

An Economy for the Few: *Oregon workers are more productive, but households with incomes over \$360,000 are getting nearly half the income gains*

by Michael Leachman and Joy Margheim

This Labor Day Oregon workers are producing goods and services more efficiently than when the economic expansion began four years ago, but few workers have seen much income benefit as a result.

The current economic expansion, which began in August 2003, has produced sharply higher incomes for well-off Oregonians but few income gains for the rest of us. This “economy for the few” is typical of economic growth periods over the last 30 years.

It is not inevitable that the benefits of growth flow disproportionately to the most well-off. It is possible — and preferable — that economic growth lift all boats together. From the end of World War II until the early 1970s, the benefits of U.S. economic growth were well-distributed nationally across the income spectrum. Not only was income growth widely shared during this period, but family income growth across the board was much stronger than it has been since.¹ Public policies and practices that protected opportunities for ordinary American families — such as a more progressive federal income tax, strategic investments in public structures including the GI Bill and Social Security, and more widespread unionization — helped to ensure that the benefits of economic growth were broadly distributed. These progressive policies helped fuel strong income growth for many American families.

Unfortunately, the current economic expansion has followed the more inequitable path of expansions since the 1980s. As a result, most Oregon workers are producing a prosperity that is largely being enjoyed by others, generally those who were already enjoying comfortable incomes.

Public policies can protect Oregonians from the negative consequences of an economy that works for the few at the expense of the many. The 2007 legislature took some important steps to invest in protecting and promoting opportunities for all Oregonians, but more aggressive policies are necessary to produce an economy that truly works for all Oregonians.

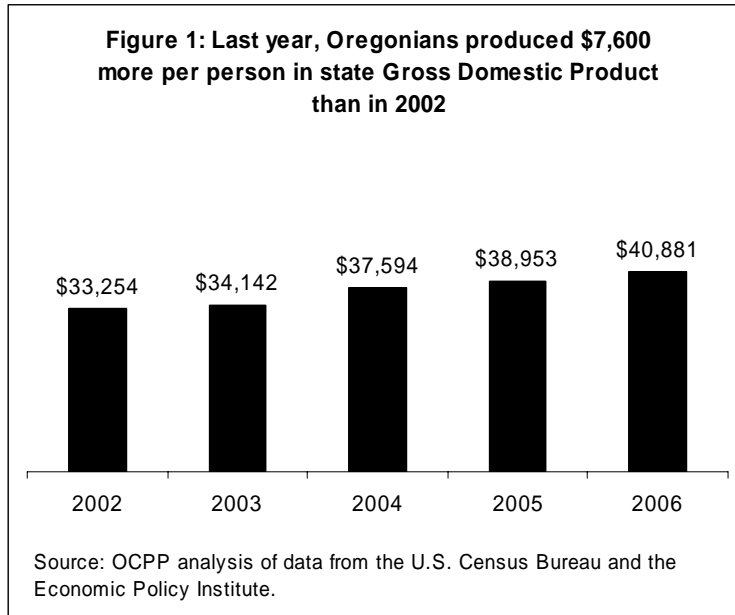
Economy is failing ordinary Oregonians

Last year, Oregonians produced \$40,881 per person in goods, services, and other economic output. That’s an increase of about \$7,600 in output per person compared to just four years earlier, in 2002 (Figure 1).² This improvement in the productive efficiency of Oregonians continues an ongoing trend. Fifteen years ago, in 1992, Oregonians produced \$21,296 in economic output per person.³ Hence, Oregon’s per capita output last year (\$40,881) was nearly double what it was just 15 years ago. This sharp increase in productivity greatly improved Oregon’s productivity ranking among the states. In 1992, Oregon workers ranked 45th in the country for economic output per worker. By 2005, Oregon’s ranking had surged to 21st.⁴

As Oregon workers produced goods and services more efficiently the last few years, their increased productivity helped bring more income into Oregon. This year Oregonians will earn \$26 billion more in personal income than they did four years ago, before the economic expansion began.⁵

