1987

Whose Job Is It, Anyway? Capital Strategies for Labor

Randy Barber
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**Abstract**

[Excerpt] When corporate mergers and takeovers create massively debt-ridden new entities, with the resulting pressures to sell off assets, reduce costs (especially wages) and close "marginal" operations, it is the company's workers and their communities who suffer. And, when corporate managers accept, and even encourage, huge levels of waste, or ignore obvious opportunities because they aren't profitable enough, workers and their communities end up paying for the resulting inefficiencies and lost potential.

I believe that a hallmark of the new economic era we seem to be entering will be that workers and unions will be forced to actively concern themselves with all aspects of an employer's business — with the intricate details of corporate structure, finance, and operations. In the process, they will have to evolve a comprehensive approach to the process of production and distribution, to investment and financial issues, as well as to corporate organization and control. In short, they will need to begin learning how to organize economic resources themselves and evolve what have been called capital strategies.

**Keywords**
capital strategies, corporate strategies, labor
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A Prologue from the Past

Take a moment to reflect on the American auto industry. Think about what it was during its heyday of the 1940s, '50s and '60s, the number of jobs it provided, the wealth it produced. Then, consider its current plight, the seemingly endless downward spiral of an industry in disarray and decline, thrashing about in pursuit of desperate solutions such as the mass exodus to low-wage manufacturing sites and the frequently botched and ill-conceived introduction of super-automation.

While there are many factors that have contributed to the rolling disaster that is the U.S. auto industry, the key element has been Detroit's standing failure to produce well-designed, competitively priced, high quality smaller vehicles. For decades, the domestic manufacturers arrogantly assumed that the public would buy whatever they decided to make. Since larger cars were more profitable, that's what they produced. Instead of worrying about improving their product, the auto companies concentrated on corporate gamesmanship, financial manipulation, and short-term bottom-line strategies, all calculated to impress not the buying customers but the real gods of corporate America, Wall Street.

Largely as a result of such mismanagement, the auto industry is faced with the continued onslaught of imported vehicles from Japan, Korea and elsewhere; steadily declining market share; hundreds of thousands of jobs almost certainly lost forever; suppliers threatened with extinction by outsourcing to foreign manufacturers; and entire communities impoverished and abandoned.

There is, however, a footnote to this sad story that bears examination. Long ago the United Auto Workers (UAW) and its president, Walter Reuther, had an inkling of the ultimate peril embodied in the auto companies' attitude toward price and product. During the first round of negotiations between the union and GM in 1946, the Autoworkers demanded a 30% wage increase, but linked that with a demand that the company not raise its prices commensurately. GM negotiators were apoplectic, arguing that it was impossible not to raise prices in lockstep with any wage increase. Reuther then made his famous "open the books" proposal.

"We are prepared," Reuther told GM negotiators, "to settle this demand for less than 30%, provided you can disprove our
contention that wages can be increased 30% without increasing prices, and you can still make a profit. If you can prove that we can't get 30%, hold prices, and still make a nice profit, we will settle for less than 30%." Reuther was clearly willing to link wages to profits, but only if the company opened its books and agreed to pursue a strategy that he believed would result in higher sales volumes, which would thus offset the smaller profit made on each car.

GM's response was both revealing and ultimately tragic for the workers and communities who eventually paid the price for the industry's arrogance. Howard Cohen, the company's assistant director of personnel, told Reuther: "Why don't you get down to your size and get down to the type of job you're supposed to be doing as a trade union leader . . . It's none of your damn business what GM does about prices."

The Autoworkers continued to try and convince GM to produce a smaller, less expensive car. The UAW went so far as having its research department draw up detailed plans for such a vehicle. Although this proposal was never seriously considered by the company, the union persisted for years in arguing the need to make a compact car. Such a car, it argued, would be irresistible to a huge number of potential customers with modest incomes—customers who would otherwise be forced to settle for cheaper, but less reliable and more-expensive-to-operate used cars. These were the customers who, in a few short years, began flocking in droves to purchase Volkswagens and then Japanese vehicles.

