LABOR AND ECONOMIC DEVELOPMENT

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[W]here management decisions affect a worker directly, a union will intervene .... [But] those matters that do not touch a worker directly, a union cannot and will not challenge. These may include investment policy, a decision to make a new product, a desire to erect a new plant so as to be closer to expanding markets, etc. ...

George Meany, 1955

GETTING IN THE GAME

Labor needs to get into the economic development game because the way that game is now played hurts labor, because the private economy no longer works in ways that benefit workers, because the public dollars now supporting “low-road” industrial restructuring are needed to pave a more satisfying “high-road” alternative, and because building that alternative will define labor’s future — if it is to have one.

The Federal government spends about $13 billion a year on economic development programs — about $6 billion on direct aids, discounted loans, and tax expenditures for business, and about $7 billion on worker training. States spend an additional $14 billion on direct development assistance and programming, business promotion, and training programs — over and above their enormous expenditures on K-12, community college, and university education.

This roughly $30 billion national annual commitment to economic development generally subsidizes non-union and low-wage firms. The Manufacturing Extension Program (MEP) of the National Institute for Standards and Technology (NIST), for example, spends close to $100

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million a year providing technical assistance to small and mid-sized manufacturing firms. Students of the program estimate that 85-90 percent of the support goes to non-union firms. So the MEP provides a $85-90 million annual subsidy to the non-union sector, improving non-union firms’ ability to compete against, outsource from, and otherwise undermine the dwindling union core in manufacturing. Even outside manufacturing most economic development assistance goes to firms paying sub-standard wages — effectively subsidizing competition to the larger and more heavily unionized firms paying decent ones.

Economic development dollars used in the way obviously hurt labor. They make it that much more difficult to organize and retain union work, to establish wage norms in regional labor markets, to show labor’s worth in delivering “high performance” work organization and advanced quality-based production. The fact that these are public dollars, however, could support an argument that they be used differently — to promote good jobs and employers rather than bad ones, to amplify rather than mute the voice of workers in economic decision-making, to benefit the public rather than hurt it.

Labor itself should be the author of such an argument, but labor lacks much strategy in this area. With rare if luminous exceptions, most unions, state federations, and central labor councils are relatively unsophisticated players in the economic development game. They think that economic development work is somehow secondary to their “primary” job of protecting and enlarging their membership — and are only vaguely aware of how public programs are currently undermining (and how they might be used to help) success in those basic tasks. Nationally, labor also lacks the infrastructure needed to support progressive initiatives by those who see the present and potential role of economic development more clearly. With the partial and limited exception of HRDI, for example, there has never been a widely known and easily accessible clearinghouse on “best practices” in the area, or much technical assistance — in the form of model statutes, shared grant applications, planning assistance, or other natural aids — in diffusing them.

Labor’s inattention to the organization of production and investment — the guts of the economy — was once understandable enough, because both were organized in ways that gave labor a clear role and clear benefits. Back in George Meany’s day, labor benefited from a certain “bargain” with capital at the workplace, in which unions steered clear of decisions near the “core of entrepreneurial control” in return for management’s willingness to share the rewards of increased productivity. This workplace bargain rested on high and stable union density within the core sectors of the economy that labor had organized in the 1930s and 1940s and on the Taylorist mass production lines that required concentrated application of semi-skilled labor — labor delivered by union cooperation. The workplace bargain was in turn nestled in a larger social bargain, in which labor (aided powerfully by government regulation and Cold War defense spending) helped assure a dynamic capitalism by assuring a mass market for consumption goods — in return again for business willingness to share the rewards of that dynamism.
However much these bargains limited progress on the broader ambitions for social justice and democracy, their bottom-line results for workers showed their worth. Average wages and family incomes doubled in the generation after World War II, inequality decreased, and most of the working class participated in the American dream of steadily widening economic opportunity.

Today, however, as everybody knows, all such bargains are off. Union density even in labor's traditional core sectors has long since declined, and employers are at war with those union members that remain. New technology has sharply reduced returns to scale in production, dropping firm size and increasing the costs of organization. Returns to skill have increased, exacerbating workforce heterogeneity and inequality. Sprawl has helped weaken labor's regional strength in metropolitan labor markets. Segmented markets and access to foreign consumers have reduced commitments to broad wage gains. Technology and internationalization, and the failure to close off the non-union option at home, have increased capital's exit threats and bargaining power over workers. Reflecting these changes, for a generation now, the living standards for most working families have declined. The private economy is no longer "taking care of itself" in ways the benefit most Americans.

One result is that most labor leaders today would disagree with George Meany's view of their appropriate role in the economy. They may not have a clear program of their own, but they know that management decisions about investment, technology, product strategy, workforce restructuring, and work relocation can "affect a worker directly" in ways no less significant than can decisions about pay and immediate working conditions. Indeed, the past 20 years have borne witness to the disastrous impact of management decisions upon the living standards and dignity of millions of workers and their families. Whatever politicians may tell them about the inevitability of the "new economic reality," most labor leaders today know that declining wages, stagnant family incomes, skyrocketing inequality, rising poverty, and pervasive economic insecurity are in fact produced by just such management decisions, and that public policies encourage decisions that hurt workers. They know that unless such decisions and policies are fundamentally reoriented, the "new economic reality" is only going to get worse. They know that just as decisions about war and peace are too important to be left to generals, the terms of corporate decision-making are too important to be left to business — labor must be involved in setting them.

What they don't know is how that might be done at a scale that would make any real difference and from a position much weaker than the one Meany's labor movement enjoyed at the time it didn't trouble itself with the question.

In truth, nobody else knows either, at least not in the comprehensiveness and detail that only much more experiment and experience will bring. That is one reason why we are having this
workshop — to share some experience, maybe excite some new experiment, and begin what needs to be a broader and continuing discussion. It promises to be a long one.

In approaching that discussion, however, there are some things we do know. To be effective in changing the terms of economic decision-making in this country, labor needs to define its role in the economy — say what the distinctive source and content of its contribution to a more satisfying economy might be. It needs then to clarify what performing that role requires of and suggests for its more general organizing and political strategies — how taking a more active role in setting the terms of economic decision-making fits with its other goals. And it needs to develop a sense of its targets — of where, with limited resources, it might first seek to change the terms of economic governance and implement organizing strategies appropriate to them. While the final truth of things is in the all-important “details” — how best to design a sectoral training consortium, direct a modernization service, use infrastructural monies to build a union base, liberate worker savings to support high-road production and service — those details are framed by these sorts of strategic questions. And those questions have plausible answers, available to us now.

A ROLE IN THE ECONOMY

Ask the average person what clear positive role unions play in the management of our economy and you’ll get laughter, hostility, or a blank stare. If labor is to revive, this is the first thing that must change. Unions only advance when they do something that visibly benefits not just their members or potential members, but the broader society as well — and thereby gets labor the social cachet and political support it needs, in this employer-dominated world, to defend and grow its organization.

That unions — as essentially economic organizations possessed of political and moral sense — are capable of making this contribution is not particularly controversial among union leaders and members. What is sometimes controversial is that the contribution often needs to be made to business (or a portion of business) itself — on whose well-being the well-being of the society unfortunately depends. Historically, this has usually taken the form of unions solving some collective action problem that frustrates a dynamic capitalism but that individual firms have no incentive to solve on their own. Unions use their reach in the economy, their political power in the state, and the interests of their members to force capital to do something good for itself.