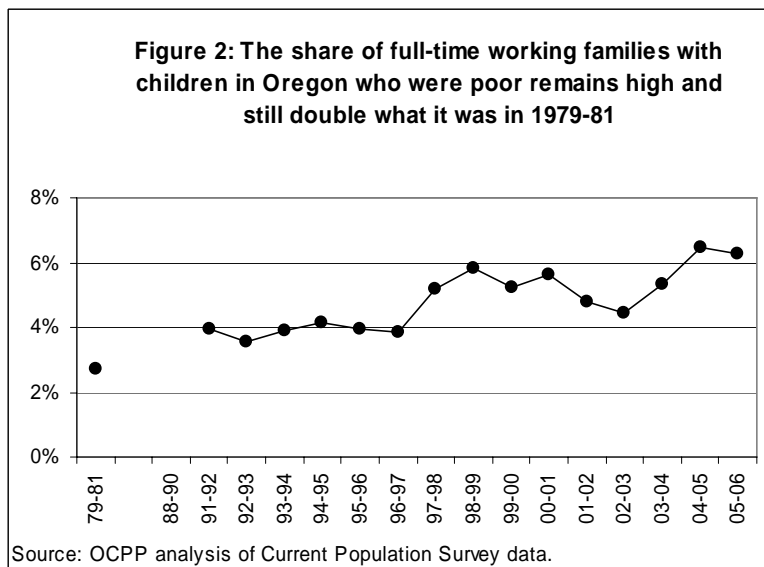
Unfortunately, little of this \$26 billion in new income has reached families earning such low wages that they cannot meet their basic needs. In 2005-06, the latest period for which data are available, 6.3 percent

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of working families who had children were poor, despite their work effort. This poverty rate for full-time working families with children is more than double the rate from a generation ago, in 1979-81, when it was just 2.7 percent (Figure 2).

In 2005-06, the percentage of full-time working families with children who were poor was more than double the rate from a generation ago.



Middle-income Oregonians have seen their incomes increase modestly during the economic expansion. Median-income households saw their incomes grow by \$1,667 in 2005-06 — the latest year for which median household income data is available — compared to the previous year's income figure. Despite this modest gain, median-income Oregon households still made an annual income of \$46,349 in 2005-06, \$3,100 less than the \$49,449 that median-income households made before the recession in 1999-00, after adjusting for inflation.⁶

Meanwhile, the share of Oregonians going without health insurance has shot up during this decade. In 2005-06, 16.8 percent of Oregonians — 616,000 Oregonians — lacked health insurance for a year or more, up from 12.8 percent of Oregonians in 2000-2001.⁷ About one in nine Oregon children — 103,000 kids — went without insurance for a year or more in 2005-06.⁸

Who has benefited from the economy's expansion? The most well-off Oregonians, especially the extremely rich, have seen the strongest income gains. As in the past two periods of economic expansion, during the 1990s and 1980s, the rich have gained at the expense of the rest of us.

Oregon's economic expansion has slowed

In November of 2000, the number of jobs in Oregon started to decline as the national and state economies slipped toward recession. Jobs continued to generally decline for the next two and a half years, hitting bottom in the summer of 2003. Since then, the number of jobs has trended upward.

Since spring 2007, though, job growth has slowed. Job growth hovered around three percent annual growth from early 2004 until late last year but has slipped to just 1.2 percent as of the latest data in June. Since September of last year, Oregon has produced an average of about 1,100 jobs per month, compared to an average of about 4,500 jobs per month over the previous year.

Employers not only are adding fewer jobs this year, but they are laying off more workers. After declining for four straight years, the number of Oregonians laid off increased last year and then increased sharply over the first six months of this year. Compared to the same period in 2006, layoffs through June of this year are up by a third. Layoffs remain well below their peak during the economic downturn earlier this decade, however.⁹

Exports — a key component of Oregon's economy — have also sagged in recent months. In January of this year, exports were up 18 percent compared to a year earlier, but the rate of growth quickly diminished. By May exports were down relative to a year earlier. In June exports rebounded slightly but still stood at just two percent above June 2006.¹⁰

Help-wanted ads in *The Oregonian* have fallen off sharply this year. June's total of under 15,000 help-wanted ads was down by a third compared to June of last year.¹¹

These signs of slowing do not necessarily portend a coming recession. Oregon's state economist believes that, although his office's Oregon Index of Leading Indicators has fallen modestly for 13 consecutive months through July, the chances of a recession in the near-term remain low.¹² The Federal Reserve argues that the chances of a recession have increased but that as of mid-August the national economy is continuing to expand.¹³

Then again, forecasting a recession is famously difficult. As the economist John Kenneth Galbraith once quipped, "The only function of economic forecasting is to make astrology look respectable." In fact, economists don't peg a date to the start of a recession until the economy is already in the recession. You don't know you're in it until you're in it.