With hindsight, it is easy enough to speculate what might have been had the UAW held out for price restraint and for the manufacture of a truly competitive small car. It certainly would have established a quite different role for the union in dealing with the auto manufacturers. Realistically, given the circumstances that prevailed at the time, it probably wasn't possible to negotiate what would have amounted to a direct union role in corporate decision-making. But this chapter of labor history may prove instructive in looking at the challenges now facing workers and unions in this country.

Public PLUS "Private" Strategies

It should be abundantly clear to anyone who cares about our economic future that "business" is far too important to leave to corporate executives and Wall Street financiers. Workers and their communities bear the brunt of corporate greed and mismanagement, but their substantial "investment" in an enterprise is rarely
represented, or even reflected, when the most crucial business
cjudgments are made. The challenge today is to come up with a
workable strategy that will permit workers and communities to
exert their influence over corporate decision-making.

It seems to me that there must be two separate, but related,
elements to such a strategy. One, clearly, involves public
action on the political level. The other, however, will be "private" in that
workers, unions, and communities must begin to act on their own
to protect their interests and to help shape the business decisions
of private companies.

Over the past decade, there has been much discussion of the
need for a national industrial policy to effectively address the
economic problems confronting this country. There can be no
argument that many of the most important solutions to our
economic woes can only be dealt with politically and on a national
level. These public approaches include laws governing taxation,
labor relations, business practices, industry-wide regulation, and
financial manipulation, as well as programs designed to increase
employment, provide workers with useful skills, and rebuild our
economic infrastructure.

But while the orgy of corporate greed and profligacy that has
characterized the Reagan years may at last lead Congress to curtail
some business "excesses," it seems unlikely that any form of broad
new industrial policy will emerge any time soon. Even with the
new Democratic Congress, the trend toward less government
involvement in the economy will likely continue for some time.

In truth, I believe, our own vision of workable economic
alternatives is still quite blurred. But it does seem clear that the
process of creating a new consensus for an equitable national
economic policy will require years of building from the bottom
up. While broad policy proposals and sweeping legislative models
are useful, many of the elements of a new economic and industrial
policy will have to emerge from the practical experiences of
workers and communities as they struggle to cope with sweeping
and often devastating change. These will be incremental
experiences, often revolving around individual firms, with much
experimentation—and certainly many failures. But this
evolutionary process is what we need in order to develop the
building blocks for a workable national strategy.

One of the critical weaknesses we have is our failure to come
to grips with the reality of a market economy, and to sufficiently
understand, much less become actively involved with, such basic
business issues as corporate structure, finance, and operations.
It is precisely to this area that workers, unions, and communities
Steelworkers on picket line at Wheeling-Pittsburgh Steel Co. during 1985 strike that ousted W-P's top management. [See story, page 63.]

must now turn in order to develop realistic alternatives to destructive corporate policies. This is the "private" component of the effort to make economic institutions accountable to those who depend on them.

In contrast to most countries in the world, both government and unions in the U.S. have historically accepted a remarkably limited definition of their legitimate role with respect to business decisions. Yes, government at various levels imposes regulations, some quite stringent. And yes, unions negotiate with employers over wages, hours, and working conditions. But the fact remains that neither government nor labor organizations have really made it their business to play a major, direct role in the development of long-range corporate plans or in day-to-day operational decisions.

Although it may attempt to influence corporate behavior with incentives and penalties, the public sector has for the most part assiduously avoided "interfering" with "private" business decisions. And, Democrats and Republicans alike, seem unanimous in their opposition to government competition with private enterprise [witness the strong support for the sale of Conrail].

Likewise, unions and labor activists of all tendencies and persuasions are nearly unanimous on one point: they don't want
to become the “boss” or put themselves in the position to make decisions that fundamentally belong to the employer. Certainly, unions have struggled for decades to push back management rights in many areas, but this is still far from involvement in decisions about investments, prices, profits and the product itself.