Again, in the New Deal and postwar era, labor did that by solving the problem of “effective demand” — appropriating for the public enough purchasing power (of the sort that wasn’t around in the Great Depression) to provide markets for mass-produced goods. Although this problem faced capitalists generally, it wasn’t a problem that any individual capitalist had
much interest in solving. After all, the only way to stabilize and increase purchasing power was to stabilize and increase wages. And that was not something that any individual firm wanted to do, even if that firm relied on others to pay wages sufficient to provide markets for its products.

This was where unions came in — with a solution they imposed on firms for their own good, as well as the good of its members and the broader society. Operating in an essentially closed national economy, where the state relied on fiscal and monetary policy to regulate the macro-economy, unions demanded and got wage and benefit increases for their members — partially extracted from firms directly, partly extracted through the state. By delivering solid and rising wage floors to their members, they boosted aggregate demand. This gave firms markets for sales, and reasons to renew investment. And that, in turn, increased productivity and lowered the costs of mass consumption goods, which was good for everyone. The alchemy of Keynesian economics thus translated worker interests into general interests, with unions as (male, pale, stale, stolid, but still) magicians.

What is the equivalent program in today’s world, in which firm size and structure have changed, workforce heterogeneity limits mass action, and Keynesianism is qualified by international capital flows and product competition? Without overstating that qualification (and thus underestimating the need for demand stimulus), it will likely come as much through “effective supply” of the ingredients of advanced production and service as effective demand for buying product — a mix of constraints and supports to shift employers off “low-road” competitive strategies and onto “high-road” ones.

As reflected in falling wages and rising inequality, we know that most U.S. firms have chosen low-road strategies in response to increased competition. These seek to beat competitors by making or providing more cheaply. They focus on cost reduction relative to rivals — typically, reductions that begin with the cost of labor — rather than improvement in the relative quality of goods and services. Whatever the prattle about our wages being set in Beijing, we also know that a high-road alternative is available and viable under highly competitive conditions. A high-road competitive strategy essentially focuses on making or providing better. Broadly described, this high-road path depends on generalizing a practice of nearly continuous innovation and productivity growth among firms, and the substitution of quality-based competitive strategies for price-based ones.

From the standpoint of social welfare and long-term economic prosperity, the choice between low-road and high-road strategies is no choice at all. While firms can make lots of money on either path, society clearly loses on one and gains on the other. Low-road strategies lead to sweated workers, economic insecurity, rising inequality, and degraded natural environments. High-road strategies are associated with better industrial relations, higher levels of worker involvement, more emphasis on the harnessing of decentralized competence in work organization, more formalized and democratic rules on job access and advancement, higher
productivity and pay, vastly reduced environmental damage, and greater firm commitment to the health and stability of surrounding communities.

The high-road is generally not taken, however, because the costs of transiting to it are great, the social supports aren’t there, and it’s too easy to make money taking the low-road option instead. We as a country have failed to close off the low-road path, pave the high-road one, and redirect the existing traffic of firms and workers. It bears emphasis that all three are needed for any prospect of success. Without shutting off low-road options, some firms will take them — and they will compete away the margins of firms trying to do something better. Without deliberately supporting the high-road path, few firms will be able to assume its costs and remain competitive. And without attention to the existing base of workers and firms, any thought of building a new economy is only dreaming.

Call doing all these things providing “effective supply” for advanced production. That, in a nutshell, is what labor should set itself upon doing. That should be its new role in the economy.

It helps that this is a role that labor alone can perform — thus making its social contribution all the more visible. Employers might like to wave a magic wand and have a well-trained workforce at their disposal, but no individual employer has much incentive to contribute to training on its own. Labor’s reach across work-sites is needed. Government might like to make sure that public development dollars were spent in ways that modernized firms and improved its tax base, but no government has the knowledge or power to make that happen inside firms. Labor’s presence inside the economy is needed. The general citizenry might like to live in a world of growing opportunity and living wages, but it lacks political power and focus. Labor’s organization is needed.

What are some of the elements of effective supply? A properly trained and motivated labor force, capable of sustaining the requirements of continuous innovation and high-involvement and high-responsibility forms of work organization. Redesigned labor market institutions providing clarity in labor market signals to incumbent workers and new entrants, resources to permit their advance along career paths, and clear rewards for such advance along the high-road path, so that they will in fact “buy in” to such advanced production. “Bottom line” floors on wages and working conditions, and a removal of state subsidies to low-roads firms, in order to discourage firm pursuit of low-road strategies. Systems of employee management and industrial relations that promote and reward labor-management cooperation and flexibility, thus enabling capture of the full productivity potential of workers and lengthening the time-horizons of firm planning — itself needed to justify the firm investments needed for modernization. Systems for rapid and economy-wide diffusion of new technology and high-performance forms of work organization — in particular, extending “modern” practice beyond the small cluster of industry leaders to broader incidence — thus matching improved “supply” side conditions (e.g., improved human capital systems) with improvements on the “demand” side of firms themselves.
Sources of "alternative" capital (beginning with labor's own) for such improvements, especially in those most-needy areas neglected by an autonomous, risk-averse, and highly "impatient" private capital market. Regional reorganization of labor market, social service, and economic development programs with the simultaneous aims of driving them closer to their customers, achieving efficient and complementary program administration, and making them more accountable to broader social aims (higher wages, more productivity, less waste, efficient and accountable government, etc.). Competent "public" (though not necessarily government) capacities to monitor, promote, and enforce those aims under competitive conditions, and attendant public recognition of and confidence in public capacities.

Labor is uniquely positioned to supply such things — a mix of constraints and supports, requiring presence and linkages across competing firms, dependent on both political power in the state and real knowledge and power in the guts of the economy — because only labor has the right mix of interests and capacities to do so. Only labor is big, extensive, smart, and moral enough to declare itself at once the conscience of an economy run amok, the designer of a better order more respectful of human values, the savvy partner of progressive capital in advancing toward that order, and the eyes and hands of its more democratic administration. Looking not just to the state or employers to make that economy perform to more demanding democratic standards, but to itself and allied communities, only labor can politicize not only the present distribution of economic opportunity and reward but also the organization of production itself.

And of course the role is not just uniquely labor's, but uniquely popular. Millions upon millions of Americans are desperate for someone to perform it. A generation of economic decline and failed government response have not only made American politics ugly. They've also created a huge popular market for the imposition of standards on corporate behavior and for the reconstruction of a democracy strong enough to enforce and enable those standards under competitive conditions. If labor led the charge in doing that, it would not lack for friends and political support.

A STRATEGY TO PLAY IT

But even accepting its long-term political payoff, is performing this role a distraction from more "essential" tasks like membership service and organization? Not at all. Indeed, a broader strategic conception of labor's economic and social role can help focus labor's own energies, uniting what are now disparate impulses toward its revival. To see this, contrast the "traditional model" of postwar unionism with a new model — most parts of which already enjoy support within progressive labor ranks — in which taking more control of the economy is front and center.
Accepting many exceptions, postwar labor’s organizational practice was defined by four basic elements:

**Just Service, in Majority Settings:** “Provide members with good wages and benefits and the unorganized will join up.” Effectively, this was the theory of union growth offered by trade union leaders in the postwar period. With the exception of a 1960s explosion in the public sector, organizing expenditures as a percentage of total revenues stagnated or declined throughout the period — even as increased workforce heterogeneity, spatial isolation, and changing firm size and structure were raising the effective costs of organizing. The union wage and benefit premium rose; but the new members did not come as fast as the old ones were disemployed or new labor market entrants integrated into a “union free” environment. Where new units were targeted for organizing, the basic pitch was “first contract and, thereafter, peace.” The basic goal was majority status — seen as necessary to the economics of servicing, contract enforcement, and the protections offered only “exclusive bargaining representatives” that had demonstrated such status. Dues were seen to be collectible only following achievement of majority status, and after contract negotiation union members were asked for little else. Where organizing failed to achieve majority support within a limited time frame, it was generally abandoned.