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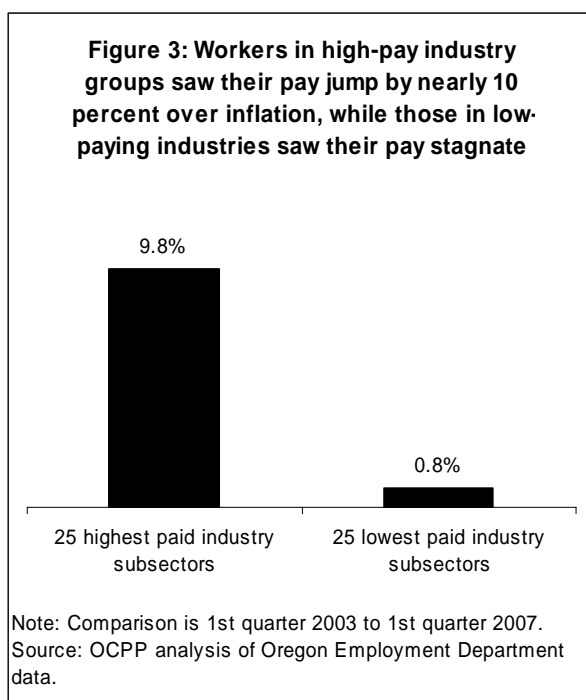
Pay gains concentrated in high-paying industries

Some workers have seen substantial raises in the last four years, but the strongest wage gains have gone to workers in sectors of the economy that already had high pay. Among the 25 industry subsectors in Oregon with the highest pay in 2003, average pay shot up by 10 percent over inflation from 2003 to 2007. In the 25 lowest-paying industries, by contrast, the average pay raise was just one percent over inflation (Figure 3). These modest pay gains in low-paying industries were made possible by the annual inflation

adjustments to the state minimum wage enacted by Oregon voters in 2002. Still, workers in these low-pay industries were stuck in place at a time when workers in high-pay industries surged ahead.

Over the last four years, workers in the five highest-paid industry subsectors in Oregon saw impressive pay raises on average. Workers in these five high-pay industry groups — securities and other financial investment firms, computer equipment manufacturers, suppliers to computer equipment manufacturers, utilities, and company management divisions — saw double-digit average pay increases, even after adjusting for inflation (Table 1).

Among the 25 industry subsectors in Oregon with the highest pay in 2003, average pay shot up by 9.8 percent over inflation from 2003 to 2007. In the 25 lowest-paying industries, by contrast, the average pay raise was just 0.8 percent over inflation.



The highest-paid industry group — securities and other financial investment firms — saw average pay jump by nearly 25 percent above inflation. These firms benefited as the stock market surged coming out of the economic downturn, with the strongest gains coming in 2003, last year, and earlier this summer.¹⁴ These firms, whose business comes disproportionately from wealthy clients, also benefit when rising inequality pushes more income into the hands of already wealthy Oregonians.

By contrast, average pay in the five lowest-paid industry subsectors generally sagged (Table 1). Workers at gas stations and in bookstores, sporting goods stores, hobby stores, and music stores saw their average pay fall relative to inflation over the last four years, despite the

economy's general gains. Workers in restaurants, bars, amusement parks, casinos, and other recreational establishments saw, on average, slight gains relative to inflation. Private household workers — cooks, maids, butlers, gardeners, and other household assistants to the well-off — bucked the general trend for low-paying industries. These workers likely have seen demand for their services grow as the rich have gotten richer. Their average income rose by 11.5 percent but still reached only a bit above \$15,000 in 2007.

Table 1: Oregon's highest-paid industries have handed out large pay raises, while the lowest-paid industries have offered little, if any, pay increases

Highest-paid industry subsectors	Number of jobs	Average pay 2003 (in 2007 dollars)	Average pay 2007	Pay raise above inflation
Securities and other financial investments	4,707	\$115,463	\$143,792	24.5%
Computer and electronic product manufacturing	40,948	\$80,928	\$92,400	14.2%
Suppliers to computer product manufacturing and other electronic market wholesalers	12,399	\$74,721	\$86,784	16.1%
Utilities	4,666	\$73,273	\$84,328	15.1%
Management of companies	30,563	\$72,636	\$80,348	10.6%
Lowest-paid industry subsectors				
Sporting goods, hobby, book, and music stores	10,062	\$17,386	\$16,824	-3.2%
Gasoline stations	10,740	\$15,769	\$15,336	-2.7%
Amusements, gambling, and recreation	16,627	\$14,944	\$15,128	1.2%
Private households (cooks, maids, butlers, gardeners, etc.)	4,339	\$13,657	\$15,232	11.5%
Restaurants and bars	121,729	\$13,576	\$14,092	3.8%

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Note: Average pay based on average pay in first quarter of 2003 and 2007. Average pay in 2003 is adjusted for inflation to first-quarter 2007 dollars. Ranking of highest- and lowest-paid industry subsectors based on average pay in first quarter 2003. Number of jobs is as of first quarter 2007.

