

POSTGRADUATE SEMINAR SERIES

Research Findings Seminar

Topic Title : **Public Sector Union and Government Financing**

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Abstract : Unions play a significant role in the U.S. public sector. Most studies focus on unions in the private sector, but their role in the public sector is much more significant. According to the latest Current Population Survey (CPS) by the U.S. Census Bureau, more than one third of public sector employees are union members, whereas private sector union membership is around 6%. In this paper, we examine the impact of public sector unions on the financing costs of government because the cost of financing is one of the major concerns of governments.

We employ an exogenous shock induced by the Supreme Court's Janus ruling to investigate how public sector unions affect government financing costs. Janus ruling diminished the power of public sector unions by restricting compulsory union membership or payment of union fees in the public sector. Through a series of validity tests, we find that these restrictions decrease the public sector unionization rate, public sector employment, and government expenditures, supporting our identification strategy. To proxy for changes in government debt financing costs, we use secondary municipal bond yields to measure government financing costs, as these trading activities immediately reflect changes in municipal bond yields.

We first conduct an event study to compute the cumulative abnormal bond returns and split the sample by unionization rate. We find that the group with high unionization rate achieve higher cumulative abnormal return and lower yields after the Janus ruling compared to the group with low unionization rate. We then conduct our baseline regression using difference-in-differences design and find that the decrease in public sector union power following the Janus ruling reduces the cost of government financing, as indicated by lower municipal bond yields. The effect is more pronounced in states with high unionization rates or high heavy pension liabilities, suggesting that stronger unions are more likely to increase governments' credit risks. We confirm the robustness of our results using a matching-based design and a staggered law initiation. We also confirm the robustness of our research design by using a placebo test in the corporate sector, as the Janus ruling exclusively affects public sector unions.

Date : **22 March 2022, Tuesday**

Time : **10:00 am – 11:00 am**

Venue : **Zoom Meeting** 

Meeting ID: 971 8459 7528 (Passcode: 27606037)

Language : **English**



*** All are Welcome ***