**Staying Clear of Production Control:** Encouraged by law and their own organizational sense, with rare exceptions (in particular, the building trades) unions steered clear of making demands on issues lying at the “core of entrepreneurial control.” Unions negotiated job descriptions and defended their boundaries in administration of the internal labor market; they even engaged in “productivity bargaining” tying compensation to success in raising the rate of output. But they generally only reacted to firm decisions on training, technology, investment, relocation, product strategy, and work organization. And they did not typically seek to take responsibility for steering the firm’s product strategy or organizing the inputs necessary to preferred strategies. In a weaker position than the employer, such assumption of responsibility was seen as promising only responsibility, never power, and blurring the distinctions between “us” and “them” critical to maintaining solidarity in the unit. Needless to say, the prospect of changing entire industry strategies was considered even more daunting and unattractive as a task.

**Centered on Specific Sites, and Not Coordinated:** Despite lead agreements, pattern bargaining, and the sectoral jurisdictions of the CIO, collective bargaining agreements were generally negotiated on a firm by firm, and often plant by plant, basis. Contract administration was highly decentralized, with wide variation in agreements across sites. Within regional labor markets, little effort (again, the prevailing wages of the trades loom as an exception) was made to generalize wage or benefit norms beyond organized employers. Efforts at multi-union bargaining, much less organizing, were infrequent. Murderous jurisdictional disputes were not. And if relations among unions were not close in regional labor markets, relations between the labor movement and community organizations were generally confined to charitable giving, with no coordination of organizing strategies.
National Liberal Democrats or Bust: With very rare exceptions, unions were loyal supporters of the Democratic Party and deeply hostile to independent politics or even sharp programmatic definition. In contrast to the weight of union activity and need, political work — understood throughout as support for candidates — was also heavily skewed toward national, as against state or local, government.

This “traditional model” of unionism worked passably well — though as the steadily declining union density figures attest, chiefly for those already in unions — in a relatively closed economy dominated by large and spatially concentrated firms generally featuring Taylorist work organization, occupied by un- or semi-skilled labor, composed overwhelmingly of men, and regulated by a “nationalizing” state in which even Richard Nixon declared his loyalty to Keynes. But it works much less well in today’s world, with a working class not “ready made” but repeatedly “unmade” through increased educational opportunity, work heterogeneity, and spatial dispersion, composed increasingly of minorities and women, and employed by smaller firms subject to increased competition (owing both to international pressures and, more importantly, technology, deregulation, and, again, the failure to foreclose low-road restructuring options at home), and with policy-makers hostile to union presence or utterly confused about the vital contribution organized workers can make to a productive economy.

More precisely, the service model both proves hopelessly expensive and fails to produce active and engaged memberships; these shortcomings in turn inhibit organizing, which requires a vast increase of expenditures on paid organizers and recruitment and mobilization of the existing base. Particularly in large units, the preoccupation with majority status imposes too demanding a condition of success, and slows the needed coordination across sites, sectors, regions, and even different branches of large, national, but decentralized employers. It also carries enormous opportunity costs for membership growth, since in virtually all workplaces some significant percentage of workers — typically, about 30 percent — now wish to belong to unions. Economic restructuring has meanwhile made investment, relocation, technology, and training decisive for member well-being, the defense and advance of which requires that unions be as deeply involved in “baking” the pie as carving it up. Where unions can best do this, however, and gain the ability to do it in part through their contribution to the infrastructure of advanced production, is less in the high politics of federal policy than the low politics of regional labor markets — where in any case union expansion is unthinkable without substantial local political power. For both reasons, unions have found the need for closer strategic alliance with a range of community groups and populations (in particular, of-color populations) traditionally operating at some distance from the labor movement. But this often sets them on a collision course with internationals much more interested in the next Congressional election, and a Democratic Party that, at its best, provides real support only in up-ballot (e.g. congressional and presidential) races, and at its more frequent worst is hostile to the idea of actually building union power.
It seems clear, then, that the traditional model is no longer working. Consider, then, turning it on its head — and notice throughout the affinity between the new model and the goal of shaping the fundamental frame of economic decision-making. On the model itself, this would mean:

"Everything that Moves" Organizing: Locally-based organizing staffs and member organizers are a cheaper and more effective way to organize than parachuting international representatives in for hot-shop campaigns. Imagine a union movement that took the development of local organizing capacity — among rank and file members, stewards, local unions — as its goal, building on the one signal strength labor still has: the loyalty of its own people. With such standing capacity in place, the logic of majority-only organizing and short time cycles on achieving it — mistaken in any case given the need for expansive reach — additionally fails. It becomes possible to contemplate truly long-term and large-scale campaigns and, within them, clearer focus on the real goal of organizing — which is not to get to contract per se but to the build the union presence in the workplace. Employees in units still lacking majority status would be given the full rights and responsibilities of other union members, and accreted to the organizing machine of which they are one extension. Reciprocally, the job of "organizer" would become less "parachutist" and more "member of the community" — an on-the-scene full-time union activist. The organizer would help direct the training and administration of the local organizing machine, do ongoing targeting for new outreach (itself improved by longer presence in the community), strategize political supports for campaign efforts, and so on.

Seeking to Control the Terms of Production: In the supply-side kingdom, the bourgeoisie is king, but only if the serfs let him be. Operating across firms as well as within them, a union movement seriously interested in affecting the design and utilization of human capital systems, technology, and work organization could in fact do so. Power in these areas, moreover, could be bargained for power in decisions further back in the production chain — investment, new technology, and product strategy. And especially in the U.S., where employer associations are weak as more than trade associations, coordination across firms to supply the needed inputs for advanced production — regional training systems, one-stop-shopping for labor market services, intermediaries for economically targeted investment, modernization assistance of all kinds, early warning networks, production networks, search assistance for needed employees, among others — is something that unions are uniquely positioned to provide. Imagine then, a labor movement that did provide them — that offered itself as another force of production — but only to employers prepared to share power in decision-making and comply with specified wage and production norms. Imagine this deal was sought not just with lead firms, but with their primary and secondary suppliers — indeed support of lead firms in the deal was in part conditioned on their assistance in generalizing it to suppliers.

Spatial and Sectoral Coordination: To shift strategies and wage and benefit conditions in large industries, those industries need to be organized, and growing variation across firms
increasingly recommends that organization really be “wall-to-wall.” Frequently, this simply cannot be done by a single union. Imagine, then, a labor movement that recognized this fact, and devised joint organizing strategies for sectors; instead of policing existing jurisdictional boundaries, central bodies would monitor their deliberate mutual transgression. Recruited members could be divided up by unions on any number of imaginable justified bases, or thrown into a new pool jointly administered by those contributing to it. The same holds all the more for the organization of regional labor markets. With critical mass provided by pooled resources, organizing campaigns are the natural complement and support to regional skills standards and other aspects of effective supply — especially in metropolitan labor markets — not least because they can foreclose the low-wage restructuring strategy that suppresses the demand it aims to meet. As regional labor bodies come to take a more active role in securing the infrastructure of advanced, high-wage production, it would thus be natural for them also to assume supervision of such organizing, making explicit both terms in their double-barreled strategy of imposing norms on the economy (and thus punishing “bad” firms) while assisting firms in meeting them (rewarding “good” firms).