Source: OCPP analysis of Oregon Employment Dept. data.

Other data: high-wage workers getting all the gains

In each industry group some workers are paid more highly than others. Financial investment firms and electronic manufacturing corporations employ secretaries at relatively low wages. Restaurants include some highly paid managers and many poorly paid bus and service staff. Thus, it is helpful to look at gains made by pay levels.

Data tracking high-, mid-, and low-pay workers are available for the first three years of the expansion, through the first half of last year. These data indicate that only the highest-paid fifth of workers saw their earnings rise faster than inflation over this period. The rest of the workforce — the bottom 80 percent — saw their wages fall behind inflation, even as the economy expanded.

The average earnings gain enjoyed by high-pay workers was substantial, beating inflation by 4.8 percent. This amounts to an annual earnings increase above inflation of about \$4,800 on average. Wages for the poorest workers, by contrast, lost 1.9 percent relative to the cost of living (Figure 4). That's the equivalent of an annual decline in their average earnings of over \$400.

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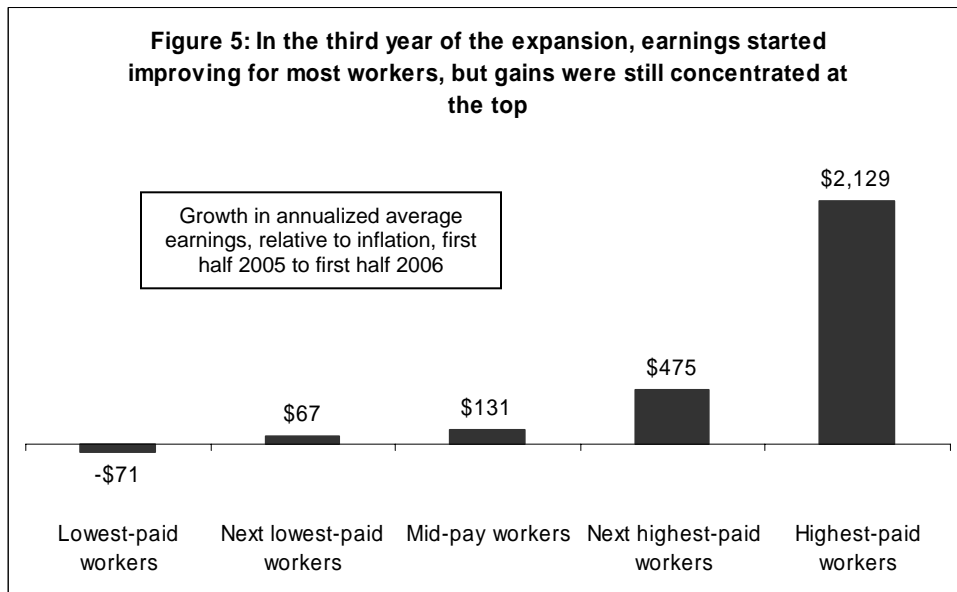


Note: Based on figures inflation-adjusted to second-quarter 2006 dollars, for workers employed 350 or more hours per quarter.

Source: OCPP analysis of Oregon Employment Dept. data.

While only the highest-paid workers benefited over the first three years of the expansion as a whole, earnings did start to improve for a wider swath of workers in the third year of expansion — from the first half of 2005 to the first half of last year. Over that year, the top 80 percent of Oregon workers saw at least some earnings gains above inflation. These gains were still concentrated at the top, though. The highest-paid fifth saw their annual earnings beat inflation by \$2,129. Mid-pay workers, by contrast, saw a real wage jump of only \$131. The lowest-paid fifth of workers continued to see their earnings fall below inflation even at this late point in the expansion (Figure 5).

