1988

Dennis Walton's Capital Wars

Andrew R. Banks
Dennis Walton's Capital Wars

Abstract

[Excerpt] "If Steven Spielberg were to make a movie on how the building trades are using their pension funds to create work for their members, the film would be called Capital Wars and Dennis Walton would play the part of Han Solo," says Randy Barber, union advisor and director of the Washington-based Center on Economic Organizing.

It's been ten years since Barber co-authored with Jeremy Rifkin the eye-opening expose The North Will Rise Again: Pensions, Politics, and Power in the 1980's, which became a best-seller in the labor movement. Since that time, trade unionists have become increasingly aware that if they sit idly by and let others manage the $1.3 trillion of union-negotiated pension funds, unions will in effect be financing their own destruction. Dennis Walton has become one of the most visible proponents in the labor movement of using this pension money as a weapon to further the union cause.

Keywords

union, labor movement, pension funds, construction

This article is available in Labor Research Review: https://digitalcommons.ilr.cornell.edu/lrr/vol1/iss12/9
If Steven Spielberg were to make a movie on how the building trades are using their pension funds to create work for their members, the film would be called *Capital Wars* and Dennis Walton would play the part of Han Solo," says Randy Barber, union advisor and director of the Washington-based Center on Economic Organizing.

It's been ten years since Barber co-authored with Jeremy Rifkin the eye-opening exposé *The North Will Rise Again: Pensions, Politics, and Power in the 1980's*, which became a best-seller in the labor movement. Since that time, trade unionists have become increasingly aware that if they sit idly by and let others manage the $1.3 trillion of union-negotiated pension funds, unions will in effect be financing their own destruction. Dennis Walton has become one of the most visible proponents in the labor movement of using this pension money as a weapon to further the union cause.

In 1976, Walton had just been elected business manager of Operating Engineers Local 675 in Ft. Lauderdale, Florida. Like

---

*Andrew R. Banks is Assistant Director of the Center for Labor Research & Studies at Florida International University in Miami. He is an associate editor of Labor Research Review.*
most building trades business managers, Walton knew very little about pension funds, even though his position automatically placed him on Local 675's pension board of trustees. Like most union pension trustees then, Local 675 trustees had completely entrusted the management of the fund to a fund manager, who in turn handed over the actual investment decisions of the $11 million fund to a large mutual insurance company.

As Walton explains it, he was too preoccupied with other issues in 1976 to waste time on matters he felt the "professionals" should handle. For the first time in decades nonunion contractors were making major inroads into Local 675's jurisdiction. For the first time in recent memory, construction unions in South Florida had members on the bench, unemployed. To add insult to injury, there was a construction boom going on in South Florida. Thus, in his first two years in office Walton was too busy trying to stop his union from hemorrhaging to pay much attention to pension fund matters.

Then, in 1978, something happened to completely change the way Walton viewed both his duties as a pension trustee and as a labor leader. "I'll never forget that day as long as I live," recalls Walton. "All the trades were picketing this huge nonunion construction site when an electrician came up to me and pointed to a sign on the barbed-wire fence. In big block letters for the world to see, the sign said that this nonunion project was being financed by the same company that managed my local's pension fund. I couldn't believe my eyes. Union members were walking a picket line while scabs drew paychecks. And my union and other building trades unions were financing the whole deal by signing over control of our pension funds to these fund managers."

When Walton walked off that picket line, he was determined to put an end to this practice.

Becoming "Prudent"

Local 675's pension fund managers initially told Walton that the practice of investing in nonunion projects was "prudent" and that he must remove his union hat while he was wearing his pension trustee hat.

Not satisfied with this answer, Walton started to investigate the situation. He discovered that the law governing pensions, the Employee Retirement Income Security Act (ERISA), mandated that, indeed, investments had to be "prudent." With this in mind, Walton and the other union trustees looked into the past performance of the investment company who managed Local 675's
New Initiatives in the Building Trades

pension fund.

"Their so-called prudent investments had earned us a shameful average of 1.8% per year," claims Walton. "When we looked at what other funds were doing, we found the national average wasn't much better—3.2%. A bunch of financial wizards in pinstripe suits were milking us dry while telling us we weren't smart enough to manage our own money."

The more Walton and the other trustees dug, the angrier they became. They discovered that the building trades in South Florida had pension funds totaling over $500 million and that union pension funds nationwide accounted for more in assets than the entire Gross National Products of Great Britain and France combined. And they learned that U.S. workers’ pensions provided half of all new investment dollars in this country.

Walton and the others were outraged when they found that their own money was financing the destruction of the labor movement. Union pensions owned much of the stock of union-busting companies such as the infamous textile manufacturer, J.P. Stevens, and the world’s largest nonunion builder, Brown & Root. And as unbelievable as it sounds, they uncovered the outrageous fact that union members’ pension money helped finance the building of the new National Right-To-Work Committee headquarters in Virginia. It was built nonunion, of course.

Walton and the union trustees of the 675 pension fund decided that they’d had enough. It was clear to them that the insurance companies and the rest of the financial community were taking union members’ money, making poor investments, and undermining union jobs in the process.