**Independent Politics:** Finally, imagine a labor movement more genuinely independent in its political operations — governed in its political endorsements and supports not by party label but by the values and program of those seeking its help (discounted of course by the plausibility of their implementing those). A labor movement that invested heavily in developing its own capacity to shape the terms of political debate and action — spending less on “hand it over” PAC contributions to individual candidates and more on membership training, candidate recruitment (and more training) from among its own ranks, program, the development of precinct-based labor-neighbor political machines, ongoing work with the progressive caucus of candidates elected. Such an effort would best first be made where it was most feasible and traditionally neglected — in local and state politics. There, the costs of elections are infinitely cheaper, the offices at stake of immediate relevance to improving labor’s organizing terms (cops that behave, local service agencies that respond, etc.), and the vast majority of offices (certainly 80 percent) non-partisan — so support for a more labor-friendly formation than the Democratic Party need not even raise concerns about traditional national loyalties. For relatively modest expenditures, in most American cities, it would again be possible for labor to help set, and move, the public agenda.

Now, stepping back, what is the glue that holds this new model of unionism together? What focuses targeted organizing, unites organizing with political action, provides the frame for cross-union coordination, provides the bulk of the program for local independent politics is the desire to re-ord the economy itself beginning with the specific regional economies that make up the national one.

**THE PLACE TO BEGIN**
But even if it wanted to, how could little labor begin to implement such an ambitious new program and strategy?

Again only with care and targeting. From a position of weakness, labor needs to show both the compelling promise of its long-term transformation, and short-term success consistent with it — a tricky two-step that requires both that labor embrace a vastly expanded conception of its social role, and be ruthlessly disciplined and focused in spending the few resources it has left to begin playing it. The following general principles would seem to guide:

Seek Leverage and Critical Mass in Sectors and Regional Labor Markets: With a long enough fulcrum, you can move the world; in any campaign you know you’re winning when the opportunists climb on board. These two verities speak to what really should be an iron law of organizing: always and everywhere devise strategies that exploit existing strengths — that seek leverage strategies exploiting those strengths — while aiming for “critical mass” effects — sufficient density and momentum that the costs of offering support drop and the costs of not joining rise.

Often, of course, such critical mass is to be sought in particular industries or sectors, defined by some number of competing firms — and here the antecedents are so familiar as to hardly bear renewed notice. A very traditional goal of unions has been to “take wages out of competition,” to make the costs of unionization felt by all competing firms. Disregarding tastes for despotism, competing firms should be indifferent between union-free and fully-unionized environments; it is only the intermediate case — where unionization is a cost felt by some but not all competitive rivals — that drives them to union avoidance or roll-back. Even here, however, there are different incentives for employers depending on the extent of unionization. Imagine employer happiness as a U-curve, with the top left tail being the union-free environment and the top right one being the fully-unionized, and the line on which the U sits describing increasing union density. Unions need to scramble hard to get to the bottom of the curve, and they can expect to do so over general employer opposition, but once a certain critical mass of density is reached they can expect something quite different: tacit or overt support from already-unionized employers for extending the benefits of unionization to their rivals. The costs of new organizing drop sharply, making it possible to go wall-to-wall.

But while leverage and critical mass can be sought on a sector or employer basis, the most obvious place to seek them is within regional labor markets. It is there that the effects of density in one firm can be most easily leveraged to its neighbor, there that the effects of density in one sector can be most easily leveraged to another, there that the range of solidarity and service activity of a sort that would satisfy members without contracts are most easily and efficiently realized. And it is there that the distinctive modern contribution of unions to creating a “well-ordered economy” would in fact first have to be realized: regional labor market boards and
integrated human capital systems, modernization programs, a variety of public goods essential to the success of advanced firms and not capable of being produced by any one of them.

**Integrate the Politics Throughout:** Public power is also organized spatially, and public power is needed to reduce organizing costs. Hard to imagine the Hotel Workers’ Las Vegas campaigns (or the Atlanta Central Labor Council campaign on Olympic work) without local political muscle, or UNITE’s Dominican Republic success without the law, or a Justice For Janitors campaign with a completely hostile police presence. But while everywhere to be seen, national unions have been slow to take the point of this explicitly — by deliberately seeking the political power, beneath the federal or even state level, that would most directly aid them in their organizing. (Although, almost behind their back, the CLCs are beginning to do it. Look at the political operations in Milwaukee, Santa Clara, or San Francisco led by the CLC.) Nor, it bears emphasis, does the importance of politics consist only in the stroke that some power in the state may provide organizing. In today’s world, no less than the old one, thinking of building a union movement as an essentially “economic” project distinct from a political one is like thinking about ice without water, or skiing without snow. Politics is necessary to lubricate the economic advance, and to define the terms of what that advance is about. Most abstractly, but necessary for labor to grasp, the economic project can only command popular support if it is a project that shows the contribution of an organized people, and for this contribution to be seen the demand on the “economy” must be more stringent than rewarding shareholders. Some broader notion of the social good, and social productivity, is necessary to see the productive contribution of people. The signature of new labor is to raise standards and then help in their achievement; the contribution made in the second activity is invisible without the first; the first is impossible without some measure of state power.

**Pay-As-You-Go:** While somewhat trickier given the paucity of examples, at least some unions’ success with “members only” representation suggests that — especially in dense population areas — some measure of at least partially self-sustaining leverage is to be found everywhere. Of course, finding it again requires a break with the “contracts are us” model of unionism, a shift in the goal of organizing from serviced contracts *per se* to independent worker organizations that are durable and grow *before* as well as after they reach contract. And that requires that the costs of union membership be taken seriously, from the start, by those who would claim the benefits of such membership. Given the plethora of unenforced labor regulations, bad management practices, interesting possibilities for alliance with others elsewhere in the improvement of workplace conditions (and interest in making that alliance), and access to group health insurance or other buys that membership in a large movement permits, the examples we do have suggest this requirement can be met. In almost any work-site, there is a critical mass of workers who would like to join a union now, and see the benefit of that, even if a majority of their colleagues are not yet persuaded of those benefits. A labor movement that turns away the energy and resources of such workers is wasting an obvious asset. And harnessing that asset
would vastly extend labor's reach. It would be, if not dominant everywhere, then at least present almost everywhere.

**Concentrate On Metro Regions:** Put the pieces together — the need to leverage off existing strength, the gains to be had by aiming at critical mass, the need for pay-as-you-go organizing requiring population densities, the need to show union contribution in providing the productive public goods also requiring such density, a labor movement that aimed at taking the political power it needs to protect itself — and what have you got as the natural targets for investment in organizing? First and foremost: cities and their metro regions. The degree to which the labor movement was always a distinctly metropolitan phenomenon is not something that has been widely enough appreciated in the labor movement. But density in metropolitan areas has always been, and continues to be, several times national density levels, and it is the failure to protect that density at critical mass levels that most explains the collapse of traditional unionism. These are the most promising ruins from which to rise.

After all, the vast weight of empirical evidence and economic theory tells us that properly organized metropolitan regions can still provide — through agglomeration effects and "increasing returns," shared public goods, and the enhanced monitoring, enforcement, and cooperation-inducing capacities of popular organizations — effective supply for high-wage production. Labor, itself concentrated in metro regions, could simply take this evidence seriously, and wed it to organizing and moral vision. Its (by now familiar) twofold signature would be to impose standards (regarding wages, job access, the environment) on production within the regional labor market and to assist firms and individuals in meeting them — in both aspects relying on a better organized community to provide the necessary supports. Be they agitating for a living wage law or staffing an early warning network to keep the jobs that pay it, insisting on regional training standards or providing the knowledge inside firms needed to set and enforce them, pressuring for targeted investments in hinge sectors or pooling their pension assets to provide them — an organized people can make an enormous contribution to a dynamic and satisfying economy. What they need is labor to organize them in the first place.

