per year. Oregon's corrections costs per inmate are approximately 7.5 percent higher than the national average.[10]

The aging of the inmate population and the increasing health care costs associated with an aging inmate population are perhaps the largest factors that will continue to drive up Oregon's corrections costs.

Over the past 15 years, the average age of an inmate has increased. Part of the increase is a result of the changes in sentencing policy that have led to longer sentences. A larger part of the increase is a result of inmates entering prison at an older age. For example, national data shows that in 1993, 6 percent of inmates were 45 years of age or older at the age of intake into state prisons.[11] By 2009, inmates 45 years of age or older at the age of intake made up a little more than 17 percent of intakes into state prisons.

Because health care costs tend to increase as a person ages, the trend of an aging inmate population likely will increase costs in the future. Oregon's Department of Corrections is not able to track health care costs by individual inmate for medical care provided by corrections staff, but is able to track costs when provided by an outside or off-site provider. The state's Legislative Fiscal Office reports that inmates aged 46 and older have dramatically larger health care costs than other age groups. For example, inmates aged 46-60 have an average cost of outside health care costs (i.e., costs in addition to health care provided by corrections staff) of approximately $6,000 per inmate, or about 2.5 times higher than inmates aged 31-45. Inmates aged 61 and older have an average cost of outside health care costs of $15,000 per inmate, or about six times higher than inmates aged 31-45.

Assuming crime and sentencing trends remain unchanged over time, Oregon can reduce corrections costs in areas in which the state's expenditures are out of line with similar or neighboring states. The Legislative Fiscal Office concludes that labor costs are a primary cost driver for the state's corrections budget. Indeed, more than half of the entire department budget represents costs associated with personnel services including employee salaries, retirement contributions, health insurance contributions, and other benefits or payments relating to employee costs.

The state Legislative Fiscal Office arranged for a compensation specialist to compare total compensation (as of late summer 2010) across 12 states representing states bordering Oregon and states from other parts of the nation. Comparisons were made for three different examples: a correctional officer with 10 years of seniority, a beginning correctional officer, and a registered nurse. These position classifications represent roughly half of all corrections employees. The study found:

- An Oregon corrections officer with 10-year seniority had total compensation that was roughly 19 percent higher than the 12-state average;

- An entry-level Oregon correctional officer received total compensation that was 24 percent higher than the 12-state average; and

- Oregon registered nurses working for the state received total compensation that was 30 percent higher than the 12-state average.

As noted elsewhere in this report, benefit and pay issues are generally bargained at a statewide level and are not necessarily unique to these classifications and to the department of corrections. Indeed, data from the Department of Administrative Services shows similar trends for many other classes of state employees when compared with Oregon's border states.

Recommendations

Reduce the cost per prisoner in Oregon adult correctional facilities down to the national average. Reduce the share of inmates age 46 or older. The Oregon Department of Corrections has introduced Legislative Concept 701 and 1301 that would allow the corrections and the Board of Parole and Post-Prison Supervision to consider all inmates for medical parole. Inmates would need to be "suffering from a severe medical condition including terminal illness or who is elderly and permanently incapacitated in such a manner that the prisoner is unable to move from place to place without the assistance of another person" in order to be considered.

9. Oregon Legislative Fiscal Office (2011). Budget information report: Correction Spending Trends. Updated September 2011.
10. Legislative Fiscal Office (2011).
11. U.S. Bureau of Justice Statistics (1993, 2009). National Corrections Reporting Program. Age at admission for new court commitments to state prison.

Potential Savings and Other Benefits

Reducing the cost per prisoner to the national average would save $60 million to $70 million a biennium. This can be achieved in part by bringing down compensation costs to national levels. The number of male inmates age 46 and older has more than quadrupled between the 1993-95 biennium and 2011. Statistical analysis of the relationship between Oregon's prison costs and the age and sex of inmates finds that each additional male inmate age 46 and older is associated with an additional annual cost of $90,000 to $120,000. A 10 percent reduction in this inmate population would save the state corrections system $68 million a biennium.

Eliminate PERS "Pick Up"

By law, the Oregon Public Employees Retirement System (PERS) requires state workers to contribute six percent of their income to help fund their pension. At the time, Oregon's state retirement system was a defined benefit program in which retirees' benefits were predetermined by a formula based on the employee's earnings history, tenure of service, and age, rather than depending on investment returns. The employees' contribution, it was argued, would provide employees with a financial interest in the management of the system's funds.

More than 30 years ago, the state and other public employers crafted a loophole in the employee contribution mandate and began paying that contribution on their employees' behalf, a practice widely known as the "six percent pickup." Over the years, changes to PERS—most notably the 2003 reforms—have unlinked the pickup from the defined benefit system. The six percent is now placed into individual retirement accounts that resemble private sector 401(k) accounts.[12] Even so, the money is still "picked up" by the State of Oregon as the employer.