As a result, we are left without a legacy of experience with or thorough understanding of how fundamental business considerations can be altered to provide workers with job security and decent wages, and give communities a stable economic base. Thus, we must begin to define for ourselves what a “good” business would really look like, how it should behave (not just broadly, but in minute detail), and how it should be run.

In this era of capital mobility, job-destroying corporate takeovers, mismanagement, technological transformation, and structural economic change, if the basic role of unions is to promote the economic well-being and security of workers, then they must gain a much broader role in corporate operations and a much stronger voice in fundamental business decisions. Otherwise, employers will always be able to undermine any gains workers make simply by moving away from or replacing them—to say nothing of their ability to resist worker demands in the first place.

This is why workers, unions, and communities need to develop tools to begin organizing economic resources and to pursue a comprehensive capital strategy.

**Capital Strategies**

To many, capital strategies mean “corporate campaigns,” pension power, and worker ownership. While these are clearly important elements or tools in what I define as a capital strategy, I would offer a much broader definition: A capital strategy is an integrated approach to trying to affect all aspects of the structure, finance, and operations of both single employers and entire industries.

If, as I have argued, we need to develop broad new strategies to deal with the entire range of corporate affairs, what would the elements of such an approach entail?

There are a number of ways to categorize capital strategies, although none really fit neatly into a single category. For instance, some are primarily designed to exert external pressure on an employer for a specific purpose, while others are played out internally, usually in the context of collective bargaining and union representation of the workforce.

Examples of external strategies would include corporate or coordinated campaigns to force an employer to deal fairly with
its workers and their union—as the Amalgamated Clothing & Textile Workers (ACTWU) did at J.P. Stevens and a coalition of unions coordinated by the AFL-CIO's Food & Allied Service Trades Department did at Beverly Enterprises—or to influence the outcome of corporate takeover maneuvers—as the Rubber Workers did at Goodyear and the United Food & Commercial Workers have done at Safeway.

Other examples of external strategies include campaigns to involve communities and state and local governments in efforts to convince companies to maintain, modernize, or expand their facilities. This could entail enlisting local businesses, churches and other institutions to pressure the employer, or it could mean getting state or local governments to make economic development resources available. (See story on the United Electrical Workers local at Stewart-Warner on page 103.)

Some examples of internal strategies would be negotiated production agreements, specifying in some detail what a company will produce and how many people it will employ in the process, or agreements providing for stock ownership, access to corporate information, or the right of first refusal to purchase a company if it is to be sold. The growing use by building trades unions of pension funds to finance union-built construction projects is another type of internal capital strategy.

The recent UAW strike at GM-Delco was a good example of an internal strategy because the strike was, in large part, over the company's plan to move some 2,000 jobs to Mexico. This job action was as effective as it was because the union understood that, with its new "just-in-time" production technique, GM could be shut down in very short order since it no longer maintained a large inventory of parts for the final assembly lines.

There are other ways of classifying capital strategies. Some could be viewed as essentially defensive—attempts to protect what you have gained in the past—while others involve going on the offensive to secure new rights and create additional jobs. For example, most partial or total worker buyouts begin as moves to save jobs. On the other hand, many corporate campaigns are designed to provide workers with something new, a union. A hybrid defensive and offensive approach might be a concerted union drive to expose corporate mismanagement and resulting inefficiencies. The purpose of such an effort would be both to protect existing jobs and wage levels, and to build the case for expanded employment or improved wages and benefits.

Below are brief discussions of various capital strategies and the tools that go with them. Most of these approaches are in their
infancy; none have really been thoroughly tested and developed. But I believe we have gained enough experience to at least glimpse the broad outlines of a comprehensive set of tools for economic organizing and capital strategies.

**Industry and Company Strategic Analysis**

Too often, individual unions and communities are forced to try their hand at analyzing an entire industry in order to understand the situation of an individual employer. Although some international unions have excellent research departments, they are terribly over-extended and have their hands full just dealing with specific collective bargaining situations.