And what might the terms of such organization be? On program, a labor-led, high-wage strategy for America's cities and inner-ring suburbs would need to break with what might be termed the "conventional economic development strategy" (CEDS) still widely practiced in our metro regions and states. CEDS commits a series of mutually enforcing errors/crimes, ruinous to our economic health, that themselves need to be turned on their head. That means:

- CEDS promotes job growth without concern for the kind of jobs generated. This does nothing to promote the general welfare, and usually reduces it — as new low-wage jobs drag down regional wages. A labor-led strategy should use public authority only to promote jobs of a

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1 This is beginning to change, now, of course, with the "Union Cities" program coming out of the AFL-CIO's Department of Field Mobilization.
certain kind, and actively discourage those that are not — through the promotion of wage and other labor market standards, and the removal of all subsidies to low-road employers. Not a dime should go for jobs not paying “living wages” with clear opportunities for advancement.

- CEDS focuses on business attraction rather than retention and renewal. Labor should do the opposite. The best evidence from past U.S. experience, and current experience abroad, shows that mature metropolitan economies thrive when their core businesses upgrade, link to one another to realize new economies of “scope,” or attract or spin off related enterprises, benefiting from spatial proximity to industry leaders. So, focus on the retention, renewal, and modernization of the most advanced existing industry clusters. This means sectoral training consortia, integration and targeting of training, modernization, and other labor market support services.

- CEDS uses generic tax abatements and other fiscal giveaways, rather than targeted breaks and regulation, as drivers for development. Labor should put definite performance conditions on any assistance, structuring all subsidies to have linkage to the achievement of desired ends. No more candy store.

- CEDS sees greater public control and accountability as bad for the economy, as it constrains market choice. Labor should argue that advanced economies operate best when they can rely on public support for business goals — support best achieved when the public has significant say in setting those goals. This requires, among other things, active labor presence on workforce development boards, community college boards, department of development advisory committees, and the like — and the training and support of labor personnel serving on them to maximize their effect.

- CEDS sees a necessary “tragic” tradeoff between environmental improvement and the job base. Labor should look for a variety of ways — from at-scale recycling, retrofitting, and other energy conservation projects to using the cost structures of existing regulation to promote assistance from big firms to smaller ones — to exploit environmental concerns as a source of new jobs. Tricky, of course, given the politics of jobs, but essential to realizing the real economic advantages of metro areas, and to securing broader political support.

- CEDS neglects the critical role that public goods of all kinds — transportation, recreation, education, public safety — play in a vital local economy. Labor should emphasize the economic importance of physical and institutional infrastructure, and use government power to promote the second, not just the first. Be it occupational safety and health committees, sectorally-based education and training systems, or technology diffusion programs, it should seek to encourage the development of “multipliers” on state efforts through the organized involvement of non-government actors, and reward those actors with power in exchange for their contribution, starting with itself.
Like any good strategy, advance on this one would make further advance easier. As subsidies to sprawl decreased, the attractions of metropolitan locations would rise; as investment came back into metro cores, productivity would increase, making higher wages more affordable. With higher and more equal wages, the tax base would become more secure. That would underwrite the expensive public goods that would further root high-road producers and service providers. And as these sorts of firms came to dominate the metro mix, the competitive cost of unionization diminishes, and employer resistance with it. Without too much effort, it's possible to imagine rolling the familiar movie of urban decline, middle-class flight, and union avoidance backward ... and watch functioning union towns grow back again.

Of course, some argue that the much greater popular control of the economy implied by such a strategy is itself no longer possible. The new conventional wisdom — shared by exultant free-marketeers and despairing liberals — is that the internationalization of product, capital, and even labor markets makes such control impossible. With everything in the economy free to move anywhere, political boundaries have lost their economic significance. Place doesn't matter. And because it does not, there is no way to make values matter — for people organized in some place to impose some social standards on the economy.

But labor should understand that this description of our economy, and the possibilities of its social direction, is deeply misleading. Internationalization, while very important, has been exaggerated: most U.S. manufacturers buy and sell overwhelmingly to themselves, and the long-run trend of the U.S. economy is toward more services, usually not traded on even a national basis, much less an international one. Even within internationalized relations of competition with profit-taking constraints, alternative strategies with very different social consequences are available. Choices between them can be shaped by factors clearly under our control. Even the diminished state retains a large share of employment and purchasing power, not to mention the ability to pass laws; it can use that power to establish standards on economic practice, to support some strategies of industrial restructuring over others, to establish markets for better sorts of economic practices as well as products, to limit public supports to those adhering to public standards. And even a rootless capital relies, in its most advanced productive forms, on immobile public goods — decent school systems, transport systems, safe neighborhoods, clean environments — which if provided in places can in fact help root investment there.

And if the economics of a development alternative are plausible, the politics of that alternative are also evident. Sticking still to our major urban centers, there is an emerging material basis for alliance among a series of groups that have, for the past 40 years or more, defined themselves as mutual antagonists. White-dominated labor's declining city membership no longer suffices to protect it against low-wage privatization and the destruction of regional labor market standards, let alone assure the public investments needed to support high-wage production and services. It needs the voting support of (heavily disorganized) central city Black,
Latino, and Asian populations. And those populations know that their economic devastation will not be reversed anytime soon through an increased welfare effort or expanded public sector. They need private sector investment and jobs within their communities — best provided by firms and individuals rooted in those communities themselves — and access to jobs without, and they need those jobs to pay a living wage — all things more likely to be achieved if they were allied with unions. At the same time, environmentalists and those concerned about organization inside firms are finding common ground on the supply-side of production. Just as unions have found that they can only defend member interests by getting involved in decisions about technology, product strategy, investment, and work organization, environmentalists recognize that moving from pollution abatement to source-reduction requires a presence inside the firm. Even inner-ring suburbs, now suffering from the same low-wage sprawl that helped destroy the cities, have common cause with the cities against which they have so long defined their politics. And within the metro core, and against those outside it, there are even fractions of business with an interest in ending subsidies to sprawl: metro business that cannot easily flee — because of existing collective bargaining agreements, or pension obligations, or heavy sunk investment in plant and equipment; firms that need close access to urban markets; firms whose product strategy relies on the public goods that metro areas can most easily provide.

While there will be more than enough difficulties and struggles along the way, labor should be confident that if it states a clear alternative, many will be willing to join it in building it — with immense gains to its political power and organization. Watch the deals. With the community, labor agrees to provide access to jobs in return for help in maintaining job standards. With advanced business, it agrees to support advanced production in return for union acceptance within it. With middle-class enviros, it swaps their support for development with its support for dense, non-toxic, and energy-efficient development. It unites overtaxed central cities and inner-ring suburbs against the city rich; the upper-middle class suburbs of the outer ring, and the developers. And with government itself, it trades its capacity to accomplish the public good with greater support for its own organization.

All in all, a beautiful thing — holding the promise not just of a revived labor movement, but a national economy tilted back in the right direction.

