

# Capital and the Current Economic Crisis

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*The Heartland Labor Capital Network is a project started in 1995 by the Steel Valley Authority and the United Steelworkers of America. SVA is an economic development authority in a twenty county area of Western Pennsylvania, including Pittsburgh and 11 nearby distressed mill towns that suffered from the shutdowns in the steel and electrical industries in the 1980's and 1990's. The SVA has helped to save 9,000 jobs through high-road workplace strategies.*

The world has been suffering a global recession with its roots in speculative over-investment. The recovery for the U.S. could be slow. We warned in our book, *Working Capital: The Power of Labor's Pensions*, about the "collateral damage" to workers and communities from short-sighted speculative investments. Now, our economy is paying the price. The "collateral damage" investing that we argued against led to a downsizing and plant closing epidemic for U.S. and Canadian workers, and was a major factor in the accumulated \$10 trillion in investment losses in the world economy prior to 9/11.

The most visible example is the white-collar destruction of the Enron Corporation. I call it the *End-Run Corporation*, a story of demented de-regulation, politicians on retainer, concocted offshore shell corporations, duped investors, exploiting an energy crisis and taking obscene short-term profits, CEOs bailing out with all the loot, cooking the books, and screwing workers.

Investigations have begun to find innumerable *end-runs* around acceptable corporate governance, fiduciary responsibility and corporate accountability.

Behind the downturn has been corporate and capital markets restructuring that has ushered in a short-term investment mentality, a boom in mergers and downsizing, overseas capital flight to sweatshops, trade deficits, capital gaps for small businesses, and the destruction of union workplaces. In the U.S., gigantic Wall Street pension management firms are paid \$200+ billion per year to pave this "low road." These trends have contributed greatly to a decades-long plague of low and stagnant wages and family incomes, rising inequality and growing poverty.

In this new century, as capital markets have tightened their dominance of public policy and millions of workers have been

devastated by global recession, "labor's capital" has a potential role in bringing more democracy to both the public and private sector, helping re-build our economy, and becoming a powerful force for worker- and community-friendly re-investment in older industrial communities and core metro cities.

Workers are fighting to retake control of their capital. Workers in the U.S. and Canada are moving toward a "high road," worker-centered economy. Pension funds can prudently make substantial investments in high-quality, job-creating companies in economically-targeted regions. Advocates have been waging and winning shareholder campaigns to force corporations to become more worker-friendly, to stop the destruction of the environment, and to respect human rights, and they are doing it with community allies.

Taft-Hartley multi-employer pension plans, with \$400 billion in assets, and public pension plans, whose total assets reach \$2 trillion, all have labor or elected

leaders on the trust boards. In the U.S., ERISA permits economically-targeted investments, or ETIs, which let pension trusts target "collateral benefit" investments, as long as the returns are comparable in similar investment classes. For instance, a construction union trust fund can invest in a housing project, and require that the workforce be unionized.

## The Heartland Network

In 1995, we were working with the Steelworkers to raise money from the state's pension funds to invest in a steel facility that we felt would be viable. We argued that "workers' capital" should be invested in local businesses that pay living wages and treat workers and the community fairly, not short-term investments that hurt them.

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## Our Pension Money and Our Jobs

We organized a Working Group, our goal to increase the control of working people over their pension funds. We looked to our friends in Canada who had Labor-Sponsored Investment Funds (LSIF's) as a relevant model for our efforts. From this Heartland Labor Capital Network, we organized committees to research labor capital issues and hosted two national conferences. We pulled together a regional network of groups that had been fighting to save jobs, create worker ownership, and revitalize communities, and linked them to the Canadian LSIFs.

Our union partners, including the Steelworkers Pension Trust, and other Taft-Hartley and public pension funds, are seed-financing three or four new "Heartland" funds. These funds, with \$800 million in assets now, and another \$2-3 billion coming online, will invest in worker-friendly industries. Some will focus on growth, others on corporate restructuring. Regional funds are also under development.