Unions need to begin pooling their resources to systematically perform in-depth analyses of industries—collecting and evaluating information on company finances, competition, market share, technological change and so forth. This type of information is vitally required at the top to allow union leaders to develop industry-wide policies, and at the base, to permit local officers and members to better evaluate the status of their company.

An integral part of such an effort should be an early warning system that would flag companies which are demonstrably falling behind their competition, which are evolving new strategies, or which are likely to become caught up on one side or another of a takeover battle.

Another grievous problem is the labor movement’s lack of access to the skills, mechanisms, and institutions needed to pursue important capital strategies. Not surprisingly, most people with experience in areas of corporate finance and operations are working on the other side of the fence. While there are people in unions who are skilled in these areas, there are simply too few of them. Experience has shown, however, that many union activists have the potential to develop top notch skills even in areas as arcane as corporate indenture agreements and cost accounting. All they need is the training and the opportunity. In one situation of which I am aware, the union chief steward, in six months became more of an expert about more aspects of a company’s operations than were any of its executives.

In addition, mechanisms that could theoretically be constructed to help unions in any number of ways, are simply not being developed by the traditional financial institutions. Unions, for example, need better research on companies’ employment trends and policies. This is the kind of information that could logically be provided by securities research firms, which generate massive amounts of data about other aspects of company operations. There
are also many types of financial mechanisms that, if created, could help unions and communities preserve jobs. To date, very few have actually been put together.

In addition, more needs to be done to help unions analyze proposed buyouts and takeovers, and intervene where necessary. Also, while there are now a number of “labor-oriented” investment banking firms, more need to be created. Further, we need to develop ideas about what such an institution should be and what standards it should meet.

**Negotiated Production Agreements**

A central union goal in any “internal” capital strategy should be some form of production agreement. Such an agreement should, to the greatest extent possible, include detailed language on as many operational issues as possible—from capital investment plans to volume levels, employment stipulations, and product development and quality issues.

Many times during collective bargaining, promises are made about various business plans or strategies. Often, these representations are used by unions to develop their own strategies. These promises and projections should be made integral and enforceable parts of the contract; if a business issue is important enough to become part of the bargaining process, it should be codified in the agreement.

Beyond operational and production issues, unions should negotiate for two key provisions: unlimited and on-going access to corporate financial information, and the right of first refusal to purchase a company (or other similar agreement that would force a potential buyer to deal with the union). The first provision needs no elaboration. The second is important because it can give a union leverage with potential new owners. Beyond the right of first refusal, another interesting approach could be workers’ “poison pills,” which permit them to trigger some sort of penalty if they are not satisfied with the terms of a transfer in ownership or control.

**ESOPS and Worker Ownership**

Many Employee Stock Ownership Plans (ESOPs) are a rip-off, and worker ownership will not solve the problems of the American economy. Even so, these can be valuable tools in struggles to preserve jobs. Beyond their well-known uses in wages-for-stock agreements, ESOPs have the potential of becoming a powerful weapon of last resort against companies that seem intent on destroying workers’ standard of living and their unions.
The broad "experiment" of the unions at Eastern Airlines—which included minority worker ownership, union representation of the board of directors, and joint productivity efforts—has been criticized by some as having been doomed from the beginning by an immutably recalcitrant management. The real problem at Eastern, in my opinion, was not that the unions there attempted something that couldn't have worked. Rather, they erred in not going far enough, fast enough to make sure that Eastern executives couldn't do what they ultimately succeeded in doing.

In late 1986 the Eastern unions tried to use an ESOP to stop the company from being sold to Frank Lorenzo's Texas Air Corp. This attempt, after Eastern had already agreed to be purchased by Texas Air, was simply too late. It is now clear that by late 1985, or very early 1986, the unions should have launched a "hostile" takeover effort, possibly in partnership with another airline or investor. But the prospect of launching a hostile takeover against an employer is obviously not an easy one to contemplate. While the unions were trying to deal with management in some more traditional ways, Lorenzo launched his preemptive strike. When the unions were finally able to line up the financing for a takeover, Texas Air already controlled the majority of Eastern's stock.