GETTING INTO THE GAME

Of course, there are many things that labor would need to do internally to make such a move plausible. It needs to widely publicize its alternative view of how the economy should be structured. It needs to systematically promote, at the state and local level where most important economic development decisions are made, a sophisticated policy reform agenda based on that alternative. It needs to invest in its own capacity to promote that agenda, through modernization of its local political machines. It needs to knock heads on jurisdiction to promote spatial
organizing, break with conventions against “members only,” provide patient capital for metro
organizing drives, and otherwise support taking labor once more wall-to-wall within regional
labor markets.

But finally, and back to the beginning, labor also needs to get into the economic
development game itself. The basic reason, as Willy Sutton observed of banks, is because “that’s
where the money is” — for better and for worse. And at the moment, again, it is mostly for the
worse.

There are two essential aspects of this game: (1) a more deliberate attention to the public
policies that now are hurting labor with inappropriate public subsidies; (2) a more deliberate
strategy for using labor’s own capital to pressure for an alternative and show its worth.

A Political Program of High-Road Reconstruction

On the inappropriate subsidies, perhaps, what needs to be done is clear.

At the federal and state levels of government, the essential tasks are to keep states and
communities from pursuing a competitive race to the bottom, raise minimum standards on firm
performance, and get out of the way of the organizing needed to realize gains from cooperation.
None of this need imply any new public expenditures. What it would mean is that federal and
state governments would:

1. Remove subsidies to low-riding firms. As an initial step, governments should
announce that they will not award contracts or development grants to firms paying wages below
some minimum level (say, sub-poverty wages), or polluting above a certain level, or with a
record of illegal resistance to worker organization. They should then move to mandate such
standards generally, and gradually raise them. For example, phasing in a massively increased
minimum wage — say, to $10 an hour within 5 years — would do wonders for shutting down the
low-road option and requiring firms to compete by improving quality. (Of course, there is no
point urging firms on to a high road, only to push them off a cliff. So this first element must be
understood and treated as part of the larger project.)

2. Discourage “bidding wars” between and within states. Governments often spend
billions simply to lure business from one region to another, with no net gain for the national
economy. One way to discourage this practice would be to tax any government bids at the next
highest level of government (the federal government taxing the states, the states their local
governments), or condition aid from those higher units on the lower one’s participation in non-
aggression pacts with colleagues. Of course, one region’s “subsidy” is another’s “investment
for the future.” So we need criteria to distinguish genuine investment that might also be expected to
lure firms — for example, spending for better educational systems — from direct payoffs and
abatements. But this task is not insurmountable, and even agreement on basic guidelines for the
most extreme (if common) forms of current subsidies — e.g., those drawn through regressive
taxes on people who are not aided by the resulting employment — would represent a big advance.

3. Target development supports to regions on a per capita basis. As a general rule of public policy, we should spend the money where the people are, thus encouraging local governments to increase density rather than avoid it. And let the natural agglomerations of people and firms be rewarded by letting them recapture their individual tax dollars for collective self-improvement. Here too there are important issues of design. We don’t want incentives to agglomeration to be so intense as to encourage overcrowding or insupportable population growth within regions. But the basic idea of removing disincentives to otherwise naturally-occurring agglomeration provides some guidance, and even modest progress toward per capita equalization seems justified on economic and social, as well as democratic grounds.

4. Encourage the growth of economic development authorities on a functional, regional basis. While more than half the population lives in what we’ve been calling metro regions, only 6 percent is subject to any significant metro governance. Moreover, the sheer number of sovereign sub-jurisdictions in these regions commonly poses formidable barriers to planning. The Chicago metropolitan region, for example, includes 265 separate municipalities, 1,200 separate tax districts, and parts of six different mega-counties. State and federal government could provide incentives for more regional administrative structures — which are needed minimally for basic infrastructure development — by making development aid and other supports by higher levels of government contingent on the development of such structures lower down. In very few cases is there actual dispute about what the boundaries of the regional economy are: the problem has been an absence of national or state leadership in fostering regional frameworks for economic development and planning.

5. Directly encourage high-roads. In all aspects of economic development spending, infrastructure support, pollution prevention and abatement programs, and the like, reward regions or states that take the subsidiary policy steps needed to move toward high-road production. Comparative progress toward the high road is measurable. If measurable, it should measured, with receipt of special federal monies contingent on achieving progress. And, independent of what the states do, the federal government should itself be much more attentive to targeting its resources to encourage high-roads. It should target aid to integrated regions, clusters within them, firms within those clusters. The lead federal “manufacturing extension” agency — charged with upgrading the performance of the small and medium-sized shops that provide six of every ten manufacturing jobs — spends $100 million a year, and could reach literally tens of thousands of small- and medium-sized manufacturers, already supplying (or trying to supply) high-road clusters, if that money were appropriately targeted on metro agglomerations.

Together, these five elements would work to remove the anti-urban and low-road bias from contemporary state and federal policy; they would encourage 18th and 19th century jurisdictions to consider the realities of late 20th century regional economic dependence; and they would encourage both firms and regions to exploit the advantages of density.
Higher levels of government, however, can only do so much to foster metro reconstruction. To be sure, moving the national economy onto a high road would be of manifest national benefit. But because a high road policy must be a metro policy, regions themselves must play a large role in designing and implementing it. And here again, particularly at the metro level, labor can show its contribution both by imposing the requisite standards on firm performance and by using its knowledge of the economy and its ability to harness worker and community cooperation in production, enabling firms to meet those standards under competitive conditions.

**Labor’s Capital**

In regional reform, however, as well as at the national level, a more deliberate use of “labor’s capital” is called for. By that term, I simply mean the approximately $5 trillion in deferred U.S. worker wages residing in pension funds and retirement plans, including about $1.5 trillion in collectively-bargained plans, that together account for just under a third of all U.S. financial assets. Also included, though far less momentous, are the several billion dollars residing in strike insurance funds set aside by unions for rainy days of conflict with employers. At present, labor’s capital is generally invested in income accounts, fixed term securities (e.g., Treasury bonds, bills, and notes), or stock equities. In general, the portfolio composition of that investment is not determined by its worker owners, but by various business intermediaries, who respond to general market trends and opportunities in making their portfolio selection.

By a “capital strategy for labor” I simply mean a more intentional deployment of labor’s capital by its owners, a deployment that can influence the broader behavior of U.S. financial markets and the economic activity they underwrite. Such a strategy would presume and include efforts at greater capital accountability — specifically, here, efforts to root the control of labor’s capital more firmly in the hands of its dispersed worker owners. It seems safe to assume that capital more accountable to its owners can reasonably be expected to better serve their interests. It is known that the interests of workers, and allied interests, are in some ways poorly served by existing capital markets. The suggestion of a capital strategy for labor is essentially the suggestion that getting more control over labor’s capital into labor’s hands could help alleviate that poor service.

If labor’s capital were more firmly under the control of its worker owners, for example, we would expect it would be used in ways that help foreclose the “low road” on industrial restructuring that has disrupted American labor markets and depressed family incomes, and help pave a more satisfying high-road alternative: reducing domestic investment’s sensitivity to speculative international capital flows; reduce capital market volatility and impatience; and increase the willingness of management to undertake policies that benefit a wider range of enterprise stakeholders than short-term owners of shares. In doing so, not only worker interests would be served. The natural composition of a more “worker friendly” portfolio of national investment would again, for example, include heavy investment in our neglected metropolitan cores, where it can be expected to benefit poor urban minority populations. In addition, and of great interest to the business community, such changes in capital accountability will likely increase the aggregate amount of capital available for investment while again reducing pressures
for short-term profit-seeking. This would have positive effects on economic growth, and management attention to long-run business problems — both favorable to national well-being.

