

Collaboration Between Labor, Academics and Community Activists to Advance Labor/ Capital Strategies: The Origins of Heartland Network

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Introduction

Pension fund capital now underpins all the major financial markets in the world (Davis 2001, Monks 2001, Clark 2000). Last valued globally at \$10 trillion dollars (Anand 2000), this capital represents the deferred wages of today's workers. Despite this fact, pension fund capital is seldom employed in the long-term interests of workers themselves (Fung 2001). That reality was the driving force behind a coalition of trade unionists, academics, political representatives, community activists, and charitable foundations drawn from both the US and Canada, dedicated to advancing a capital strategy for labour. The Heartland Labor/Capital Project, now known as the Heartland Network, is a model of capacity building within both trade union and academic spheres. It helped forge a capital agenda for labour and its story is worth examining.

In the fall of 1995, United Steelworkers of America Secretary-Treasurer Leo Gerard and the Steel Valley Authority Director Tom Croft called together an informal group of representatives from trade unions, industrial retention organizations, academia, think tanks, and investment firms to examine the dynamics behind continuing job losses in key American industries. Gerard found others equally concerned that the current operation of financial markets undermined the very workers' whose savings they deploy. While corporate profits soared in the 1990s most working families saw their real wages fall. Despite the economic expansion of the mid-1990s, mass layoffs and downsizing had become permanent features of the economic landscape, eroding union jobs and destabilizing the economy. In addition a growing capital gap, caused partly by financial industry restructuring, was hobbling investment in the small and medium-sized firms that employed significant numbers of industrial union members (Heartland 1996). Given the

billions of dollars flowing from pension funds into risky ventures in emerging markets, Leo Gerard wanted to understand why it was so difficult to identify financing for investment in a solid U.S. company, generating a good rate of return.

Leo Gerard, long a powerful force in the Canadian trade union movement, had newly arrived in Pittsburgh in 1995 taking on his new role as Secretary Treasurer of the United Steelworkers of America. His involvement with the Canadian branch of the Steelworkers in key capital projects such as the restructuring and employee ownership buyout of Algoma Steel in 1993 and the creation of the Labour Sponsored Investment Fund, First Ontario, convinced him of the importance of a capital strategy for labour on both sides of the border. Gerard called a meeting in Pittsburgh with other key individuals he felt shared his same concern.

The group Gerard brought together called itself the ‘grievance committee’ and the grievance was simple: financial markets were destroying jobs through the mis-investment of workers’ own pension funds, and it had to stop. The construct of the ‘grievance committee’ allowed each participant to leave their official capacity at the door, and represent only themselves while participating in this initiative. It proved to be a useful structure and one that helped speed the advancement of the capital strategies agenda. The Heartland Project began to promote an aggressive agenda to push capital strategies both inside and outside the labor movement. The idea was to raise awareness with labor’s pension fund trustees that there were investment options beyond those currently being offered (Ghilarducci 1992, Fung 2001) and to put money managers on alert that the trade union movement was looking more closely at the manner in which they handled its retirement savings.

During the fall of 1995 the AFL-CIO was itself undergoing a major change in direction. John Sweeney from the Service Employees Union and Richard Trumka from the United MineWorkers challenged the ‘official’ slate and won the Presidency and Secretary-Treasurer of the AFL-CIO. Among several key items in their “New Voice” leadership, they identified capital strategies as an area of future growth for the trade

union movement. With support and engagement from both the United Steelworkers of America and the AFL-CIO, the Heartland Project gained significant momentum and political weight from which to draw together a larger coalition of interests.

In addition to senior labor leaders and academics, the Heartland Project pulled together a network of progressive regional economic democracy groups that had been fighting to save jobs, create worker ownership, and revitalize industrial communities. It organized a number of working committees to research labor capital issues, and prepared for its first national conference held in Pittsburgh in 1996. The Heartland group wanted to replicate the success and experience of the Labour-Sponsored Investment Funds (LSIFs) in Canada (Falconer 1995), arguably North America's most progressive investment and development program. To facilitate this cross-border adaptation of the best of labor's capital strategies, the Heartland Project asked several leaders of the Canadian LSIFs to join its Working Group.

In less than a year the Heartland Working Group grew from a small gathering of committed individuals to a large, successful national conference. Academic and union researchers participating in the Heartland Working Group agreed to write short papers to help shape discussion and debate at the conference (Heartland 1996), and in June of 1996 the first Heartland Conference was held in Pittsburgh. It proved to be a significant milestone in building a broad coalition to advance labor's capital strategy agenda. In addition to Gerard's leadership and participation, AFL-CIO Secretary-Treasurer Rich Trumka, delivered the keynote address signaling the political weight the AFL-CIO was prepared to put into the Heartland initiative.

Gerard and Trumka, having both been raised in coal-mining, labor communities, found great common ground in the issues, and together they began to fashion a more aggressive and long-range strategy for organized labor. With deep roots in Western Pennsylvania's UMW local unions, Trumka's ascendancy in the labor federation's leadership was in no small part due to the industrial union coalition (including USWA) who backed him. Trumka set the stage for the emergence of a new international labor-capital movement with a riveting call-to-arms, during his Heartland Forum Keynote

address. “There is no more important challenge for the labor movement today than to stop the use of our own money from cutting our own throats”.

As a result of this successful conference the Heartland Working Group continued to meet and plan its next strategic move to advance a capital strategy for labour. While part of the success of the initial project had been its informal ‘ad hoc’ nature allowing flexibility and quick movement, the project had now reached a point where it either secured formal outside funding and a corresponding formal structure or disbanded handing the initiative over to the newly conceived AFL CIO Center for Working Capital. While the Center for Working Capital offered the best long-term base for this initiative, the Center was still in early development and the Working Group had concerns that the momentum behind Heartland could be lost if not acted on immediately. As a result the Heartland project sought and secured significant financial support from the Ford and Rockefeller and Mott Foundations, as well as McKay and Veatch Unitarian Funds. With external financial support the Heartland Working Group continued to be a major pressure point in forging a capital strategy for labor.