The key mechanism to the failed takeover attempt at Eastern was an ESOP, which can actually be created by unions through a newly established corporation. Under the law, ESOPs can borrow money, and a growing number of financial institutions are willing to lend money to them for the purposes of buying companies. Even though the unions were trying to launch a buyout after Texas Air effectively controlled Eastern, they were able to secure financial commitments for their transaction. In retrospect, it seems clear that such an effort, launched prior to the Texas Air bid, would have been, in the words of one investment banker, "a slam dunk."

There are now at least a couple of other situations brewing where a hostile, union-inspired ESOP buyout could become a reality. This is potentially a very powerful tool in dealing with the management of many publicly traded companies.

**Alternative Capital Pools**

"If you can't beat 'em, buy 'em" ought to be the password of the labor movement. Unions have negotiated for pension funds which are now worth more than a trillion dollars. Although employers control the majority of these funds (another negotiating goal!), unions and union members exercise substantial control over hundreds of billions of dollars in jointly controlled private sector
Bus mechanic at Metro Dade Transportation Administration, where Transport Workers Local 291 campaigned against mismanagement of the Miami transit system. (See story, page 47.)

plans and public employee plans. Unfortunately, almost all pension assets are managed by professional investment advisors who are only interested in the standard stock-and-bond crap shoot. Beyond that, there really isn't that much of a choice at this point. The building trades have succeeded in spurring the creation of several pooled funds to finance union construction, and several other pooled investment funds are either in operation or on the drawing boards, but much remains to be done. For instance, pools could be created, like mutual funds, with the express purpose of investing in and lending to union-supported buyout efforts. Regional economic development pools could be created (one is actually operating in Pennsylvania). If properly done, these pools could provide pension plans and other sources of capital with a reasonable return on their
money. And they would give union pension trustees an alternative to point to when pressuring money managers to change their investment practices.

Beyond pension funds, there are real possibilities of creating alternative IRA and 401(k) pools for individual investments. Also, state governments should be pressed to invest public monies (temporary funds, severance tax pools, endowments, and so forth) much more creatively.

State & Regional Economic Development Strategies
While the development of a national industrial policy seems years away, it is much more realistic to begin working towards more worker-oriented state and regional economic development policies and strategies, a key priority of which should be the creation of high-wage, high value-added jobs.

Today, a number of states provide money for feasibility studies, and are willing to work with communities and unions in efforts to save facilities and convince employers to modernize or expand plants. In some places, public officials are becoming desperate enough to be willing to side with a union in bitter fights with employers over the closing of a plant or large-scale lay-offs.

A state, or even a sizable city, can bring substantial resources and pressure to bear. They often have large amounts of money available for economic development, and unions and communities should become more involved in organizing those resources.

In addition, state university systems and economic development agencies should be pushed to work with unions and communities in creating decent, lasting jobs.

Two-Way Information Flows
An important problem that plagues many capital strategies is the lack of good two-way information flows between the membership and union leaders. In corporate campaigns, members and even local officers sometimes feel they are in the dark about what is actually being done, what the strategies are, and what the chances of success might be. Where unions have gained access to confidential employer data, they often run into a range of constraints (legal and strategic) that prevent them from disclosing key information to the membership. Clearly, something must be done about this.

Although there are no easy answers, at the very least any union caught in this situation should re-double its efforts to make sure that members are provided with all the public information about the situation that is available. For more sensitive information,
unions have always been able to use the informal grapevine to convey their message. This is clearly a situation where creative use of the grapevine could be invaluable.

On the other side of the information flow, unions with access to in-depth information from a company should make a priority of tapping the wealth of data in the hands of line workers. Usually, unions are being given access to corporate information because of some crisis or impending confrontation. The key issues at hand are almost always already well-known on the shopfloor, and union leaders should check whatever representations an employer makes with observations from line workers.

New Organizing Approaches

There are some obvious uses for capital strategies in organizing campaigns, but there are a couple of less obvious ones as well.