Of course, with potential gains like these, the idea of using labor’s capital aggressively is hardly new. From Drucker’s *The Unseen Revolution* through Barber and Rifkind’s *The North Will Rise Again* and beyond, management consultants have pointed out the possibility of such use, and labor-friendly scholars and analysts have sought to persuade labor to realize it. And in some measure, labor has done so through numerous shareholder actions and some directed investment.²

Thus far, however, the scope of activity has fallen far short of the possibilities. In part this owes to real (and largely unchallenged) legal constraints and their overly-restrictive interpretation. Taft-Hartley constraints on actual union control of pension assets as well as ERISA constraints on the expected level of fiduciary care (and the behaviors needed to demonstrate that care) encourage unions to take an essentially passive role in the administration of their assets. But the modesty of labor’s use of its capital also owes to institutional concerns or incapacities: the concern that payback from pensions actually be there for members when they need it, or that asset growth not get in the way of growth in present wages and benefits; among unions, the general lack of capacity to manage complex stock and bond portfolios or to do the demanding firm and industry analysis needed to make consistently profitable private placements. Whatever the origin of union hesitancy, the net has been deference to management or extreme caution in the deployment of pension monies. Exceptions to this rule have been sufficiently limited, uncoordinated, or confined to advancing particular union aims in particular projects or fights to fail to qualify as a strategy of the broader labor movement, much less one aiming at significant change in the operation of the economy as a whole. But that might be about to change, or be susceptible to change if properly encouraged. Several developments make timely the exploration of a more ambitious labor capital strategy:

*Discontent with the Economy:* Whatever the latest poll on consumer confidence shows, most Americans are concerned about the broad direction of the economy lower wages, stagnant family incomes, rising inequality, growing poverty, too much work, too little time with families. Most feel that the implicit compact they once had with business has been broken; and most managers agree. In this context, mobilizing capital that is owned by workers toward responsible investment offers a new way for labor to improve the situation of workers. If such mobilization can increase job security and give Americans the raise the AFL-CIO has advocated, it will have great general appeal.

New Leadership at the AFL-CIO: Again, while the idea of using labor’s pension funds for national reconstruction is not new, unions showed only sporadic interest until recently. The election of John Sweeney and his “new voices” slate to the leadership of the AFL-CIO has clearly changed that, however. With its “American needs a raise” campaign, the Federation has point its finger on the key worker problem in the United States and it rightly sees more systematic use of pension monies as one part of the solution. While still in its infancy, the establishment and staffing of a Department of Corporate Affairs with oversight on the development of a serious pension strategy, meetings of affiliated union Secretary Treasurers to discuss that strategy, and resolutions of the executive council to establish labor funds and begin a program of systematic trustee education all point to the seriousness of this effort.

Discontent with Traditional Anti-Poverty/Egalitarian Strategies: But there are other allies not traditionally organized along the lines of class. Many major foundations and civil rights organizations with longstanding interests in urban poverty appear ready to experiment with more employment-based programs as against their traditionally near exclusive focus on housing, social services, or education. These new efforts focus on programs improving the quality and distribution of jobs themselves or, where the volume of employment is at stake, on retaining and improving (“retention and renewal”) the existing employment base. To work at scale, however, such more direct intervention in labor markets typically require alternative sources of capital for example, economically targeted investment for particular regions or sectors happily, often, precisely the regions and sectors labor has the most strategic interest in rebuilding. Discontent with the traditional redistributive focus of the welfare state has also led to new interest in “asset based” strategies to aid the poor. Whether expressed in programs to permit the poor to save, proposals for starting gate equality programs for children, or more radical recommendations for universal citizen grants and “stakeholder capitalism,” these too have a direct affinity, and possibly synergy, with the idea of putting the control of savings into the hands of employees who do the saving.

Labor’s Interest in Encouraging Regional Development/Community Interest in New Capital Strategies: Reconsideration of egalitarian economic development strategies, however, is not only happening in foundations. The AFL-CIO has also begun to show greater concern for using its local and regional bases in particular, in metropolitan regions to promote economic strategies that would actually give America the raise it needs. In its reorganization of the Department of Field Mobilization (charged with relations with state federations and metropolitan central labor councils), for example, the Federation has put new emphasis on promoting regional high-road economic development strategies (of the sort already underway, with labor leadership, in Milwaukee, Seattle, and Pittsburgh). To be viable, such strategies will again need “alternative” capital of the sort that could be provided from labor’s own reserves. And at the same time there is motion inside the Federation on economic development, there is substantial interest in the economic development community in finding sources of alternative capital. Within that community, traditional economic development strategies centered on business recruitment, tax breaks, and deregulation are giving way, among more thoughtful practitioners, to strategies intent on the retention, renewal, and expansion of existing business and community assets. And, once
more, the vexing details of such strategies lie in solving the capital gap for relatively small firms, underscoring the need for capital sources alternative to the conventional finance system.

Successful Development of Worker Ownership: There has been a resurgence of interest in new property forms worker cooperatives, community-owned business, and ESOPs among them each with need of alternative capital. There are approximately 10,000 employee ownership plans in the U.S. with over 11 million employee participants. It is estimated that $100 billion dollars of corporate stock—2 percent or so of the entire stock market—is owned by employee ownership plans. While in only 15 percent of these plans do employees have a majority share and the control that comes with it, those plans include some of the largest unionized ones, such as United Airlines or Republic Steel. Many employee-owned companies, including those with employee majority shareholding, also have shares available on the stock market. A key issue is the extent to which minority employee ownership through ESOPS produces significant employee participation and control of companies. To the extent that it does, we would expect managements to take a broader stakeholder high-road strategy than in other firms.

Capital Gaps: For whatever reason, over the past 15 years net non-residential investment has been halved as a percentage of GDP. Corporate investment in fixed assets as a percentage of available funds with the money going to dividends (comparing 1964-68 to 1989-93 shows the share of pre-tax profits paid in dividends jumping from 27 to 47 percent), or to defensive equity retirements (buybacks, acquisitions). Economic growth has consequently taken the form largely of increased employment and hours worked rather than increased capital per employee. One potential reason for the drop in long-term investment is the marketization of American financial institutions and declining power of banks and other long-term lending institutions relative to mutual funds and finance companies. The potential capital gap is particularly pronounced for "foundation firms" companies with 500 or fewer employees and annual sales in the $5-$200 million range attempting to pursue a high-road strategy, which requires increased capital investment, worker training, better industrial relations, high wages, and environmentally sound production practice. These firms need more — and more patient — capital than they are getting at the moment, underscoring the need to get more capital under the control of those with an interest in their retention and growth.

Internationalization: The integration and internationalization of capital markets, along with their deregulation,³ undermines the capacity of any national authority to guide the national economy. It creates powerful and potentially destabilizing changes in exchange rates and distorts domestic investment and employment — again, in particular, discouraging long-term fixed investment. While a labor capital strategy will not per se limit internationalization, it can limit some deleterious effects by rooting control of investment in those with clearer stakes in the welfare of this particular economy; by increasing the relative weight of domestic fixed

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³ As an example of both, over-the-counter currency trading, an essentially private and unregulated activity, now totals close to $900 billion a day. This dwarfs the volume of world trade in such "real" things as goods and services.
investment (including social investment in the infrastructure education and training, transport, telecommunications of high-road production systems); by introducing more stability into domestic investment and thus reducing sensitivity to “casino capitalism” roiling outside.