By early 1997, the Heartland Working Group organized itself into three task forces to manage a number of initiatives, leading to a second successful national Heartland Labor Capital Conference held in 1999. The first group was the Research Task Force bringing together leading economists, pension and investment experts, labor and pension lawyers, and other academics. The second was the Regional Network Task Force focusing on the creation of a network of regional funds for investment in small and medium sized firms cross America. The third task force took on Communication, with the realization that in order to advance this agenda expert communication tools would be required. Each task force played an integral part in preparing the work for the subsequent national conference held in 1999 and is examined in greater detail later in the chapter.

Following the second Heartland Conference in 1999, the Heartland Project transformed itself into the Heartland Network. Today, the union partners of the Heartland Network are seed financing, through their pension trusts, a number of new “Heartland” funds in the U.S. The first, with five Taft-Hartley pension investors committed to a goal of \$75 million, will invest in worker-friendly industries, a critical need in the current economic restructuring period. Overall, some \$3 billion new dollars have been invested by Taft-Hartley pension funds in more worker-friendly investment funds (Calabrese 2001). Innovative regional funds are under development in several cities. All this has garnered considerable national media attention and stories.

The underlying policy impacts of the Heartland Network and the Heartland Project before it, have been far-reaching. Heartland has been directly responsible for helping to mobilize labor Taft-Hartley pension funds to invest in small, private businesses for the first time. The advisors to Taft-Hartley funds have become more vocal in advocating a 5% investment goal for pension portfolios (from under 1%), a timely development given the need to diversify investment strategies since the large falloff in the stock market.

Consistent with Leo Gerard’s long-held position against the mis-investment of workers’ savings in speculative, overseas sweatshops, the California Public Employees Retirement Fund (CalPERS) passed in 2000 new “emerging markets” rules requiring labor standards. The New York City pension system (NYCERS) and other public pension funds adopted this policy. And, the largest public pension funds, led by CalPERS, are making major new commitments to worker-friendly private capital and ETI initiatives. While state pension funds have been more active in investing in venture capital, these programs have historically been more focused on technology start-ups.

Public pension funds (with \$2 trillion in assets), and Taft Hartley funds (with \$370 billion in assets) represent over one third of all pension assets in the U.S., which total over \$7 trillion (Zanglein 2001). Pension funds are a large part of the institutional holdings that own 45% of all corporate stock in America (Davis 2001); similar and larger

percentages dominate in other countries. Well-known writers from Peter Drucker in *The Unseen Revolution* to Randy Barber and Jeremy Rifkin in *The North Shall Rise Again*, along with labor-friendly scholars and analysts, have, for two and a half decades, predicted the eventual power of pension funds (Ghilarducci 1992, Clark 2000, Hawley 2000, Davis 2001, Monks 2001), or sought to persuade labor to realize the potential for worker-owners to dramatically influence the behavior of capital markets.

This shift in the labor community to become stronger stewards of its retirement assets has come at a critical time, within the gravitational pull of the progressive new role of the labor movement in the U.S. There have been major conflicts around unfettered globalism, the growing power of multinational corporations, and resultant crises in the economy and with trade problems (Strange, Sassen, Sen). The economy has become unstable as the new century begins. At this writing, a global recession and the likelihood of a long, slow recovery threaten the livelihoods of millions of working families around the globe. The worker-owners of the world's pension funds, and their allies, have an unprecedented potential role to play in the economic recovery and stabilization of the world's economy, thereby promoting the profile of labor and the democratization of capital on a scale here-to-for unimaginable.

To the extent that the Heartland Network played a role in the evolution of Labor's new activism around this sizable capital source, a chronology and analysis of that effort is worthwhile at this time. This chapter will focus on the collaboration that occurred between organized labor, regional economic democracy groups, and progressive academia in order to move this agenda forward. As Leo Gerard, now President of the Steelworkers said in his foreword to the book *Working Capital: The Power of Labor's Pensions*, (Fung 2001) "Power never shifts without a struggle." Through the collaborative work of the Heartland Project we hoped to equip those who confront the orthodoxy of financial markets and helped define an important agenda for labor.

Building the Case

Labor's capital is an enormous asset for the nation, and potentially a powerful force for improving our economic performance and the distribution of opportunity and reward. But labor has historically lacked a capital strategy. The original Heartland Working Group participants felt that mobilizing capital owned by workers toward responsible investment offered a new way for labor to improve the situation of workers.

Unions and community groups had developed innovative economic development, industrial retention and alternative ownership initiatives in the 1980s and 1990s to counter the onslaught of plant closures, corporate restructuring and downsizing. But, over time, even the most sophisticated efforts have been overmatched by the relentless pressures of global trade and economic dislocation. Time and again, firms with decent markets, efficient factories, successful managers, productive workers and respectable earnings, fell prey to downsizing and disinvestment. In many situations, the critical factor was lack of capital.

The United Steelworkers of America has long been concerned with capital market issues and alternative ownership strategies, including ESOPs (employee stock ownership plans) (Quarter 1995), and progressive corporate governance programs. It assisted several thousand members in the buyouts of dozens of industrial companies and plants, and won union board seats on the boards of directors of the largest steel companies. The USWA's strategies for addressing corporate restructuring, starting in the 1980s, became a model for other unions in North America.

The Steel Valley Authority (SVA), a unique labor-affiliated regional development organization in Western Pennsylvania, was chartered as a governmental body in the mid-1980s, after campaigns by steel and electrical local unions fighting the de-industrialization of the Mon Valley. The SVA has utilized innovative strategies, such as its eminent domain powers¹, in an effort to save essential workplaces and jobs. Its

¹ Eminent domain powers are public powers, which allow a city to take over property. Traditionally used to build roads and other public goods, the SVA has used this

primary mission is to retain and revitalize the manufacturing jobs base of the Pittsburgh region.

Meanwhile, Trumka, through his Secretary-Treasurers' group, a pension committee composed of affiliate leaders; and the Department of Corporate Affairs, began to create the infrastructure in the AFL-CIO to engage affiliates directly around workers' capital issues. The Office of Worker Investment and the Center for Working Capital, respectively two AFL-CIO initiated programs, began to mobilize shareholder campaigns, and instituted a new trustee education certificate program with the National Labor College of the George Meany Center for Labor Studies. Other AFL-CIO projects included the web site www.paywatch.org designed to monitor excessive executive compensation practices. Linkages between the Heartland Working Group and the AFL-CIO were established through Leo Gerard's participation with Trumka's Secretary-Treasurers' group, complemented by participation in the Working Group by key influential staff of the AFL-CIO such as Ron Blackwell, Director of AFL-CIO Corporate Affairs, and Bill Patterson, Director of AFL-CIO Worker Investment, interaction with the Heartland Working Group.

