the high road

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Investing Labour's Capital

The Heartland Network

By Tom Croft

Since 2001, the myth of the "New Economy" has come crashing to the ground in the U.S. and Canada. Along with 3 million blue-collar lay-offs, the jobs of hundreds of thousands of white-collar workers in the technology, finance, medical, and service sector workers were wiped out. Few towns, cities, states, or provinces were spared. A decade of predator capitalism had ended in the Dot-com Meltdown and the Carnage of Enron. Moreover, the joblessness and sluggish economic growth of the past three years – called the "false recovery" by Stephen Roach – shed new light on an old problem: the lack of real investment in factories and workplaces.

For years, the U.S. and Canadian labour movements have been pressing for responsible investment of the trillions of dollars in pension fund capital currently under joint worker-management and public trusteeship. Although these assets comprise workers' deferred wages, they frequently have been invested in ways that cause great harm to worker beneficiaries and their communities. Pension laws generally allow pension trustees to invest in companies that generate "collateral benefits," so long as the returns are equal to comparable investments.

These are the origins of a major new initiative taken in 1995 to promote jobs-oriented pension investment strategies in the U.S. and Canada. With the leadership of the Steel Valley Authority (SVA) and the United Steelworkers of America, the Heartland Network was formed to explore and promote practical, jobs-oriented investment strategies in small to mid-sized workplaces, building on "Labour's Capital."

The Heartland Network

Since the early '90s, the SVA has helped save or create some 12,000 mostly union jobs in the hard-hit Pittsburgh-Mon Valley area, through retention and buy-out efforts in over 300 companies. In many cases, it worked closely with the Steelworkers (also based in Pittsburgh), which has become the most aggressive union in North America contending with corporate restructuring.

The Heartland Network brought together an alliance of U.S. and Canadian labour leaders, regional economic demo cracy groups, economists, and other progressive individuals and institutions to explore and promote responsible invest-ment strategies for labour's capital. The Network hosted two international

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conferences and several regional forums, and developed the beginnings of a mutual exchange between the U.S. and Canada.

Finally, the Network helped spawn the development of new worker-friendly private capital funds, capitalized by workers' savings. Heartland's efforts helped spearhead new investments of over $4 billion from multi-employer pensions in these domestic investment or "Heartland Funds" and similar investments more recently from the much larger public pension funds.

Many of these funds can invest in both the U.S. and Canada. After a half-decade of increasing shareholder and progressive investment activity by U.S. pension funds, pension funds in Canada are now becoming much more active in alternative pension investments. Canadian union leaders and pension trustees are fortunate that a major infrastructure for provincial jobs-creating investment already exists – the Labour-Sponsored Investment Funds (LSIFs.)

Private Vs Venture Capital

Despite a troubling decline in jobs, manufacturing industries remain the drivers of our economy. They create the dynamics necessary for industrial innovation. They form the industrial supply chain that feeds the industries of the future – from renewable energy to digital technology. Our nations depend on the manufacturing sector for increases in wealth, for improvements in living standards, and for competitiveness in world markets.

Access to equity and affordable finance is pivotal to helping existing companies – especially manufacturers – stabilize, expand, and prosper, and to invest in the next generation of industries. Too many otherwise well-managed and operated firms have been strapped for equity, debt, or working capital over the past several years, as banks consolidated, and hot money chased short-term deals.

While the problem of "capital gaps" is not new, the recent recession and market losses have exacerbated the problem. Privately-owned small- and medium-sized enterprises are more subject to this capital market failure than large public enterprises, which can rely on retained earnings or selling public shares.

Pension funds have become a growing source of capital for business investment in Canada and the U.S. Workers "own" some $7 trillion in the U.S. and $1/2 trillion in Canada. Pension funds represent about half the investment in the entire U.S. venture capital market. But just as pension trustees have been demanding greater accountability from fund managers in public stock market investments, it is time to scrutinize and evaluate pension investments in the venture capital market as a whole.

All too often, pension funds have been overly concerned with investing in "venture capital" – in extremely unsustainable technology start-ups, for example. As a result, venture capital investments in the U.S. declined from a peak of $105 billion in 2000 to about $18 billion in 2003.

Pension investments in private capital, by contrast, offer a surprising degree of both financial and social leverage. "Private capital" investments supply equity and debt capital to existing industries and firms, and are less volatile than venture capital. Many states have begun to balance their alternative investments portfolio with private capital. Large corporate and public pension funds have long realized the financial potential of private capital and many now allocate an average 5-10% of total assets to private placements.

Following the example of Canadian LSIFs, the Heartland Funds have begun to make large pension-capitalized private capital investments in manufacturers and other "hard" industries in both the U.S. and Canada, as well as solid venture investments. Besides saving and creating good jobs, the funds are earning solid returns. Some of these "worker-friendly funds" enable workers to gain a share of ownership in the company, or participate in strategic management. Other funds require that the company, if non-union, remain neutral in the event of unionization efforts.

In Canada, LSIFs have already had a tremendous impact. With their investment of pooled RRSP accounts, LSIFs have created and saved over 100,000 jobs. They have insisted that companies conduct social audits, and thereby given priority given to more worker-friendly and sustainable companies.

A Seat at the Table

The policy leaders and trustees of workers' pension assets in the U.S. and Canada are increasingly investing in "real" businesses. Together, these worker-friendly funds control USD$8-10 billion. Labour's capital has become a major player in the national and regional economies of both countries.