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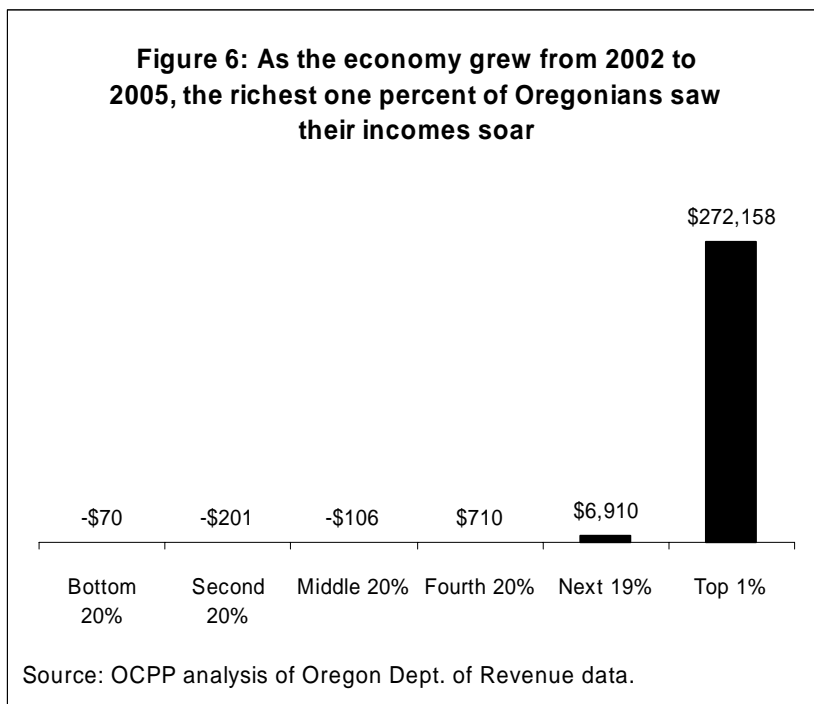
Note: Based on figures inflation-adjusted to second-quarter 2006 dollars, for workers employed 350 or more hours per quarter.

Source: OCPP analysis of Oregon Employment Dept. data.

Total income and capital gains also concentrated among the rich

Wages from employment are only one form of income. Oregonians also have income from capital gains, businesses, rental property, dividends, trusts, and other sources. Like wage gains, income gains during the expansion have been concentrated among the rich.

From 2002 to 2005, nearly half (47 percent) of Oregon income gains went to the richest one percent — households with annual incomes exceeding about \$360,000 and averaging about \$862,000. This richest one percent of Oregonians saw their average income rise by over \$272,000 above inflation over those years. The majority of Oregonians saw their incomes fall, despite the improving economy (Figure 6).

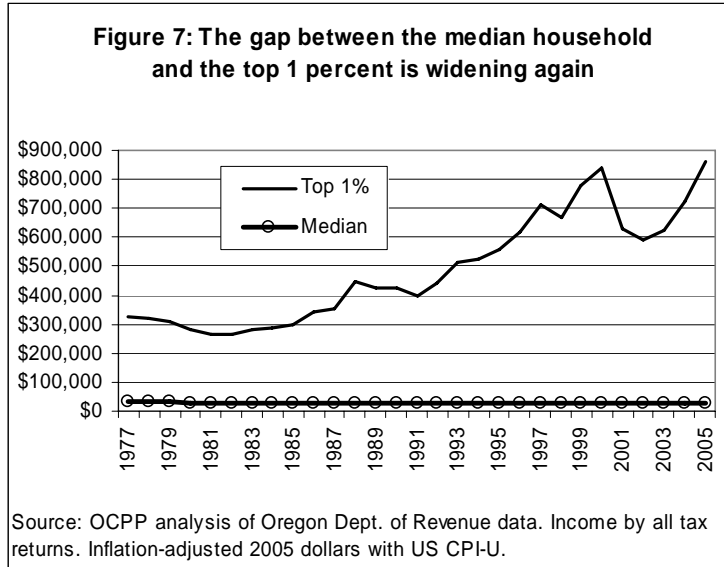


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Most of the income gains enjoyed by the richest Oregon families as the economy expanded came from capital gains. From 2002 to 2005, nearly two-thirds (64 percent) of all the adjusted gross income gains reported by the highest-income one percent of Oregon households were from capital gains.¹⁵ The stock market surged in 2003, providing some of these gains. In addition, some high-income households may have sold second homes or expensive homes that appreciated significantly during the home price boom in 2004 and 2005, producing taxable capital gains income.¹⁶

The unequal distribution of income gains during the current expansion continues and exacerbates the widening income inequality of the last generation. From 1980 to 2005, the average adjusted gross income of the top one percent of households in Oregon *tripled*, even after adjusting for inflation.¹⁷ In dollar terms, from 1980 to 2005 these households saw their average real income skyrocket by nearly \$580,000, over and above inflation (Figure 7).