Joined by a number of up-and-coming and relatively young leaders in their respective fields, the Heartland Working Group initiated a number of research papers at the beginning of 1996 that would ultimately be presented at a forum that spring. The Heartland group began to articulate the fact that the daily lives of Americans and their communities are powerfully influenced by Wall Street and international capital markets (Heartland 1996).

There was particular concern about the need to address the overall pattern of job growth in the US and Canada, with accumulating evidence that corporate restructuring had, increasingly, negative effects on long-term productivity and economic stability (approximating the state Keynes famously characterized as one in which "speculation dominates enterprise"). Corporate merger activity soared in 1996, with record job cuts mounting as one of the results, a trend documented in economist Dean Baker's research

provision to prevent the demolition of industrial facilities and equipment.

presented at the first Heartland Forum. Baker also linked the decline in manufacturing jobs to a growing wage gap, heightened inequality and a long-term rise in poverty in the U.S.

The infamous corporate raider images of the 1980s “greed decade” was replaced by one more ominous. “Corporate Killers” was one of the many magazine covers gracing Time, Newsweek, Business Week and the Economist, highlighting such “predator” capitalists as ‘Chainsaw’ Al Dunlap. These new corporate barons were not necessarily industrialists who had learned the ropes from decades of climbing the corporate ladder. Rather, they were often financiers and accountants who orchestrated transactions through relationships on Wall Street or Bay Street. At the same time, government’s traditional regulatory oversight responsibilities were eroded as neo-liberal ‘new economy’ policies passed bi-partisan legislatures at both federal and state levels.

These new capitalists attacked corporations externally through hostile mergers and takeovers, and internally through corporate downsizing and mass layoffs, as part of a trend toward the “low road” economy, highlighted by Regina Markey of the AFL-CIO Housing Investment Trust and Building Investment Trust (HIT-BIT). HIT-BIT was the most active of a number of construction financing funds established by the labor federation, and capitalized by pension funds. HIT-BIT had constructed tens of thousands of housing units, mostly utilizing union labor. In her research, Markey documented how “high performance” investment strategies were generally more productive and profitable when targeting firms where workers participated in ownership or strategic workplace decisions (Heartland 1996).

The irony for workers was that their own savings were a principle source of this disruptive restructuring. Among many examples, the Oregon Teachers Fund helped finance the record \$25 billion buyout of RJR Nabisco in 1989 — on most accounts a disastrously misguided transaction commercially, and one which resulted in thousands of layoffs. Part of the capital problem stemmed from changes in financial markets, as Tom Schlesinger of the Financial Markets Center and Regina Markey pointed out in the first

Heartland Forum. Schlesinger had been active in the Financial Democracy Campaign that intervened in the savings and loan collapse in the U.S. Their research documented a series of profound changes that transformed financial markets since the 1970s. These changes included:

- the decline of banks and other traditional intermediary institutions as lenders and repositories of savings;
- a concomitant rise in nonbank credit-granting institutions; and
- Explosive growth in capital market instruments derived from the packaging, unbundling and hedging of other financial products.

As banks consolidated and financial markets restructured, competitive small businesses and regional manufacturers have found themselves starved for credit, working capital and long-term equity investments. The tyranny of the bottom line for higher profits diminished the power of communities to influence economic decisions affecting them. Concurrently, major public policy changes (statutory, regulatory and tax law revisions, expansive credit guarantee programs, etc) also helped reshape the financial system. Increased concentration, short-termism, speculation, volatility and erratic monetary policy all tended to undermine the economic welfare of American workers (Jacobs 1992). These byproducts of financial restructuring drive up the cost of capital for productive purposes, thereby distorting the nation's investment climate and deterring the creation of good jobs.

Tessa Hebb, a principal at Hebb, Knight and Associates in Ottawa, former Research Director of the New Democratic Party (NDP), and long-time friend of Gerard, described in detail the series of events that led to the development of capital gaps for mid-sized firms in America. From the late 1980s, through the last recession, to the mid-1990, mid-sized firms in America experienced a severe credit crunch that restricted their ability to grow and expand. The origins of this credit crunch were found in a simultaneous constriction of bank lending cited above, coupled with a reduction of available funds in the traditional markets of private placement. This was caused partly by a lack of intermediaries who bring together pools of capital and potential borrowers; a role

formerly performed by large insurance companies. The result has been lost jobs in North America, lost opportunities, and lost growth (US Federal Reserve Board 1993).

Hebb also reviewed the growth of Economically Targeted Investments (ETIs). Some private placement debt and equity issues are already incorporated in State Public Employees Pension Funds through economically targeted investment (ETI) programs. These funds generally target geographic preferences and pursue other covenants such as “collateral benefits”. An SBA survey concluded that the impediments to pension fund investment were high risk (fiduciary responsibility) and the lack of a good fund manager in private placements (US Small Business Administration 19). Some research indicates ETIs provide ancillary benefits important to a state's economic development (Levine 1997, Zanglein 1996, Calabrese 2001), while on the other hand some believed that both financial returns and "collateral benefits" could not be pursued simultaneously (Langbein 1985, Romanow 1993).

Joe Bute, then Manufacturing Director of the SVA, described the growing importance of the “middle-market” private firms among key industry sectors impacted by capital gaps. These "critical-middle" firms were overwhelmingly private closely held companies, often family based. These firms had trouble accessing debt and equity markets to fund growth, modernization and R&D, partly due to the relative small size of these companies (annual sales of between \$5 million and \$100 million,) and the information intensive process necessary to underwrite them. With the appropriate planning, technology transfer and capital, many of these companies could become world-class producers, often as part of a decentralized, but highly integrated manufacturing system. Bute reasoned that unions could and should play a central role in assisting worker-friendly middle-market firms through joint productivity and modernization efforts, and by investing union-centered and directed pension capital back into this critical and growing sector of the economy.