Increasingly, unions are using external financial and shareholder pressure on employers. In the process, they are becoming quite adept at performing strategic analyses of corporate strengths and weaknesses. Unions are enlisting pension funds and other capital sources in quite innovative ways. One union has successfully used letters from trustees of union-related pension funds that are stockholders of a company during organizing campaigns; the letters encourage workers to vote for the union and express the hope that management will obey the law and be cooperative once the union is certified. This approach has seemed to blunt employer arguments that "investors" wouldn't like it if workers voted for a union, and would desert the company, leading to all sorts of calamities.

One less obvious use of in-depth industry analyses is to help union organizers better understand how to reach employees of relatively prosperous, traditionally non-union companies. This actually works on several levels. First, many successfully non-union companies have carefully cultivated an all-encompassing corporate "culture" which influences the way workers see themselves with respect to their jobs and their employers. Organizers need to learn how to speak the language of a corporate culture and then relate or contrast the union's goals with those espoused by the company.

On another level, an in-depth analysis of a company and its industry can permit union organizers and supporters to become trusted authorities on the company. Many companies aren't particularly quick at passing on important information to employees. Often, a union, having kept on top of its research, can provide workers with the facts before a supervisor can. Often it
can provide facts that management doesn't want known. In 1985, for example, ACTWU was able to help block a management-proposed $400 million “leveraged buyout” at Scott-Fetzer (a leveraged buyout is where a company is purchased with borrowed money, with repayment to come from the acquired firm’s assets and profits). ACTWU became involved when one of the company’s subsidiaries inserted a key element of the buyout into an organizing campaign, telling workers that if they voted for the union they wouldn’t be able to participate in an ESOP that was being created to help finance the deal. In this case, the union was able to convince the Labor Department that the ESOP was in fact a massive rip-off, since the ESOP would have ended up paying more than ten times the price for the company’s stock than key management personnel would have and since management was getting more than enough money to pay for their stock from golden parachutes that were triggered by the deal itself! Because the ESOP was crucial to the financing of the entire transaction, the deal fell apart after the Labor Department intervened.

Conclusion

In order to realistically embark on a capital strategy, we must come to grips with the essential reality of a market economy where there is competition between firms, with some succeeding and others failing. In this economy, workers by definition compete against each other, even in plentiful times where industry-wide pattern agreements are the rule, not the exception. The key to ameliorating the effects of this competition lies in the creation of a diversified, growing, and rational economy, combined with meaningful programs to assist workers in troubled companies.

For that reason, unions must make it their business to help directly in the creation of jobs at the firm, industry and national levels. This means dealing with everything from business plans and investment decisions to daily operational issues and marketing strategies.

Obviously, there are risks in this approach. But these risks should be carefully balanced against the risks of not making the effort to alter the corporate decision-making process. In the long run, workers have to be concerned with the entire range of issues surrounding the operations of their employer: price, product, planning, investments, control, quality, and, yes, profits.
Resources on Mismanagement


Underwritten by the Canadian Union of Public Employees (CUPE), exposes the record of privatization and contracting out in the garbage collection industry. Other materials on CUPE's fight against contracting out of public services are available from CUPE, 21 rue Florence Street, Ottawa, Ontario, K2P OW6.


Made for managers, but very critical and revealing.


Seminal article which launched much of the current debate on American mismanagement.


Partially technical, but worthwhile explanation of how "discounted cash flow" techniques cause companies to underinvest and undermine their futures.

"The Hollow Corporation," Business Week special report, 3-3-86.

A devastating analysis of industrial management trends and a thorough explanation of why service jobs can't drive the economy.


How the "high-tech" image of a more stimulating and less alienating workplace doesn't fit the creepy realities of computer applications, illustrated in case studies and general trends.


A heart-rending case study of day-to-day shopfloor mismanagement in a non-union factory.


The problem isn't unions or government regulation; the problem is "scientific management" and its failure to innovate and make smarter use of skilled labor.


Computer applications, including "flexible manufacturing" and "computer-aided design," are often more concerned with controlling workers than with efficiency.