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The typical Oregon household, by contrast, saw their income improve by just \$618 over inflation over the same period, an increase of just two percent (Figure 7).¹⁸

Moreover, over the last generation the wealthiest of the highest-income Oregonians — those in the top one-tenth of one percent — saw a disproportionate share of the income gains among those in the top one percent. We call

this especially well-off group the 1,500 richest households in Oregon. From 1980 to 2005, the 1,500 richest households in Oregon saw their adjusted gross income soar beyond inflation by \$2.3 million on average, a *quadrupling* of their already-high incomes over a period when the typical Oregon household was seeing few income gains.

The income collected by the 1500 households in the top one-tenth of one percent of households is substantial. In 2005 alone, this elite group of about 1,500 households raked in adjusted gross income totaling nearly \$4.6 billion. That's more income than was reported as a group by the 530,000 households in the lowest-income 35 percent of the income spectrum.

Corporate profits have also soared

It is not only wealthy individuals in Oregon who have done especially well during the current economic expansion. Corporations operating here have enjoyed record profits, even as income and wages for ordinary Oregonians have stagnated. This is not surprising; production is up and wages — one of the largest expenses — are down for many workers.

After 2001, corporate profits skyrocketed. In 2006, corporations realized nearly \$13 billion in profits in Oregon, more than double their annual profits during the late 1990s high tech boom.



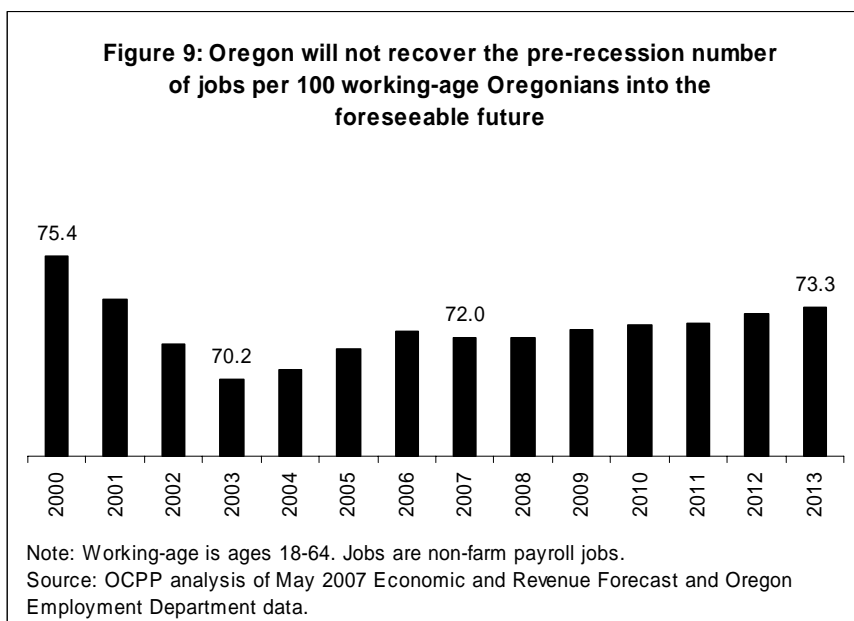
During the high tech boom years of the late 1990s, corporations made between about \$5 billion and \$6 billion annually in profits in Oregon.¹⁹ When the recession hit in 2001, profits declined somewhat to about \$4.9 billion. Then, after 2001, corporate profits skyrocketed. In 2006, corporations realized nearly \$13 billion in profits in Oregon, more than double their annual profits during the late 1990s high tech boom (Figure 8). The corporate profit take in 2006 was the highest on record.

Why has this happened? Less bargaining power for workers

Why is it that so many Oregonians have not enjoyed much of the prosperity of the last few years, while corporations and the wealthiest of Oregon's wealthy have done so well? Economists have blamed rising inequality over the last generation on a combination of factors, including technological changes that have increased the relative value of highly skilled workers and increased the capacity of companies to shift production to other countries with lower labor costs.²⁰ These factors likely have had an impact on inequality in Oregon and account for some of the continued rise in inequality during the current expansion. Two other important factors have also weakened the bargaining position of Oregon workers during the expansion — a relatively slack job market and the small and declining share of workers now represented by unions.

A relatively slack job market leaves working-age Oregonians behind

Job growth during the expansion has not been strong enough to absorb the increasing number of working-age Oregonians. As a result, although Oregon has generally been adding jobs for four years, the state's labor market is not nearly as tight as it was before the downturn struck. There are now 72.0 jobs available in Oregon for every 100 working-age Oregonians, down from 75.4 jobs per 100 working-age Oregonians before the downturn (Figure 9). The current, relatively slack labor market hurts workers, since slack demand for labor weakens workers' ability to bargain for higher pay and better benefits.