Rich Feldman of the Seattle Worker Center, who had experience on the board of a community development venture fund, and Tom Croft of the SVA outlined various

models for investment vehicles that could finance these firms, including venture capital funds, revolving loan funds, and other investment vehicles. They provided “guidelines” for creating worker-friendly funds, modeled after many of the governance and management principles of the Labour-Sponsored Funds.

Sherm Kreiner, President of the Crocus Fund in Manitoba, and Ken Delaney, of the Ontario First Fund, introduced the Canadian Labour-Sponsored Funds (LSIFs). The Labour funds got their start with the Solidarity Fund, initiated by the Quebec Federation of Labour in 1983. With over \$4 billion in assets, it is the largest labour-sponsored fund and the largest venture capital fund in Canada. The labour funds were capitalized by workers who receive provincial and federal tax credits, thus receiving returns from the credit as well as the direct investment of the funds. Other major funds include British Columbia’s Working Opportunity Fund, the Crocus Investment Fund of Manitoba, Along the First Ontario Fund, and the Workers’ Investment Fund (New Brunswick). Together, the Labour Funds are owned by over ½ million shareholders, a majority of whom are union members, and in the 1990’s, represented over ½ of all venture capital in Canada.

Professor Teresa Ghilarducci of Notre Dame University, a successful author and pension expert, explained that during the same period that banks lost nearly half its household deposits (between 1978 and 1995), the portion of assets held by mutual funds and pension funds more than doubled, rising from 20 percent to 42 percent. By the early 1990s, institutions had become the dominant owners of government debt, corporate equities and other financial assets in the U.S. Perhaps the single most dramatic aspect of this realignment is the steady institutionalization of savings. Workers' pension funds now represented the largest source of capital in the nation.

Using this body of research the Working Group held its path-breaking two-day Heartland Labor Investment Forum in June 1996 in Pittsburgh, co-sponsored by the USWA and SVA, and HIT-BIT and the AFL-CIO Public Employees Department, featuring Rich Trumka as the Keynote Speaker. Among the topics presented were an analysis of the U.S. wage gap and the decline of manufacturing; an analysis of the

changes in the financial capital markets and growing capital gaps; the role of workers savings and investment in long term job creation; U.S. models for regional sectoral investment and revitalization strategies; and, an examination of the Canadian Labor Sponsored Funds (LSIFs). Critically, the forum showcased the potential impact of economically targeted investments (ETIs), and provided an overview of the U.S. private placement market in the 1990's. About 140 participants attended the conference, including a number of national labor and political leaders, and, importantly, pension fund advisors and managers.

A primary outcome from the nine-month, intensive sessions of the Working Group, which met perhaps a dozen times in Pittsburgh in the offices of the Steelworkers, and the extensive discussions between meetings, was specific planning around the development of a national labor-capital investment strategy in the U.S. Among several plans put forward were the creation of a national fund-of-funds, which would be capitalized by a combination of pension and institutional investments. This national fund (s) would target investments through regional intermediaries. While Canadian-style tax credits were not viewed as practical, due to the right-wing control of Congress, there were proposals for “retail” investments from workers through a national pooling of a mutual fund-type vehicle.

Toward the Second National Conference

In 1997, following on the success of the 1996 conference the Working Group, coordinated by Croft's efforts, obtained several prestigious foundation grants from the Ford, Rockefeller and Mott Foundations, and the McKay and Veatch Unitarian Funds to pursue further research and action. The grants were to help widen and sharpen discussion of a community-oriented labor capital strategy.

As the proposal to Ford, et al, explained labor's capital was historically generally invested in income accounts, fixed term securities (e.g., Treasury bonds, bills, and notes), or stock equities. In general, worker-owners had no voice in the management of pension funds and investment strategies. A virtual “pension industry complex”, composed of fund managers, employer intermediaries, consultants and advisors, lawyers and actuaries,

etc., generally controlled most investments. Capped by the largest investment houses on Wall and Bay Streets, this complex has reaped over two hundred billion dollars in fees per year out of the pension system in the U.S. alone. It was not interested in “labor’s involvement” in pension asset management; after all, its many functionaries that, for the most part, invested in ways that were against the interests of worker beneficiaries had no interest in “rocking the boat” (Baker 2001).

Due to joint trusteeship, construction unions had been successful with their Taft Hartley Funds² in capitalizing real estate investments. There had been limited efforts by a few state pension funds to set-aside limited investments in state-level venture capital programs, and a few funds also invested in housing programs (Calabrese 2001). However, many of the practices of the venture capital firms historically were antithetical to labor interests, and due to inconsistencies in the number or selection process for labor trustees, state pension funds had not developed “worker-friendly” private capital efforts. The industrial unions had been thwarted by the single employer pension plans, of course, due to the fact that the funds did not permit worker trustees. But, as it turned out, a surprising number of private industry and service sector unions had, through various means and through amalgamations, inherited jointly trusted funds, similar to the construction unions.

The proposal called for efforts to explore a “labor capital strategy”; that is, a more intentional deployment of labor's capital by its owners. Early on, the Heartland Working Group realized that the importance of focusing on greater capital accountability and greater capital responsibility. The former included efforts to root the control of labor's capital more firmly in the hands of its dispersed worker owners, and, more broadly, efforts to ensure investments of capital in ways that better advanced the interests of working people. While the later ensured more responsible investments which do not hurt workers’ interests over the long term.

² Taft Hartley Funds, or multi-employer pension plans, were enabled by the Taft-Hartley Act, allowing union workers who worked for similar firms (such as construction

If labor's capital was more firmly under the control of its worker owners, for example, it would be invested in ways that help foreclose the "low road" on industrial restructuring that so disrupted American labor markets and depressed family incomes; help pave a more satisfying "high road" alternative. Additionally it would reduce domestic investment's sensitivity to speculative international capital flows; reduce capital market volatility and impatience; and broaden the concept of enterprise shareholders to enterprise stakeholders.