Heartland has been involved in mobilizing Taft-Hartley pension funds to invest in small, private businesses for the first time, hopefully someday to replicate the Canadian LSIF model. And the California Public Employees Retirement Fund (CALPERS) passed in 2000 new "emerging markets" rules requiring labor standards for foreign investments, a policy also adopted by New York and other public funds.

### New directions for the Labor Capital movement

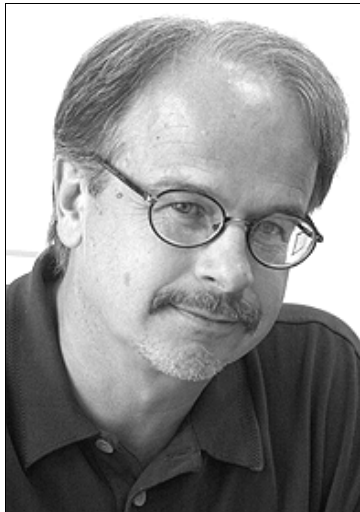
The mission of the labor capital movement is to promote an alternative vision of the economy, one that is more humane and sustainable. The movement in North America focuses on the democratization of capital, capital accountability, responsible investment and regional community investment. We hope to launch a permanent bi-national network to explore the next steps in the development of workers' capital.

These include development of regional trustee forums, a measure pushed by the AFL-CIO's Center for Working Capital as well as a new trustee education program developed by the Center and the National Labor College. It will focus on shareholder initiatives and responsible investment.

Trustee forums have met in California, New York and Boston to begin organizing capital strategies around the needs of working people and their communities. In New York this led to initiatives to create affordable housing for working people utilizing labor's housing investment trusts, and to take the lead in developing a long-term economic recovery plan.

Progress is being made:

- In Pittsburgh, we are developing a trustee education program co-sponsored by the Steelworkers, the Center for Working Capital, the National Labor College, and labor federations in the surrounding states, in cooperation with other labor-management groups and public sector pension trustees.
- In Pittsburgh, we have raised money for our local Pittsburgh



Heartland Fund, that will make loans to small worker-friendly manufacturers. Structured as a for-profit corporation, the fund board includes representation from the Steelworkers and Mineworkers. Investors include Ameriserv Bank, a union-affiliated bank.

- In Ohio, the OEOC is bringing together interested activists to promote the development of a regional labor capital fund that will partly focus on employee ownership.
- In Hawaii, there is a campaign to create a socially-responsible mandate for the state's pension funds and native trusts.
- CALPERS has pledged to invest 2% of its assets in poor and under-served areas in California. CALPERS is also starting a national worker-friendly merchant bank that might eventually have some \$2 billion.

And where might the future of collective labor capital strategies lead?

- We should promote sustainable, economically-targeted investment strategies. We should develop education strategies for workers, trustees and economic democracy activists, including "high road" investment, regional economic development, "social audits" for labor capital funds to screen investments, and participatory governance models for investee firms.
- We should support coalitions to make capital more accountable, through promoting progressive trusteeship of pension funds, monitoring pension funds for negative "collateral damage" investments, and pushing for emerging market investment policies with labor standards.
- We should build a regional workers' capital network, linking developing labor capital funds in the U.S. to the LSIFs in Canada. Through expansion of labor's capital regional investment capacity, we should direct and anchor investments in worker-friendly, sustainable industries, supporting development of democratic, high-road workplaces.

Besides nearly \$3 billion in worker-friendly pension-financed investment funds in the U.S. and \$5 billion (Canadian) in Canada, there are tremendous religious and social assets that could also be mobilized. These new strategies—built around the sources of workers' capital and connected to progressive labor and community regional alliances—can have a long-lasting positive impact on society, benefiting pensioners, and contributing to the betterment of working families and communities.

For more information, see the Heartland Network web site at [www.heartlandnetwork.org](http://www.heartlandnetwork.org).

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