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Unfortunately, the labor market does not appear poised to return to the tight conditions that existed at the end of the last economic growth cycle. Based on projections from Oregon's state economist, even by 2013 Oregon employers will offer just 73.3 jobs per 100 working-age Oregonians, still two jobs less than during the tighter labor market of 2000 (Figure 9).

Unions reach fewer workers, which hurts all Oregonians

Because unions represent fewer workers today than in the past, the power of labor to demand more of the benefits of economic growth has further eroded. In the last few years, the share of Oregon workers covered by a union contract has continued to decline,

following the trend of the last generation. In 2002, before the expansion began, about 16.4 percent of Oregon workers were covered by a union contract. By 2006, the share had declined to 14.7 percent.²¹

Historically, unions have helped workers improve their wages, benefits, and working conditions. Union jobs pay relatively well and offer good benefits as a result of the power of collective bargaining. In a review of national-level research on union benefits, analysts at the Economic Policy Institute found that unionized workers earn around 20 percent more in wages than comparable non-union workers. When both wages and benefits are considered, the difference is about 28 percent.²²

In Oregon last year, the typical union worker earned more than \$18.53 an hour, while the typical non-union worker earned \$13.93 (Figure 10).²³

As important as wage gains are, unions have had an even greater impact on benefits. Unions have helped set the standard for a good job as one that offers a strong benefits package as well as a living wage. Nationally, unionized workers are more likely than non-unionized workers to have paid leave, employer-provided health insurance, and pension plans. Even after accounting for differences in occupation, industry, establishment size, and other factors, unionized workers pay 18 percent lower health care deductibles and a smaller share of costs for family health insurance coverage than non-unionized workers, and union members are 24 percent more likely to be covered by employer-paid health insurance in retirement. In addition, union workers are 54 percent more likely to have pension coverage.²⁴

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Because union achievements spill over into the larger economy, declines in union membership tend to weaken the position of all workers. Unions set the standard for wage and benefit packages. Moreover, unions have the effect of reducing overall income inequality because they have the greatest impact on wages among low- and middle-wage workers, blue-collar workers, and workers without a college degree. Finally, in addition to earning rights for unionized workers, unions have played a significant role in securing and enforcing rights for all workers to worker safety, overtime benefits, and family and medical leave.²⁵

Conclusion

Oregon workers are producing goods and services more efficiently than they were just four years ago, when the current economic expansion started. Their efforts have helped bring billions of dollars in additional personal income into Oregon and have helped fuel a record run-up in corporate profits. Yet most workers have not benefited much from the expansion. Wage and income gains have been concentrated at the top of the top of the income spectrum. The economy has been good for the rich and for corporations, at the expense of the rest of Oregonians.

It is clear this Labor Day that Oregon unfortunately continues to produce an economic expansion whose benefits are not enjoyed by most state residents. Thoughtful public policies can protect the state from the negative consequences of an economy that works for the few at the expense of the many.

The 2007 legislature took some important steps to invest more in protecting and promoting opportunities for all Oregonians. Legislators referred a measure to voters that would provide health coverage to all children, increased funding for Head Start pre-kindergarten education for poor children, expanded college financial assistance, regulated loan sharking, and gave workers the right to form a union if a majority of workers sign union cards or petitions. These efforts were a good start, but more aggressive policies are necessary to maintain an economy that works for us all.

Specifically, Oregon should:

- Raise income taxes on high-income families to pay for public structures that improve opportunities for low- and middle-income Oregonians.
- Require corporations to pay their fair share of income taxes, and spend the new revenue on public structures that help low- and middle-income Oregonians get ahead.
- Protect and improve opportunities for Oregon workers to join unions through measures such as the federal Employee Free Choice Act.²⁶

It is time to put an end to Oregon's "economy for the few" and build an economy that creates opportunity for all.

Endnotes:

¹ Schmitt, John, "Three Important Distributions and the Politics That Shape Them," Center for Economic and Policy Research, PowerPoint presentation, September 29, 2005.

² OCPP analysis of state Gross Domestic Product data from the Economic Policy Institute and population data from the U.S. Census Bureau.

³ Ibid.

⁴ OCPP analysis of data on state Gross Domestic Product (GDP) from Economic Policy Institute. Since Oregon GDP growth last year was slightly stronger than GDP growth nationally, it is likely that Oregon's rank in 2006 did not change much and may have improved slightly.

