# Contributor Quotes to "Working Capital"

The following are quotes from a few of the contributors to "*Working Capital: The Power of Labor's Pensions.*"

"Examples of a couple of flavors of myopia are first that institutional investors, or a large percentage of them, act on thin information. Institutional investing that looks at normal accounting measures and balance sheets of firms, earnings ratios, and sales; and trades on that thin information, doesn't take into account the deeper information about the corporate strategies used by the firm or how they treat their workers. When institutional investors act on thin information it favors short-term performance. Managers respond to those incentives by under-investing in R&D, training, and capital equipment in order to favor short-term earnings outcomes."

"The second dimension of collateral damage comes from the mergers and acquisitions trend. The number of M&A deals between 1974 and 1998, started with a slight upward shift in the mid 80s, that jumped from about 2,000 deals per year, to slightly over 3,000 deals per year. However in recent years the number has more than doubled that previous peak and jumped to 8,000 deals per year by the 1990s."

"The third aspect of collateral damage comes from international investing of pension funds. In 1980 less than 1% of pension fund assets were invested abroad. By 1997, 17% of pension fund assets were invested abroad. If you look at just equities, the number has doubled since 1993. In 1993 pension funds allocated about 6.4% of their assets to international equities, by 1997 that number had jumped to 10.7%, and by 2000 it's projected to be more than 12% of pension fund assets going into international equities." (Fung)

Dean Baker added further evidence of the collateral damage of excessive CEO compensation. "This is money out of people's pockets. You can think of the CEO compensation as money that otherwise would be firms profits or available for investment, or if you like, we could think of this as money that might otherwise had been available to pay higher wages."

**Dean Baker and Archon Fung**

"We found that there was $1.2 trillion involved in this socially responsible field, which equals 9% of all money that's under professional management in the United States. Nearly one out of ten investment dollars in the country is being invested with some sort of social criteria attached to it."
"Most of the social funds screen on a wide range of issues, including environment, labor relations, human rights, as well as a host of others. Most will avoid investments in companies that have poor union relations, such as those appearing on the AFL-CIO boycott list, or those that have a history of union-busting tactics."

**Patrick McVeigh**

"Things have dramatically changed in the last ten years. Today when you hear discussions by American corporate governance scholars, proposals for the German system of co-determination are no longer mentioned at all. And this is because the shareholder value mantra has really taken over. There is an overwhelmingly normative consensus that the board of directors should be focusing upon shareholder value and shareholder value exclusively."

"My thesis is that corporate governance rights will trump labor laws in importance and that shareholder rights are going to become a focal point for labor management relations in the 21st century."

"Labor shareholders have submitted more proposals than any other group in the institutional shareholder movement, but more importantly, they have one of the highest passage rates. Now for the most part, the union pension funds are sticking to traditional corporate governance issues."

"But I also think that issues concerning new employment relationships such as training and downsizing, raise significant social policy. Shareholders should be allowed to debate these issues too."

**Marlene O'Connor**

"A few years ago the Department of Labor came out with an interpretive bulletin that said, "look economically targeted investments are no different than any other investment, and you have to use the same criterion in determining whether that is a good investment."

And so the department of labor has said, "Yes, you can make an investment in an ETI, it's exactly like any other investment that you might make. The only difference is that you have to make sure you have a return that's commensurate with the risk that you have realized or accepted, and you have to make sure you compare it with similar investments with similar types of risk characteristics and look at all the available investments out there that you could have made."

Jayne Zanglein offered three strategies for overcoming the institutional barriers to ETI investing in the U.S. "First, by building a national center or clearing house, a sharing of information, a database. Second, by using the expertise of professionals and regional centers that can help share that information and put it into place. Finally and most importantly, by educating from the ground up, all the way to the people who think they're already educated, and aren't doing what we want them to do."

**Teresa Ghilarducci**

"What I'd like to focus on though is what I call in the title of my paper, 'the power of private equity'. A new and potentially more powerful trend involves direct investing in typically smaller, nonpublic companies. Private placement debt and equity are increasingly a critical source of capital not only for start-up firms, venture capital, but also for middle market firms, defined as $5 to $100 million in sales, firms seeking buyout financing, and firms in financial distress."

"Whose money is in this market? Bill Gates', hedge funds', certainly those, I mean they're the sophisticated investors, but also a majority is now flowing from pension funds. About half of all private equity capital, much more than $100 billion, is supplied to this private equity market by corporate and public pension plans."

"Yet, jointly trusteed, Taft-Hartley funds barely have a toe in this market. That is really a lost opportunity, not only for the beneficiaries of the funds, but for the labor movement. Because private equity investing offers a surprising degree of social as well as financial leverage."

**Michael Calabrese**

"In Canada the government actively supports and sponsors a very major economically targeted investing program, Labour Sponsored Funds, that now account for $4.6 billion of venture capital in Canada. This represents half of all available venture capital in this country. It is a very significant source of venture capital that grew from 1983, with the birth of Solidarity in Quebec."

"We know that there's a lot of debate in the U.S. that economically targeted investing will cause you to get a lower rate of return. Critics say that you cannot have both. You cannot be driven by market rates of return and seek collateral benefits. But research shows that argumentation just doesn't hold up. We are able to look at the Canadian LSIFs to prove this point."

"The research shows funds having a defining set of characteristics that includes sponsorship and control by an organized labor body, and a broad social and economic social agenda, can outperform LSIFs that do not have those characteristics."

**Tessa Hebb**

"Focusing on the Direct Benefit (DB) distinction alone is perhaps misleading. It is more instructive to look for patterns of control, to look for union involvement in the negotiation in these pension plans. Pension plan generosity is a standard way to compare the eventual size of benefits for workers in DB plans. As you can see, between 1988 and 1996, DB generosity in plans where unions helped negotiate the pension plans has increased. In these plans employer generosity has increased 4%, whereas DB plans in nonunion settings have seen a decline in generosity by 10%. So unions really do make a difference in terms of the benefits that workers are receiving."

"The pension trend that matters is the one that explains the decline in pension security. The fall in worker control over pension assets and benefits explains that trend."

**Jayne Zanglein**

"Given the size of pension fund assets, the question is why this money seems to be essentially silent or even adverse to the perspective of worker/owners? In order to be able to answer how we get to a situation in which worker assets speak for worker sensibilities we have to first define what it is we're talking about when we're talking about worker sensibilities…. We view the firm as a locus of cooperation, not a nexus of contracts. That does not mean we don't think contracts are important, it would be pretty silly for someone speaking from the AFL-CIO to tell you that contracts are meaningless. But we do think they insufficiently capture how firms create value and how they bring constituencies together."

"We see four challenges. The first, and really the foremost, is to organize our money. The second is to improve the legal and regulatory environment. The third is to move our initiatives from being initiatives about process to being initiatives about substance. And finally, we need to bring all these efforts to bear on the challenge of shaping where the money goes and what decisions are made with it."

"We need to go global. The labor movement in the United States needs to have a common dialog with the labor movements in Europe, in South America, Asia, and Africa about the global capital market that we all live in."

**Damon Silvers**