These different developments together provide a rich environment for pursuing a capital strategy for labor. Clearly, they have not yet been knitted together in a consensus program for financial institutional reform, labor revival, urban reconstruction, or a more socially satisfying capitalism. Nor is any such program likely to go far absent substantial investment by some “interested” chunk of capital in that program — that is, in closing the low road and paving the high road, in revitalizing metropolitan cores, in making alliances with of-color populations, and in institutionalizing the presence of the interests it first serves. But just as clearly, there is enormous potential payoff to efforts along such lines. And outside government, just as clearly, the most logical place to find such “interested” capital — at least on the scale required — is within the ranks of labor itself.

Questions and Risks

Of course, there are questions and risks associated with a more ambitious labor capital strategy.

As regards using pension funds in such a strategy, there are familiar problems: the need to make sure that the funds succeed in their fundamental goal of pay pensioners sufficiently, which necessarily and properly limits some forms of pension fund activism; the various “excess” legal constraints mentioned above — “excess” in so far as they fail to serve this fundamental goal, but instead unnecessarily curb worker ownership rights; the diffusion of pension monies across local and international unions in our highly decentralized labor movement. Foreign experience also posts several prominent warning signs that unions are not particularly successful as capital owners. The Israeli industries owned and run by Histadrut, in particular, have generally gone bankrupt. German unions have also had problems as owners of businesses. At least in the formative years of the modern American labor movement, the view that capital decisions should be left to management was in part based on a history of failed worker cooperatives.

But there are also indicators that a labor’s capital strategy could be highly successful. Employee-owned firms have had a better record on the stock market than other firms. Firms where CalPERS has intervened aggressively have improved their performance. Socially motivated investment funds have also performed well. Canada’s Quebec Solidarity Fund and its many progeny have been notable successes, and offer a model for consideration here in the United States. These worker funds whose growth is fueled by a tax credit for investors are all fully solvent, now comprise a very large share of the Canadian venture capital pool, and show direct paybacks in jobs and income that more than justify the enabling credit.

What We Need To Do
To move a labor’s capital strategy to the front burner of U.S. labor thinking and to implement such a strategy will require six things:

- Foremost, a decision by top labor leader that they want to do this, and are prepared to use their “reputational” capital and institutional powers to make it happen. This is already underway.

- The development of an appropriate plan for the financial intermediaries and instruments that labor (and others) would be comfortable investing in; and the relevant investment criteria (viable, with suitable payout or payoff schedules) and screens (e.g., high-road, environmentally sound, unionized, or willing to allow workers to choose whether or not to go union without management interference; or amenable to shareholder pressure to adopt such policies) for such institutions.

One natural plan would feature three complementary intermediaries: (1) a national labor mutual fund (in effect, the Federation’s answer to Magellan) aimed at attracting both defined-benefit and defined-contribution 401(k) investors, to be used in particular to advance labor’s interests through shareholder actions; (2) a national private placement fund, aimed at attracting the large defined-benefit pension funds and, potentially, strike insurance funds to equity and debt holdings in firms selected through the chosen criteria and screens; (3) regional funds, perhaps combining institutional and individual investors as well as the mutual/private-placement functions segregated nationally and structured either as pass-throughs to those national entities or as freestanding funds with substantial local capacity. The flows of funds to these vehicles, their governance, and the legal and financial controls on their operation need to be worked out, as do the criteria of investment, the optimal split between debt and equity positions, the research capacity to make intelligent decisions, etc. But certainly none of this seems impossible.

- Developing the actual portfolios of these funds, a task that will require significant amount of expertise in evaluating firms. The specific screens for investments, ways of leveraging holdings with other institutional investors, relations with the various ethical investment caucuses, the cost of the proxy fight strategy on corporate governance, and other related issues are among the details that could make or break a labor’s capital strategy. We have no real doubts that such instruments can be created, these questions answered, and market or close-to-market rates of returns assured. But clearly there is a lot of work that needs to be done in the details, requiring the services of experienced financial analysts, brokers, and other securities types, tax lawyers, labor lawyers (to grapple with all the ERISA problems, among others), regional economic analysts, etc.

- Determining the dimensions of buy-in by various pension funds/investors. One possible way of getting this moving is to solicit contributions on an assurance game basis — with nobody called to make their investment until the fund is fully subscribed. “We want to raise $500 million in capital for the Futures Fund,” an investment vehicle might propose, “and your pledge of $50 million is sought, but will not be called in until we find the balance.” The balance here is
between an achievable goal, given uncertainty in this area, and one big enough to make a difference (and thus relieve uncertainty). Even in the beginning stages, however, labor should be looking to develop the capacity to manage very large amounts of money. That means making sure that people accountable to labor get the necessary training — scholarships to Harvard Business School and Wharton, as it were, for those prepared to use their knowledge to build the movement afterward. It is preposterous that the typical union trustee, with very imperfect information about financial markets, needs to rely — for all advice on legal niceties and investment strategies — on investment counselors with absolutely no interest in building worker power.

- To maximize the assembly and deployment of this capital, policy reform, and the research and educational efforts needed to underwrite that. ERISA is due for reevaluation in light of changed economic circumstances, altered financial institutions, and greater demand from within labor for control of its assets. Different reforms of tax policy — from a U.S. version of the successful Canadian tax credit on individual investing to other forms of savings encouragement — can be considered. The same goes for certain aspects of preemption doctrine under the LMRA, variation in public sector rules, the appropriate scope of Taft-Hartley funds, and a myriad of other areas. And of course there are all sorts of aspects of traditional corporate governance — shareholder voting rules, alternative measures of company value, compensation benchmarks on CEO performance — that bear examination. It seems reasonable to aim for a series of specific recommendations on labor, ERISA, and corporate governance reform within a year or so (and probably, too, the drafting of a Congressional bill embodying them).

- As in any campaign, the broad and effective communication of those recommendations. This should take the myriad of forms that any reasonable education campaign takes these days — from posters, tear-off stickers, T-shirts and refrigerator magnets to glossy prospecti, legal documentation, prompted state and Congressional committee hearings, standardized testimony, talking points, canned op-eds, the development of a speakers bureau, TV and talk radio appearances by them, and so on. Key players again need to be targeted. The goal should be to get the idea of using labor's capital in the forefront of discussion nowadays held in the U.S. by reductions in taxes or in the deficit.

But public education should not be limited to these particular reform suggestions, nor to that needed to recruit individual 401(k) investors. There should also be a concerted effort to put basic questions of financial economic governance and control of assets, and the reasons why this sort of diversification of capital sources is a positive development, on the table of public debate. There should be a well-staffed clearinghouse with all available information on all of the above, linked to everyone by Internet and a fax network, able to handle a good volume of calls from interested unions and others, capable of putting speakers into conferences and on TV.

And there should be concerted outreach to potential allies. While this strategy can only succeed if labor is comfortable with it and effectively in charge of it, there are friendly non-labor constituencies that should be sought out. At the highest level, AFL-CIO officers should do some hits on major business groups with possible interest in metropolitan revival and associations of
high-road firms; churches, which have huge assets that could be partially deposited in these labor-dominated funds; civil rights constituencies and some fractions of black capital; liberal business types via the Social Venture Network, Businesspeople for Social Responsibility, and others interested in codes of conduct and new age business practice; and so on. This itself should be given some visibility, so that the funds more and more become "the people's alternative" rather than simply "labor's thing."

Which, of course, they would be. Labor's role now, as it has been so many times in American history, is to assert itself as a moral center — with at least enough resources to get attention — speak with some authority, and be prepared to commit those resources to the realization of basic democratic values. Just as decisions about the use of military force are too important to be left to generals, the direction of our economy is too important to be left to management.

Labor needs to get into the game.