Now workers and communities need a seat at the table of economic policy, development, and investment, both at the regional and national levels. Intervening in economic development, industrial retention and capital investment is not for the faint of heart; it is difficult and complex. But Labour has become increasingly adept at deploying professionals in the field to complement grassroots networks that provide community pressure and public support.

As corporate churning and changing economic tides continue to chip away jobs base of our respective nations, it is vital that Labour and the community engage the economy head on – on Main Street as well as Wall Street and Bay Street. The Heartland Network has become a very positive force for this engagement. Over time, labour's capital on both sides of the border – potentially one of the largest progressive investment networks in the world – has the potential to forge an economy that is more humane and sustainable.■

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Multidimensional Impact

Labour-sponsored investment in Manitoba

By Sherman Kreiner

The Crocus Investment Fund is a labour-sponsored investment fund. Its origins date back to the 1983 convention of the Manitoba Federation of Labour (MFL), which approved a resolution, which read, in part:

> "Whereas Manitoba is short of investment capital; and whereas investment in labour-intensive projects is needed to create jobs … therefore be it resolved that the MFL investigate the possibility of implementing a Solidarity Fund in Manitoba …"

No further action was taken until the late 1980s when the passage of the U.S.-Canada Free Trade Agreement raised concerns about economic dislocations. Employee ownership became a strategy focus for the MFL to retain jobs and facilitate business succession.

The need for growth capital and business succession were merged with the passage, in 1991, of the Manitoba Employee Ownership Fund Corporation Act, which created the Crocus Investment Fund. Shares were first sold to the public in 1993.

Like all Canadian labour-sponsored funds, individuals who invest in Crocus receive both a 15% provincial and a 15% federal tax credit. In addition, investment in the Fund is RRSP-eligible, the Canadian equivalent of an Individual Retirement Account. In order to provide patient capital to private businesses, investors must keep their investment in the Fund for eight years. Similar to a mutual fund, the value of the investment at the end of that period is determined by the performance of the Fund's portfolio businesses.

From the outset, Crocus has been guided by the labour movement's goals of job creation, employee empowerment, corporate social responsibility, and improved investment and pension income opportunities for working people.

The Fund today has more than $160 million in core assets and manages an additional $40 million in subsidiary funds capitalized by local institutional investors.

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The core fund has more than 33,000 shareholders, more than 40% of whom are union members.

All of the Fund's assets are invested in ethical small and mid-sized businesses in Manitoba. These investments, in more than 60 companies, have helped create, save, or maintain more than 14,000 jobs. One quarter of employees in Crocus companies have the opportunity to be worker owners.

Many of these investments demonstrate the multidimensional value a fund like Crocus can play in a community.

Here is one example. The Fund received a call from the president of a 200-worker manufacturing company. The current owners had entered into an agreement to sell the company to a U.S.-based company that intended to dramatically downsize.

The president had been given a very short time period to match the offer. He approached the Fund. Based on the Fund's previous knowledge of the company and a quick assessment of the information provided, the Fund concluded that an investment could be viable, determined the portion of the financing requirements it could meet, and identified other potential financial partners.

The next concern was the union. Labour relations were poor, and the union was without a collective agreement. The President felt that he could not make an offer without an agreement. He laid out the situation to the union leadership, which responded with distrust. The only positive in the transaction was the Fund's involvement. The Fund was able to provide an independent assessment of the situation to the union and provide advice about how to structure an agreement so that it could not be used against the union in the event the deal fell through. The Fund also provided a framework for discussion of profit-sharing and employee ownership alternatives which would permit union members to share in the company's success.

Just prior to the board meeting which would have ratified the sale to the U.S. company, the management team, armed with a new collective agreement, and the Fund's letter of intent to finance matched the U.S. offer. The end result was that more than 100 jobs were saved. Today, almost ten years later, this company is one of the strongest performers in the Crocus portfolio.

In 1999, the Fund created a nonprofit organization, Community Ownership Solutions, whose mission is to create quality jobs for Winnipeg's low-income community. It first enterprise, Inner City Renovation, a home renovation company, employs approximately 20 workers, the majority of whom are aboriginal. (See "New Breed," *Making Waves* 14,2:15-17, Summer 2003.)

Crocus has been extremely active in helping revitalize downtown Winnipeg through investment in a new baseball stadium, a new entertainment complex, and a number of downtown businesses, and through the creation of a real estate development fund focussed on historic downtown properties. In addition, the Fund is the anchor tenant of a previously abandoned historical building, which it shares with arts organizations.

The Fund has also raised the profile of corporate social responsibility. Internal business practices entrench pay equity and family-friendly workplace practices, embed a living wage policy and establish salary ratios between the highest- and lowest-paid employees. The Fund has also implemented an employee ownership plan for all employees.

The Fund actively promotes employee ownership and participative management. For five years the Fund, with the University of Manitoba, has sponsored a certificate program in participative management. In 2003, the Fund and other corporate sponsors created a Centre for Employee Ownership in the university business school.

The Fund's investment due diligence process combines financial due diligence with a comprehensive social audit. In addition to being a strong financial performer, a prospective Crocus portfolio company must also demonstrate a commitment to workplace health and safety, responsible environmental stewardship, and progressive employment practices, in a process that ultimately evaluates the company's commitment to sustainable development.

The current strategic focus of the Fund is on the creation of capital pools, managed by Crocus, and funded by local institutional investors, including pension funds, Crown corporations, and First Nations' trusts. These funds are designed to have both general and sectoral mandates while investing in ethical Manitoba businesses. ■

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