

# LABOR CENTER REPORTER

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## LABOR'S CONTROL OF CAPITAL: INTRODUCTION.

During the next few months a new series of the LCR will address the many issues concerning labor's role in directing the nation's capital investment. Reindustrialization, unlike most slogans of the recent past, has support among a broad spectrum of political groups. However, it is easy to agree that our dilapidated steel mills, obsolete auto factories, and decaying public roads and railroads need revitalization. It is something else again to agree on the policies that will create new savings and investment and the priorities for the "most appropriate" reindustrialization policies.

Reaganomics is designed to increase savings by shifting income from the classes that typically save less to those that save more. Not surprisingly, those with larger incomes can and do save more than other groups. But the tax give-aways have so far only contributed to high interest rates and concomitant credit crunch, which in turn have discouraged real, job creating investments. The failure of Reaganomics creates a gap which organized labor could fill.

Workers earn most of the income generated in the economy, so national policy should encourage workers to save by offering them substantial returns on their personal savings and pension plans. Workers' own savings funds should provide guarantees of stable future income by selecting investments that encourage productivity and jobs, and do not export jobs or lead to corporate mergers.

### Such Large Funds and So Few Benefits

The total size of all U.S. pension funds is staggering - about 850 billion. Yet the average pension benefit is only \$125 per month - and the majority of those retirees who get an employer-provided pension (25% of the aged) receive much less per month. Furthermore, both private pension coverage and the real benefit amounts have not improved substantially in 7 years. Since two-thirds of all persons covered by private pensions are in union negotiated plans (many are free riders, not union members), labor must still be concerned with the problem of poor benefits.

In the first article of the Labor Center Reporter series on "Labor's Control of Capital," Teresa Ghilarducci will look at the benefit side of pension funds. She will answer such questions as: Who are covered by pension plans? What kinds of employees are more likely to receive pensions? Who will get good benefits and who won't? What portion of all pension fund capital is potentially influenced by union pressure? The answers to these questions can help to indicate whether workers are in fact affected more by their pension fund investments than by the actual benefit income they receive.

### Buying and Controlling a Company

In the second and third articles, "Brief History of Worker Ownership in the United States" and "How to Buy and Control a Company", Chris Martin will look at: 1) labor's control over investment decisions in the past and 2) the prospects for labor's efforts to exercise more control over the investment of their savings.

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Worker ownership has a surprisingly long history in the United States, beginning with the early days of the industrial revolution, when worker cooperatives were able to hold their own against large industrial corporations. Currently, worker ownership is an attractive means to save jobs in companies bankrupted by poor management or discarded by conglomerates. But worker takeovers face two main obstacles. First, financial institutions are often hostile to the idea. As one banker is reported to have quipped, "Oh, the monkeys will be running the zoo." Second, Employee Stock Ownership Plans, or ESOP's provide a popular method for workers to buy the company they work for. Yet while employee buy-outs promise to save jobs and even produce capital gains for the workers who have purchased the stock, the protection of the workers in their dual role as workers and as stockholders remains a serious problem. In the most successful employee company purchases, workers have retained their union or returned to it.

#### Lessons from the European Labor Movement

European labor movements have long seen the need for labor's voice in national economic planning decisions. In France, West Germany, Holland, Denmark, Sweden, and Israel, most pension fund management is carried out by a board composed of government, labor, and business representatives. Domestic job creation and worker housing are the major goals of the investment strategies pursued by the European labor movement.

An article by Tom Janoski will explore European union approaches toward controlling capital through "pension funds" and "wage earner funds." He indicates that the use of pension funds in Sweden and Denmark is particularly effective in establishing direct control of investments and indirect control over corporate decisions in order to promote jobs. However, other countries view union pension funds as being more troublesome. Another type of fund, the "wage earner funds," is currently being proposed in Sweden and will be a major issue in the upcoming election. Such "non-pension" funds collect money from company profits and workers' wages in order to invest in industries that promise to create the maximum number of jobs. Wage earner funds are attractive because they are free from the legal restraints imposed on "pension funds."

#### U.S. Unions Vie For Pension Investment Control

Unions across the nation are demanding their pension funds not be used as capital for businesses which commit unfair labor practices, hire nonunion labor as policy, or advocate anti-labor legislation and employer relation practices. It is not uncommon for a union to discover that the employer refusing to negotiate a first contract with a recognized union is majority owned by union pension funds. Ghilarducci will describe some of the major innovations made by unions in the control of their funds in "U.S. Unions Demand Real Benefits From Their Pensions."

Some California unions are making history by insuring that pension money serves both the local economy and the pension plan participants. The building trades unions in particular have begun multi-million dollar investments in union built shopping centers, high-rise commercial projects, and some housing. Unions representing municipal workers in San Francisco just completed an exhaustive study of the investment practices of their pension plan, and are demanding changes in the structure, management and policies of their plan. Governor Brown's Pension Investment Task Force report released in December, 1981, recommends changes in the investment policies of the state employees' and teachers' funds. Bruce Poyer will report on developments in some of California's largest public sector retirement plans.

The series will be concluded with an article by Phil Shapira entitled "Pension Funds: Economic Development and Institutional Alternatives." This report will examine alternative job creating investments for pensions, using U.S. and U.K. examples.

- LCR Staff