Such an intentional investment strategy would be not only good for workers, it could yield other social collateral benefits such as prudent investments in basic industries and small businesses that had been red-lined- by conventional financial intermediaries. It would ease the capital gaps for such sectors; targeted investments in neglected metropolitan areas and abandoned industrial and mill communities; and might benefit low-income, dislocated and poor urban minority populations. Of interest to the business and labor community alike, such changes in capital accountability would likely increase the aggregate amount of capital available for investment. This would have positive effects on economic growth, and encourage management attention to long-run capital expenditures and investments favorable to national well being.

Heartland was willing to take on the major legal, financial, cultural and logistical obstacles to developing a labor investment strategy. These included the historic lack of pension fund active trusteeship, the misconception of ERISA mandates, the reluctance of the financial markets to support a perceived pro-labor approach, the market's fixation on short-term liquidity and the lack of a track record of such labor-sponsored funds. There were also institutional concerns or incapacity, including the obligation that retirement funds be available from pensions for members when they need it, or that asset growth not get in the way of growth in present wages and benefits.³ Finally, there was a general lack of capacity among unions to manage complex investment portfolios or to do the

companies) to pool their retirement savings.

³ As among Chrysler workers in the 1980s, who traded pension assets for better wages and current benefits.

demanding firm and industry analysis needed to make consistently profitable private placements.⁴

There were significant challenges, in short, to developing a labor/community capital strategy and longer-term investment strategy that was in any way similar to the Canadian experience. The Heartland Forum began to explore these in some length. Much more research and strategic planning was clearly required. At the same time, it was felt that there had been several developments that made the exploration of a more ambitious strategy timely including:

- New leadership at the AFL-CIO, and among affiliates.
- Discontent with traditional anti-poverty strategies, among many major foundations, and progressive organizations, along with regional economic democracy groups.
- New economic development strategies, including the labor federation's support for regional "high road" economic development strategies, focused on quality jobs and small business retention and renewal, and opposed to traditional corporate subsidies.
- Successful development of worker ownership and the development of ownership support networks.
- Internationalization or more appropriately, the growing resistance to unfettered globalism, wherein a labor-capital strategy could limit some of its deleterious effects.
- Market diversification: that is, the need to diversify pension portfolios so as to counter the uneasiness with the over-investment in public equities.
- Beginnings of success: firms where CalPERs had intervened aggressively have improved their performance; housing construction trusts and socially motivated investment funds had also performed well.

These different developments together provided a rich environment for pursuing a capital strategy for labor. Clearly, there was potential to knit together a consensus program for financial institutional reform, labor revival, industry re-investment, urban and social targeted investment, and a more equitable capital system. Building on these

⁴ This is so even in construction, where unions typically have higher levels of control over assets than in other sectors.

themes, interests and coalitions the aims of this second phase of the Heartland Project were to:

- Develop research on overcoming barriers and obstacles to the ability of labor and its allies to develop a long-term capital strategy, including but not limited to replication of international success models and appropriate policy supports.
- Assess current capacity, particularly in regional communities, to undertake such labor-led community-based investing.
- Provide outreach to communities of interest, both at the national and regional level, on the possibilities of such a strategy.
- Connect through conferencing, networking, and other ongoing communication those interested in supporting, researching and pursuing these strategies.

To accomplish these goals the Heartland Working Group was expanded to include additional participants, researchers, investment analysts, regional labor and community development leaders, and religious representatives. With administration of the grants managed by the Steel Valley Authority, the Working Group established three task forces to carry out the objectives for the foundation-funded project, the Research and Policy Task Force, the Regional Network and the Communications Task Force.

The Research and Policy Task Force

Joel Rogers, Professor of Law at the University of Wisconsin-Madison, and Director of the Center on Wisconsin Strategies, was paired with Tessa Hebb to organize the research effort. Rogers had assisted in crafting the foundation proposals. They began by organizing two colloquia to probe the economic, financial, legal and regulatory barriers and opportunities involved in developing innovative “high road” pension investment strategies. Rogers charged Archon Fung to assist in the preliminary research for three lengthy and extensively researched background literature reviews -- “Problems in Capital Markets,” “The Legal Regulation of Pension Funds,” and “Social Investment: Concepts and Experiences”. With these papers as background, participants at the colloquia began the process of defining the ground that a set of strategic Heartland research reports would cover.

In March 1998, the Heartland Project conducted a day-long colloquium on *Capital Markets and Responsible Investing* in Boston, organized around some of the most pressing economics and investment issues confronting working Americans. Convened by Project chairman Leo Gerard and hosted by Harvard University economist Richard Freeman, the event took place at the National Bureau of Economic Research in Cambridge, Massachusetts. Individuals invited to the colloquium brought a rich mix of academic expertise, trade union insight, public service and long experience in the financial market trenches. Gerard chaired a provocative discussion and give-and-take for hours, amongst some of the the foremost leaders in their field. Meridith Miller of the US DOL explained that “in 1994, we put out an interpretive bulletin (DOL 94-1) that signaled the Department’s approval of alternative investments. For the first time, DOL said, ‘Go ahead’, but we do not know whether pension fund trustees and money manager responded to this signal.”

There was debate around a wide range of topics, covering capital markets and negative market activities, such as extreme Leveraged Buy Outs; capital gaps and the capital needs of small and medium-sized enterprises; high road investments and high performance work organizations; the need for trustee education, educating the consultants; responsible investments and ETIs, including the Canadian LSIFs, alternative investment fund models, social screens, and employee ownership; and defined benefit (db) versus defined contribution (dc) plans.

The Heartland Project held a second research colloquium -in April 1998 in New York City to focus on legal aspects of the possibility of regional investment strategies focused on labor’s “double bottom-line” of high returns and high-road enterprise investments. Hosted by Katherine McFate of the Rockefeller Foundation, the colloquium on the *Legal Regulation of Pension Trusts and Responsible Investing* broke new ground in moving toward legal and policy frameworks.

Participants included pension lawyers and advisors, academic experts on retirement law, and venture capital barristers.

