

FINANCIAL RESILIENCE IN LABOR NEGOTIATIONS

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Firms prefer safer capital structures when negotiating with unions to build resilience against strikes (labor hold-up).

- Questions the strategic use of debt paradigm → Riskier capital structures.

Three empirical strategies:

A. Union contract data: Comparing negotiation years vs. not

- Negative and significant effect on leverage
- Longer debt maturities

B. Close-call union elections: RDD design

- No significant effect on leverage
- Longer debt maturities

C. Right-to-work laws: Reduce union power

- No significant effect on leverage
- Shorter debt maturities
- Same laws as in Matsa (2010), albeit look at a later period

Model relies heavily on the assumption that workers have a higher discount rate than shareholders (as they are less diversified).

- This assumption is reasonable, assuming there is no agency.

In practice, CEOs will negotiate with unions and the shareholder-manager relationship is characterized by agency costs.

- It is unclear how the CEO discount rate ranks relatively to workers' discount rate.

Theoretically, the relationship between leverage and unionization depends on the model assumptions → **Ultimately, an empirical question.**

A. Right-to-Work Laws

STRATEGIC USE OF DEBT: MATSA (2010)

Based on my own analysis:

→ Leverage decreases when unions lose power (after RTW law passage).

	1950-1960			
	All industries	High-union industries	Low-union industries	
	(1)	(2)	(3)	(4)
	Book Leverage			
RTW	-0.0237 (0.0190)	-0.0755*** (0.0171)	-0.0691*** (0.0234)	0.00370 (0.0328)
Constant	0.170*** (0.00403)	0.173*** (0.00349)	0.171*** (0.00480)	0.171*** (0.00679)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes		
Industry x Year FE			Yes	Yes
Observations	6,041	3,419	3,406	2,560
R-squared	0.813	0.768	0.802	0.874

✓ No significant relationship between leverage and RTW laws in the 1998-2018 period (Table 7).

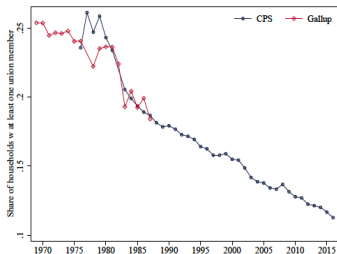
	Book leverage		Market leverage	
RWL	-0.013 (0.010)	-0.008 (0.010)	-0.014 (0.010)	-0.013 (0.010)
Firm controls	No	Yes	No	Yes
Industry-by-year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Adj. R2	0.6038	0.6390	0.6653	0.6880
Obs.	97,000	79,907	86,351	79,795

1. UNIONS HAVE WEAKENED POST-1980S

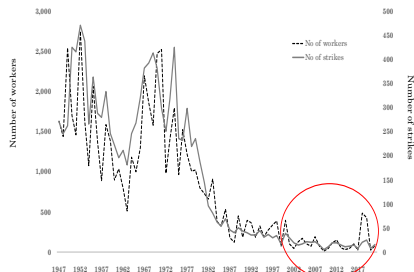
Unionization rate has dropped substantially and is mostly concentrated in the public sector.

- 10% in the private sector vs. 42% in the public sector in year 2000 (BLS, 2000).

Strike activity collapses post-1980.



Data sources: Gallup and Current Population Survey

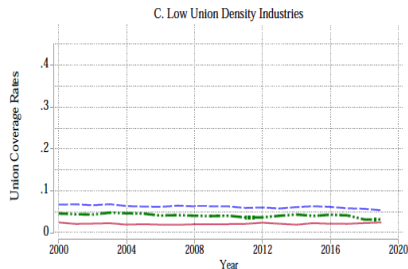
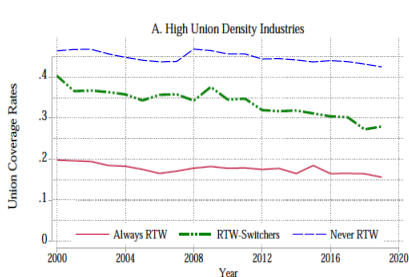


Source: BLS

AMBIGUOUS EFFECTS OF RTW ON UNIONS RECENTLY

Unlike the older literature showing that RTW laws impact unionization, recent studies fail to identify significant effects (e.g., Farber et al., 2021).