⁵ OCPP analysis of data from the Bureau of Economic Analysis.

⁶ OCPP presentation of data from the Economic Policy Institute, based on data in the Current Population Survey.

⁷ OCPP analysis of data from the U.S. Census Bureau, Current Population Survey.

⁸ Ibid.

⁹ OCPP analysis of data from the Bureau of Labor Statistics. Through the first six months of 2007, Oregon is on pace to lay off about 32,500 workers this year. In 2001, about 55,000 workers were laid off.

¹⁰ U.S. Census Bureau Foreign Trade Statistics available at <http://www.census.gov/foreign-trade/statistics/state/zip/index.html>.

¹¹ More specifically, June 2007 help-wanted ads in the *Oregonian* totaled 14,979, compared to 23,199 a year earlier. Some of the decline may be due to the *Oregonian* losing market share for help-wanted ads to online competitors.

¹² Office of Economic Analysis, *Index of Leading Indicators, July 2007*, released August 27, 2007. Available at <http://www.oregon.gov/DAS/OEA/docs/oili/oili0707.pdf>.

¹³ In a press release issued August 17, 2007, the Fed wrote that “. . . although recent data suggest that the economy has continued to expand at a moderate pace, the Federal Open Market Committee judges that the downside risks to growth have increased appreciably.”

¹⁴ On July 1, 2003, as job growth first started returning to Oregon's economy, the Dow Jones Industrial Average stood at just over 9,000. By the beginning of this year, the Dow had reached nearly 12,500, a jump of over a third in value. The Dow briefly reached 14,000 earlier this summer before falling off again and stands at a little under 13,200 as of early August.

¹⁵ OCPP analysis of full-year return income tax data from the Oregon Department of Revenue.

¹⁶ Generally, married couples may exclude from taxation the first \$500,000 in capital gains from the sale of their main home. Gains on second homes are taxable. For details, see IRS Publication 523 at <http://www.irs.gov/publications/p523/ar02.html#d0e355>.

¹⁷ OCPP analysis of income tax data from the Oregon Department of Revenue.

¹⁸ Ibid.

¹⁹ Includes the profits of C-corporations only, not the profits of S-corporations, which pass through their profits to shareholders. To estimate C-corporation profits in Oregon, OCPP started with the same method that is used by the state economist's office to estimate corporate profits as part of the quarterly economic and revenue forecasts. Specifically, OCPP started with annual estimates of total U.S. corporate profits produced by the Bureau of Economic Analysis, then used the ratio of Oregon personal income to U.S. personal income in each year to estimate the share of U.S. corporate profits that were made in Oregon. OCPP then estimated the share of all corporate profits that were made by C-corporations. To do this, OCPP used national data from the Internal Revenue Service's Statistics of Income on the annual share of all corporate net income that was reported by C-corporations. This method produces a rough estimate of C-corporate profits in Oregon in the absence of the data necessary to determine corporate profits precisely. For more details on corporate profits in Oregon, see Leachman, Michael, *Doing Well for Themselves, Not Oregonians*, Oregon Center for Public Policy, June 5, 2007. Available at <http://www.ocpp.org/2007/Issue070605CorpProfits.pdf>.

²⁰ For a good summary, see *Economic Inequality in the United States*, FRBSF Economic Letter, Number 2006-33-34, December 1, 2006. Available at <http://www.frbsf.org/publications/economics/letter/2006/el2006-33-34.pdf>.

²¹ Economic Policy Institute analysis of data from the Current Population Survey.

²² Michel, Lawrence, and Matthew Walters, "How Unions Help all Workers," Economic Policy Institute, Briefing Paper #143, August 2003. Available at: http://www.epinet.org/content.cfm/briefingpapers_bp143. Figures are for compensation during the 1990s.

²³ Economic Policy Institute analysis of data from the Current Population Survey.

²⁴ Economic Policy Institute analysis of data from the Current Population Survey.

²⁵ Ibid.

²⁶ The Act (H.R. 800, S. 1041) allows workers to form a union if a majority of employees in a workplace sign up for one and provides meaningful penalties for violation of workers' right to form a union. Current provisions allow employers the right to decide whether to recognize a union once a majority of employees sign union cards or to demand an election by secret ballot. Employers frequently do insist on a vote, and many use aggressive tactics to pressure workers to vote against unionizing during the period leading up to the election. The legislation passed the U.S. House in 2007 but failed in the Senate. During Oregon's 2007 legislative session, the state House of Representatives introduced a joint memorial (HJM 7) urging Congress to pass the act. It was referred to committee.

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