“Lawyerly”, yet lively and extensive discussion revolved around the ability for union trustees to craft labor capital strategies that could stand legal muster. Topics included the “whole participant”, long-term value approach to pension investments; real and mythical barriers to responsible pension investing; relevant experience and models of responsible investment; and a reform agenda for a responsible ETI investment agenda. Participants such as Michael Calebrese, who later contributed a key research paper to the Heartland Project, clarified the legal aspects necessary to create worker-friendly investment vehicles that would invest in ETIs.

In addition to stimulating Heartland’s research efforts, the colloquia provided an invaluable opportunity for like-minded scholars, trade unionists, legal advocates, pension practitioners and policymakers to collaborate with one another. Scholars who were once only citations and references to each other met for the first time face to face. So did union staffers and investment professionals who manage their members’ money, and advisors to pension funds.

The Regional Network Task Force

The Regional Network was coordinated by Rich Feldman, director of Seattle’s Worker Center (King County AFL-CIO) and Sherman Kreiner, President and CEO of the Crocus Fund in Winnipeg. The Regional Network included organizations active in eight U.S. metropolitan areas -- Baltimore, Boston, Chicago, Cleveland, Milwaukee, New York, Pittsburgh and Seattle. It also includes groups from two Canadian provinces (Manitoba and Ontario) that brought a wealth of organizing and fund-management experience to the venture.

In May 1998, the Heartland Project convened the first face-to-face meeting of its Regional Network in Pittsburgh. This meeting provided Heartland-affiliated groups with a mechanism for mutual support and technical assistance, learning from one another and collaboratively working through the development of regional investment intermediaries with a worker-friendly orientation.

Leaders of the Network compiled a tool kit providing community-based initiatives with strategic and technical assistance in three areas: creating a base of organizational support for labor investment funds; preparing effective regional market analyses; and laying the financial, legal and marketing groundwork for fund development. Participants in the Network included a spectrum of labor organizations, community-labor alliances and cooperative business-development groups.

Croft, Feldman and Kreiner led the discussions in this two-day session which included Chairman Leo Gerard and a number of important speakers and guests. A second Network meeting held in Washington, D.C. in May 1999, increased regional participation to a total of eight regions, including Baltimore, Boston, Chicago, Cleveland, Milwaukee, New York, Pittsburgh and Seattle, as well as and the Industrial Relations Center at the University of California at Berkeley.

Several Network participants had already made important strides in building the organizational support needed to begin exploring the development of regional funds. In Seattle, for example, the Worker Center won a “plank” in the King County AFL-CIO Union Cities program endorsing innovative investment strategies that may borrow from the Canadian LSIF model. In Maryland, the state AFL-CIO drafted a proposal for the state legislature calling for responsible pension-fund investing and the creation of a labor-sponsored venture fund. In Pittsburgh, the SVA had made significant progress in actually building infrastructure for an investment fund for West Pennsylvania and surrounding states, and the Northeast Ohio group had begun to receive funding commitments to develop a regional fund.

As an article in the *Pittsburgh Post-Gazette* pointed out at the time, that organized labor was already a significant investor in the Pittsburgh economy. Over a decade, union pension construction funds invested more than \$158 million in Pittsburgh-area projects, generating 5,000 jobs. On the other hand many of the corporate leaders in

Pittsburgh responsible for economic development had closed plants and moved operations to Mexico.

The Regional Network meeting laid the groundwork for further regional capacity development, and began to fine tune a number of strategy ideas for national and regional Heartland Funds, financed by a pool of labor capital, that would be targeted to worker-friendly manufacturing businesses and related industries.

The Fund(s) would make investments in U.S. businesses with the objective of achieving long-term capital appreciation in the value of its investments. One investment target sector would be under-performing middle-market firms requiring operational, financial or strategic restructuring, in cooperation with unions representing the company's employees. The Fund(s) would promote meaningful workforce ownership and/or participation, utilizing high performance and "co-determination" workforce models.

To locate and monitor suitable investments, the national Heartland Fund would utilize the Heartland regional network groups. This Network, through labor-oriented regional development authorities and corporations, would develop preliminary regional industrial and sectoral analysis and strategy, review the regional market for qualified investment opportunities and evaluate and pre-screen such opportunities. Technical and advocacy services would include:

- marketing and shared due diligence and analysis, and ongoing monitoring services to the national fund;
- appropriate management supports, training investments, modernization financing;
- regional public and private financing supports where possible.

Over time, national Heartland Funds would invest in Regional Heartland Funds, which would raise matching investments in their regions or through alternative sources of labor, public and community capital. Regional Funds could co-invest with the national fund or invest independently in (generally) smaller investments. The Regional Heartland

Funds would make investments in small to medium sized companies in their respective regions to promote and maintain capital retention and economic stability in these regions, business continuity, job retention and creation, and ownership of regional businesses, objectives borrowed from the provincial Canadian LSIFs. The Funds would also strive to provide an equitable rate of return for investors, build capital appreciation, foster economic development, and use its best efforts to promote employee ownership or employee participation in corporate governance, where appropriate.

The most significant research product created by the Network was a regional market analysis and capital gaps survey, laying the groundwork for further regional capacity development. Conducted by the Center for Labor and Community Research (CLCR), the study was organized in two sections, the first covering important and expanding economic sectors in eight US metro areas. The second examining the financial status and capital needs of regionally important industries.

The Regional Network also compiled a large investment data base/inventory system for regional groups to access as part of the regional toolkit that provided resources for planning, development, seed funding and capitalization of regional investment funds.

The Communications Task Force

A Communications Task Force established by Tom Schlesinger and Teresa Ghilarducci was a relatively small group. It included a number of international union representatives, including union media experts, local labor activists, and community development advocates. The group organized a bi-national communications infrastructure that facilitated extensive conferencing and communications. It also created a functional "clearinghouse" and website to provide multiple points of access to a broad, evolving archive of reports, data and materials regarding workers capital. The group set out to organize greater awareness of the national conference, and as part of the build up, orchestrated national and labor press articles, a newsletter, television broadcasts, publications in books and articles and a major educational tour of the Quebec Solidarity Fund for trade union and political leaders.