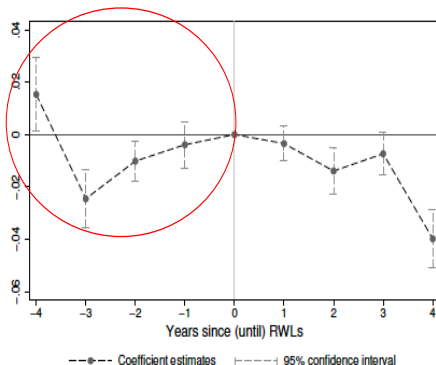
Fortin et al. (2022) show the importance of heterogeneity: RTW has no impact on low union density industries.



✓ Focus on high unionization industries pre-treatment.

2. ENDOGENEITY

(b) Parallel trends for book leverage



RTW laws between **1998-2018**: Evidence of pre-trends.

→ Political economy?

→ Confounding effects (other legislation, local economic conditions)?

THREE WAVES OF RTW ADOPTION

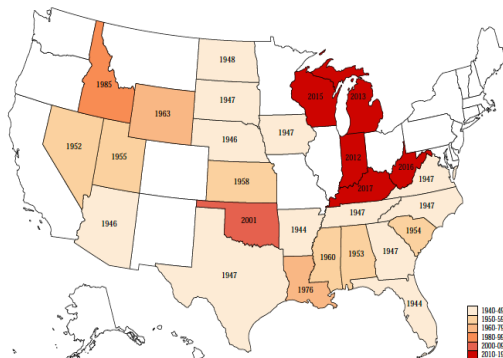


Figure 1: The Expansion of Right-to-Work Coverage

Source: Fortin, Lemieux, and Lloyd, 2022

1. 1940-1949: No data
2. 1950-1960: Matsa (2010)
3. 2010-2019: Fortin et al. (2022)

This paper's sample 1998-2019: Analysis potentially weakened by confounding effects by including 2001? → Focus on RTW passage since 2011 as in Fortin et al., (2022).

- ✓ Fortin et al., (2022) investigate in detail the political events driving the latest wave of RTW adoption:
 - Republican governments pushed for such legislation, although were not always successful.
- ✓ Fortin et al., (2022) show no pre-trends on unionization and wages for this last wave of RTW laws.

B. Union Elections

Clean empirical approach:

- Close call union elections: unions barely win vs. barely lost.

BUT:

1. Dinardo and Lee (2004) find no effect of newly elected unions on establishment wages.

- Similarly, they find small effects on business survival, employment, output, and productivity.
- Suggests that newly elected unions are not powerful (in contrast to the literature that focuses on current “stock” of unionization).

2. Union elections impact a small fraction of employees at the firm level.

- There are, on average, 222 eligible voters (Table IA2).
- Can the author split the results by union election/establishment size and firm size?

C. Union Contract Data

Collective Bargaining Mediation

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Collective Bargaining Mediation

Mediation is a tool through which the federal government supports sound and stable labor management relations. As neutrals, FMCS mediators provide a third-party perspective and leverage the expertise of the skilled negotiators at the table to address the core interests of the negotiating parties. For frequently asked questions, click [here](#).

Required Notices from Parties to FMCS

The laws and regulations on the duty to notify FMCS and state mediation agencies of disputes can be a bit complicated. Below is a broad outline, but you should get advice on notice requirements from your own counsel or from the National Labor Relations Board (<https://www.nlr.gov>). The summary below is for general information only.

- No modification or termination of a collective bargaining agreement is permitted unless the party wishing to modify or terminate notifies the other party at least **60** days prior to expiration and, within **30** days after notice to the other party, notifies FMCS and applicable state mediation agencies. For **healthcare institutions**, the notice times are extended to **90** and **60** days respectively.
- FMCS regulations require that the notices be in writing. FMCS provides a form (F-7) for the required notification. As shown in the video here, filing the form online is the fastest and easiest way to do it and provides you with a confirmation number for future reference. For online filing, go to <https://www.fmcs.gov/f-7-notice-submission-form/>

Learn How to File Your
F-7 Notice Fast and
Easy Online



Labor contract agreements are collected by the Federal Mediation and Conciliation Center (FMCS) if contacted by one of the negotiating parties in preparation for a dispute, and specifically, if one of the parties wants to modify or terminate a contract.

- The authors observe **only** a selected sample of firms
- Even for those firms, the authors observe **only a selected number of contracts**.

They find that firms have lower debt in negotiation years.

But this could be consistent with the strategic use of debt explanation:

- Labor is more likely to initiate a conflict when firms have lower leverage.

- Very interesting paper.
- Important to reconcile the **empirical** results with the earlier literature on the strategic use of debt.
- I look forward to reading the next version!