Recommendations

Eliminate the six percent pickup. In 2011, Governor Kitzhaber indicated interest in eliminating the pick up along with other measures to keep compensation costs in check. Because the employee contribution no longer goes to fund a defined benefit pension system, the pickup could be phased out or eliminated by getting rid of the requirement that state workers make the contribution. After that, state workers would face the same choice as many private sector workers when it comes to retirement savings. They could choose to have part of their pay placed into the individual accounts, or choose not to.

Potential Savings and Other Benefits

Governor Kulongoski's Reset Cabinet estimates that reducing the pickup from six percent to three percent would have saved $132 million in the 2011-13 biennium.[13] The Oregonian estimates that eliminating the pickup could save Oregon taxpayers $772 million per biennium.[14]

Align State Employee Compensation with Private Sector Compensation

Governor Kulongoski's Reset Cabinet calculated that approximately $2.3 billion in state employee payroll expenditures come from the state's general fund.[15] The Reset Cabinet concluded that compensation for state employees is currently "in alignment" with that of comparable jobs in the larger labor market. Even so, the Reset Cabinet predicted future increases in compensation to exceed increases in the private sector.

Despite the Reset Cabinet's reported conclusions, the following table shows that the state's most recent Total Compensation Report indicates that 25 percent of state employees have total compensation that exceeds competitive compensation for comparable services in the public and private sector.[16] Five percent of state employees have total compensation that is more than 20 percent higher than total compensation offered for comparable services in the public and private sector.

The table below shows that across state employees, total compensation exceeds market comparable total compensation by approximately $12 million a year. However, employees receiving total compensation above the state's definition of "competitive compensation" account for $65 million in above-market compensation.[17]

12. For a more detailed description of the pickup, see Thompson, D. (2010). "Is it time for Oregon to drop the PERS pickup?" *Salem Statesman Journal*. August 1.
13. Oregon Governor's Reset Cabinet (2010). Report of the Reset Cabinet on labor costs for state and school employees.
14. Sickinger, T. (2012). "Oregon PERS: Hard choices for public reforms must pass legal and political hurdles." *The Oregonian*. November 17.
15. Oregon Governor's Reset Cabinet (2010). Final report: Governor's Reset Cabinet.
16. The State of Oregon periodically produces a Total Compensation Report to measure single classifications and the overall classification plan vs. the market. The most recent report was published in 2010 with compensation information from 2009; a new report is expected at the end of February 2013. This allows the state to determine compliance with the General Compensation Policy. The Total Compensation Report compares the total compensation offered to Oregon state employees in relation to the total compensation offered for comparable services in the public and private sectors. The report is the official record of each classification's market status at a given point in time. The state general compensation policy (20.005.01(2)(c)) indicates that *competitive compensation* is generally defined as within five percent (5 percent) of the statewide average total compensation paid for comparable services. The state's definition of *total compensation* includes "the total of state payments made for salary and benefits" (20.005.01(2)(b)). For the purpose of the Total Compensation Report, benefits include the employer's contribution to retirement and health/dental/vision insurances.
17. This assumes that all employees work full-time.

TABLE 2

	Employees				
	Number	Percent of Total	Oregon Average Total Compensation	Market Comparable Average Total Compensation	Oregon Premium
More than 20% lower than market	333	1.1%	$125,640	$162,240	-22.6%
10-20% lower than market	1,041	3.6%	60,480	68,760	-12.0%
5-10% lower than market	4,768	16.3%	70,800	76,320	-7.2%
"Competitive compensation": within 5% of market	15,797	54.1%	69,720	70,080	-0.5%
5-10% higher than market	3,188	10.9%	69,120	64,320	7.5%
10-20% higher than market	2,586	8.9%	70,440	61,920	13.8%
More than 20% higher than market	1,490	5.1%	81,960	63,000	30.1%
Total	29,203	100.0%	$70,820	$70,400	0.6%

TABLE 3

	Employees				
	Number	Percent of Total	Oregon Total Compensation	Market Comparable Total Compensation	Oregon Premium
More than 20% lower than market	333	1.1%	$41,845,000	$54,017,000	($12,172,000)
10-20% lower than market	1,041	3.6%	62,950,000	71,540,000	(8,590,000)
5-10% lower than market	4,768	16.3%	337,728,000	363,931,000	(26,203,000)
"Competitive compensation": within 5% of market	15,797	54.1%	1,101,158,000	1,107,379,000	(6,221,000)
5-10% higher than market	3,188	10.9%	220,316,000	204,952,000	15,364,000
10-20% higher than market	2,586	8.9%	182,143,000	160,179,000	21,964,000
More than 20% higher than market	1,490	5.1%	122,128,000	93,935,000	28,193,000
Total	29,203	100.0%	$2,068,268,000	$2,055,933,000	$12,335,000

Research finds that, when worker characteristics and job attributes are controlled for, public sector pay is approximately six percent higher than private sector pay in the United States.[18] This research also finds that job attributes have so little impact on pay differentials that higher pay in the public sector is not because of any compensating differential job attributes or demanded skills. Instead, the research finds that much of the public sector pay premium can be explained by the activities of unions in the public sector workforce.