The Heartland Project received an outstanding publicity launch in a nationally broadcast PBS four-part documentary on the economy, shown in over 50 cities, which featured Leo Gerard. Produced by Pulitzer Prize-winning reporter Hedrick Smith, *Surviving the Bottom Line* exposed the damages to the national economy wrought by the winner-take-all strategies driven by Wall Street money managers and corporate dealmakers. With extensive guidance from the Project, the producers visited Montreal for the final segment of the series (“Beating the Bottom Line”), interviewed the Solidarity Fund leaders, and described the success of workers’ investment funds. The segment featured Leo Gerard, AFL-CIO Secretary-Treasurer Richard Trumka, and AFL-CIO President John Sweeney.

In January 1999, the Heartland Working Group organized an extraordinary tour of the Quebec Solidarity Fund in Montreal. . . Sponsored by the Steelworkers and the Solidarity Fund, the tour was organized to orient U.S. political and labor leaders to the Canadian LSIFs and develop a "cultural exchange". Twenty-one Congressional representatives and staff, labor officials and Heartland members traveled to Montreal. Two planes chartered by the USWA (Washington, D.C. and Pittsburgh) were met by representatives of the Fund, including Fernand Daoust, Advisor to the President of the Fund, and Robert Dean, former Minister of Labour, Parti Quebecois, Quebec. Presentations were made on the success of the fund, its creation and current projects. Sherman Kreiner of the Manitoba Crocus Fund also made a presentation. The tour was the beginning of ongoing pilgrimages germinated by Heartland, which led to several other trips to the Labour-Sponsored Funds by U.S. regional groups and labor leaders, and visits to the U.S. by Canadian LSIF and labour representatives.

The Second National Heartland Conference

The “capstone” of the Heartland Project was the Second National Heartland Conference, co-hosted by the Steelworkers and the AFL-CIO Center for Working Capital (CWC), held in April 1999. It was extremely successful, and feedback from labor leaders in the working capital movement indicated it was one of the best conferences on

labor capital ever held. Two hundred labor leaders and pension trustees, federal and state officials, community development and investment activists, academics and economists, attended the conference from both the U.S. and Canada. Keynote Speakers Rich Trumka, Secretary-Treasurer of the AFL-CIO and Congressman David Bonior (Minority Whip) spoke at Friday's luncheon, praising the work of the Heartland Project; and Senator Paul Wellstone spoke at the Thursday reception, "firing up" the participants on a broad range of community investment issues

As part of the kick-off of the conference, Fernand Daoust explained the unheralded success on the part of the Solidarity Fund to launch the most innovative finance program in North America: "It has been a real thrill watching the Quebec Solidarity Fund come to life with more substance than we or anyone else ever imagined. It was viewed as a dream at its beginning, some sort of a utopian idea, but now it's a reality. And it has inspired the creation of several other labor-sponsored investment funds in Canada."

Congressman Bonior, like Senator Wellstone an activist and pro-labor Democrat who went to jail on behalf of workers during the Detroit newspaper fights, started his keynote address with this statement: "It is vitally important to pursue new, sophisticated strategies to take advantage of our combined resources and to restructure our system that currently rewards irresponsible speculation and abandonment of American workers. Developing this new strategy is critical in our endeavors, and will only grow more important in the coming century."

The Conference presented both the outstanding research papers completed by the Research Task Force and the goals for national Heartland Funds. It hosted workshops on the development of pension trustee, regional investment education programs and other topics. The Conference unveiled investment finance public policy ideas inspired by Heartland, developed in conjunction with the Progressive Caucus of Congress. The conference set a milestone for years to come.

The Communications Task Force used the conference to help land a number of national press and media articles for Heartland. The Heartland Project attracted the attention of a number of books and publications that referenced the project, the conference, and the Canadian LSIFs over the next few years. National press for the conference or related issues included the *LA Times*, *Pensions and Investments Magazine*, *Steelabor* (Steelworkers), *Boston Globe*, and the CWC Newsletter, *Working Capital*. Prominent references to the work of the Heartland Project include *Hijacking the Future: How Wall Street is Taking over Workers' Pensions*, an article by James Ridgeway, in a special issue of *Dollars and Sense*, September-October, 1999; *Economic Development: A Union Guide to the High Road*, a book by Bob Baugh, AFL-CIO Working for America Institute; *Contested Terrain: Republican Rhetoric, Pension Funds and Community Development*, an article by Gordon Clark, University of Oxford; and *Prudence, Patience and Jobs: Pension Investment in a Changing Canadian Economy*, Kirk Falconer, Canadian Labour Market and Productivity Center (January 1999).

Finally, we took the Heartland Project “on the road” and raised the flag at national conferences, participated in key policy discussions, and developed linkages with several important national associations, including:

- the White House Summit on Retirement Savings in June, 1998, at which Chairman Gerard made a brief presentation;
- the AFL-CIO Pension Investment Conference on September 19, 1998 in Pittsburgh (where Gerard also spoke);
- the White House briefing on community venture capital-oriented New Markets Initiative in February, 1999;
- the "High Performance Pensions Conference", in San Francisco (September, 1997);
- the AFL-CIO Union Cities Conference in Chicago (August, 1998).

In addition, there were a number of smaller regional and local events and communications sponsored in the U.S. and Canada connected to Heartland.

Working Capital: The Power of Labor's Pensions Is Published

At the close of the conference in 1999, the authors of the research papers met with Leo Gerard and AFL CIO staff to discuss their work. As a group they felt the caliber of papers presented to the conference was sufficiently high to warrant publication and wider audience dissemination. This was particularly true in the absence of major new works on labor's capital strategy. The further work required to seek publication was supported by the USWA, AFL-CIO, and SVA. It was decided that the paper contributed by the AFL – CIO, *Challenging Wall Streets Conventional Wisdom: Defining a Worker Owner View of Value* (Silvers 2001) would conclude the volume and in effect generate the next stage of work in the development of labor's capital strategy.

Over the next two years Hebb, Rogers, and Fung, worked with the research authors to structure the conference papers into a book for publication. The process of converting these papers was an awesome task, as the nine eventual chapters were authored and co-authored by people across the U.S. and Canada. Hebb submitted the book to Cornell University Press, a scholarly press with a history of involvement with labor academics. Each author undertook an extensive revision of their work, guided by comments from editors Fung, Hebb and Rogers. In July of 2000 the editors received a green light from Cornell University Press and *Working Capital: The Power of Labor's Pensions* was published in the late spring, 2001.

Working Capital: The Power of Labor's Pensions, presented the findings of the Heartland Project research and documented the problems inherent in today's financial management. The work with contributing essays by thirteen academics and labor researchers combined with a foreword by Leo Gerard, traces the thought on labor's capital strategy developed through the research colloquia, research agenda and conference papers of the Heartland Project. *Working Capital* offers new and exciting models both in the US and Canada that advance not only ownership of labor's capital but also its control. The result is a set of papers for pension fund trustees and others interested in using labor's power as owners of capital to advance its goals. As with much of Heartland's work, the publication of *Working Capital: The Power of Labor's Pensions*

can be seen as building capacity within the union movement to take on capital market issues.

Working Capital first examines the ways that current pension investment practices damage workers' interests. Dean Baker and Archon Fung document the increasingly short-term focus of pension fund managers. These short-term investment horizons, they argue, lead to downsizing, job flight, reduced employee training, environmental destruction, and unsound mergers and acquisitions. Workers who are hurt by these practices, Baker and Fung demonstrate, may be victims of collateral damage from investments made by their own pension funds.

Having discussed some of the problems of current state of pension investment, *Working Capital* goes on to examine some alternative models. Eric Becker and Patrick McVeigh look at the rise of screened socially responsible investment funds in the US. They conclude that while the social screening employed by socially responsible funds might not be the most effective tool for promoting labor union concerns, the strong performance of these funds demonstrates that investors can take social factors into account in their investment decisions without harming financial returns. Marlene O'Connor follows this with an exploration of the potential power of labor shareholder activism in changing the behavior of publicly traded corporations. She argues that labor's capital stewards can effectively form alliances with other shareholders to improve corporate governance and promote high-performance workplaces where workers are treated fairly.

Michael Calabrese, Tessa Hebb, and David Mackenzie move from discussing public equity markets to describing models of private equity investment where labor funds invest directly in worker-friendly small and middle-sized businesses. Calabrese looks at US experiences with Economically Targeted Investments (ETIs), investments that seek to generate strong returns while creating jobs, building affordable housing, or promoting economic development. He finds that these investments can be very successful when they find ways to efficiently gather information on smaller companies, allowing them to fill capital gaps. Hebb and Mackenzie examine the Canadian Labour Sponsored Investment Funds, concluding that where the funds are under genuine union control, they

have been very successful in creating jobs, increasing worker power, and generating returns for shareholders.

Working Capital ends with a look at some of the obstacles that prevent labor unions from implementing the capital strategies suggested by existing models. Theresa Ghilarducci reminds us that many workers are not adequately covered by pension plans at all, and that many of the plans that exist are governed with no worker representation. She suggests that achieving greater labor representation in pension plan management is an important aspect of labor's capital strategy. Jayne Zanglein asks why labor pension funds have been reluctant to implement ETI strategies, concluding that for ETIs to succeed, labor must create a comprehensive education program for labor pension trustees and foster a national network of labor-friendly investment professionals.

The book has attracted significant publicity since its release, including features and reviews by *Business Week Online*, NPR's *Marketplace*, *Business Ethics Magazine* and *Social Policy Magazine*.

New Directions for the Labor/Capital Movement

Leo Gerard's vision for the labor/capital movement is to promote an alternative vision of the economy, one that is more humane and sustainable. The Heartland Project and the Heartland Network that has grown out of this work has been promoting the idea of a growing, embryonic new "labor/capital" movement in North America, focused on the democratization of capital, capital accountability, responsible investment and regional community investment.

The broader movement is connecting labor/capital advocates around the world. The AFL-CIO, the Office of Worker Investment and the Center for Working Capital have been working with unions from Canada, Britain, Australia, European countries and other nations to create an international labor-capital strategy. These efforts coordinated by the International Confederation of Free Trade Unions (ICFTU), are part of a global strategy for shareholder campaigns and pension trustee education.

The Heartland Network hopes to expand its network of progressive labor activists,

pension experts and economists, development/finance advocates, social investment, religious and green leaders, connecting to regional economic democracy groups in the U.S. and the Labour-Sponsored Funds (LSIFs) in Canada. We hope to launch a permanent bi-national network to explore the next steps in the development of workers' capital. These steps include, as an extension of the pension trustee programs, the development of regional pension trustee forums. Forums are being organized in California, New York, Boston and Pittsburgh to begin exploring long-term capital strategies around the needs of working people and their communities. The efforts of the New York trustees have led to initiatives to create affordable housing for working people in the city, utilizing the labor housing investment trusts, and to actually take a lead in developing a long-term economic recovery plan for the city. There are also a number of other states and cities in the U.S. where major new labor-capital strategies are underway, including:

- California, with the leadership of Sean Harrigan of the UFCW, State Treasurer Phil Angelides and other active trustees such as San Francisco Mayor Willy Brown, CALPERS, the California Public Employee Retirement System, pledged to invest 2% of its total assets in poor and under-served areas in California. CalPERs is also starting an unprecedented national worker-friendly merchant bank.
- Hawaii, a campaign to create a socially-responsible mandate for the state's pension funds and natives trusts have resulted in a "blue-green-grey" coalition, that brings together blue-collar labor leaders and trustees, greens and the elders of the native people.

Just as Labor needs to maintain a presence in anti-globalization resistance, as one of the few movements that has inspired students and young people to support workers' positions on issues such as sweatshops, unfair trade and anti-democratic global financial institutions (IMF, etc.), the labor-capital movement needs to forge coalitions with forces that are challenging unilateral corporate power. One context might be to explore long-term investments in profitable alternative energy companies, to lessen our dependence on overseas oil. Again, these \$7 trillion in pension funds in the U.S., and \$700 million in Canada, together own a plurality of corporate stock in North America. There are tremendous religious/social assets that could also be mobilized.

Workers' capital strategies will most likely have a long-lasting positive impact on society, benefiting retirees while contributing to the betterment of working families and communities. The Heartland Network, which evolved from Leo Gerard's small "grievance committee" into an important part of the growing labor-capital movement, proved that innovative societal collaborations, particularly those involving organized labor, can create the momentum for major social change.