Recommendation

The Governor's Reset Cabinet recommended that state employees' compensation increases be aligned with changes in the costs of pay and benefits projected for comparable jobs in the private and public sector. The Reset Cabinet also recommended that health benefit costs be reduced by establishing upper limits on benefits and managing those limits from year to year. In addition, require state employees to increase their contributions to their health insurance.

Potential Savings and Other Benefits

The Governor's Reset Cabinet estimated that aligning state and school employees' compensation increases with changes in the costs of pay and benefits projected for comparable jobs in the private and public sector would have saved more than $400 million in general fund payroll costs budgeted for 2011-13. Beginning in 2012, state workers began paying five percent of their health insurance premiums. If they paid the same 17 percent share as the average Oregon worker (compared to 21 percent nationwide), the state would save approximately $160 million per biennium.[19]

18. Gibson, J. (2009). The public sector pay premium, compensating differentials and unions: propensity score matching evidence from Australia, Canada, Great Britain, and the United States. Economics Bulletin, 29(3):2325–2332.
19. Kaiser Family Foundation (2012). Average family premium per enrolled employee for employer-based health insurance, 2011 (www.statehealthfacts.org).

Enact Right to Work Legislation

Right-to-work laws provide job seekers and employees with the right to work for a company whether or not they choose to join a union. Research shows that states that do not require workers to join a union and pay union dues enjoy, as a group, more rapid employment and income growth, better job preservation, and faster recoveries from recession.[20]

Proponents of right-to-work legislation argue that individuals should have the choice of whether or not to join a union and that the choice of whether to join a union should not be a condition of employment. Opponents of right-to-work legislation argue that union collective bargaining benefits all employees; without compulsory union membership, employees have incentives to "free ride" on the benefits of collective bargaining without contributing to the costs associated with such bargaining. This free rider argument is fallacious in that federal law does not obligate unions to represent non-members. The National Labor Relations Act allows unions to sign "members' only" contracts that apply only to dues-paying members, and the Supreme Court upheld the ability of unions to negotiate only on behalf of members.[21]

Recommendations

Enact right to work legislation in Oregon.

Potential Benefits

Research published by Cascade Policy Institute examines the economic impacts right-to-work legislation would have on Oregon. The study is consistent with the vast majority of peer-reviewed research in finding that if Oregon were a right-to-work state, we would see improved employment and income growth. For example, enacting right-to-work legislation this year would lead to:

- 50,000 more people working in five years; 110,000 more working in ten years.
- $2.7 billion more in wage and salary income in five years; $7.0 billion more in ten years.
- 14 percent more taxpaying families per year moving into Oregon from non-right-to-work states.

A right-to-work law can be viewed as part of a pro-business package that encourages firms to locate and expand in the state. In turn, the improved opportunities would have the effect of attracting more taxpaying families into Oregon from other states, while slowing down the number who leave.

Conclusion

As we stated in the Introduction, decades of well-meaning politicians, bureaucrats, and special interests have grown state government spending without regard for long-term consequences, producing an unsustainable budgetary premise that threatens Oregon's financial stability. Long-term debt, unfunded liabilities, inefficient programs, unnecessary spending, and bloated bureaucracies all contribute to this bleak future. Along with higher tax rates, fee increases, and unfunded mandates that make it harder for businesses to produce a profit, we face the perfect storm that manifests itself in Oregon's budget and economy today. Without a drastic change in direction, it will only get worse.

The proposals in this document represent significant changes in the way Oregon government operates. More will need to be done, but these are a good start. We encourage all Oregonians to study them and ask their state legislators to do the same. It is not too late to refocus Oregon government on its core functions, reduce costs and remove itself from areas it has no business in, such as the distribution of liquor.

Without such changes, our future looks dim. With them, and others, our future is as bright as we want it to be.

20. Fruits E. and Pozdena R. J. (2012). "Right to Work is Right for Oregon." Cascade Policy Institute.
21. See, for example, Consolidated Edison Co. v. National Labor Relations Bd., 305 U.S. 197 (1938).

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