Walton took his discoveries to the members of Local 675, who endorsed the effort of the pension trustees to take back control of their fund. Walton then approached the management trustees of the pension fund. He offered proposals on how the fund could act as both developer and banker and could invest in major construction projects that would be built 100% union. The management trustees (whose companies were being hurt by pension funds financing their nonunion competition) originally balked at the idea. Eventually, the persistent and forceful Walton had his way, and the pension fund trustees took their destiny into their own hands by firing the fund managers.

Next, with the assistance of Randy Barber and the Center for Labor Research and Studies at Florida International University, a nationwide search was conducted to locate dedicated financial and legal professionals committed to the labor movement. After hiring an economist and a staff attorney who specialized in ERISA,
the Local 675 pension fund trustees started to manage their own money.

First, the pension fund set up a mortgage program so that members who couldn't afford the inflated rates of 15-16% could get a more realistic 10.5% mortgage from their pension fund. Next, the union started to look at investing the fund's assets in major construction projects which would be built 100% union.

After carefully studying growth patterns and government plans for road extensions, the pension fund purchased 100 acres of rock quarry and swampland in northern Broward County for $2.4 million. Roads, sewage and water were put in, using union labor and regular Local 675 contractors.

Once the initial paving and utilities were completed, the tract was sold for $14 million to the nation's largest private commercial developer, Trammel Crow Development Company. In three years the fund had invested less than $3 million dollars, put hundreds of union members to work for tens of thousands of hours, and then sold the property for a profit of $11 million.

And, before Walton would sell the property, Trammel Crow had to sign an agreement guaranteeing that all construction work on the property would be union.

Now, on that same land stands Park Central—an upscale office park with 30 buildings and 1.3 million square feet of office space. Trammel Crow spent over $150 million on Park Central's construction. Also located at Park Central is the union's office, where the pension fund is administered. At the other end of the property, the pension fund held on to some land to operate an auto repair service for the occupants of the Park Central offices and a landscape service which is considered one of the best in the industry. Both companies were financed by the pension fund, are 100% union operated, and will eventually be owned by the employees.
Other Capital Strategies

Park Central is not the only property the pension fund has developed. The fund has leveraged over $400 million of construction work for local building trades union members, taking in about 7 million hours of work.

In 1979, the Operating Engineers Local 675 pension fund had $16 million in assets. Today it is worth more than $60 million. Union contractors are increasing their share of the market, and union members are improving their standard of living through increased employment now and a stronger pension in their retirement years.

At one point, Local 675’s pension fund had risen to the maximum allowable by the Internal Revenue Service without being taxed. While other area unions have been forced to cut medical benefits because of skyrocketing health care costs, Local 675 was able to reduce employers’ pension costs and increase employers’ contributions to the health and welfare fund by an equal amount.

As Dennis Walton sees it, union control of pensions is but one form of an overall “capital strategy” unions must take to survive the current union-busting onslaught. To union leaders such as Walton, the goal of a capital strategy is to “take wages and benefit costs out of competition.”

The modern tradition for unions in the U.S. is to bargain exclusively over wages, benefits and working conditions and to leave the other decisions to management. When union leaders choose not to deal with managerial areas of decision-making, they are severely limiting their ability to deliver for their members. This is precisely what happens when unions allow others to invest their members’ pension money in anti-union ventures which also give low returns back to their funds. Walton’s union has demonstrated how to take back and use the power of his members’ pension capital to enhance their bargaining strength. He has used other capital strategies as well.

Local 675, like most building trades locals in the United States, established a joint Labor-Management Committee (LMC) with contractors who signed the Local 675 bargaining agreement. Originally set up under the guidelines of the National Market Recovery Agreement, the leaders of Local 675 were determined to make LMC stand for more than “Let’s Make Concessions.” Walton and the other leaders of Local 675 have used the LMC to enhance the union’s bargaining position and to further the philosophy of taking wages out of competition.

The nonunion invasion into South Florida has been devastating
to the trades. At one time the area boasted a 90% union construction rate. Now it is estimated to be only 10%. The unemployment among union members has likewise been terrible. To help alleviate this situation Walton convinced the LMC to explore setting up worker-owned companies. Walton had three objectives.

First, he wanted to find work for his members. Secondly, he wanted to prove that a unionized company could be made more efficient and competitive if the joint Labor-Management Committee were allowed to assist in the firm's management and if union members were given a voice in important decisions. And finally, worker ownership through the assistance of the LMC could buy out existing unionized owners who wanted to retire and sell their company. In Florida's heavy equipment industry, many unionized companies become nonunion when they are sold by retiring owners.

The Local 675 LMC created the Worker Ownership Project to assist unemployed members in setting up their own crane companies and to assist members at existing union companies to buy out owners who were ready to retire. Union members who now own and operate United Crane brag about being the most efficient and profitable crane company in South Florida while paying union wages and benefits to themselves.

An important part of the LMC's worker ownership activities is to directly involve workers in the process. Democratically operated committees of workers are formed and trained to deal with issues such as financing, communications, and developing the by-laws and structure of the worker-owned enterprise. The LMC provides professional expertise in the form of a full-time staff person selected by the union.

Also, on the drawing board are Walton's plans to create a statewide insurance underwriting firm for unionized crane companies. Insurance rates are so high in this industry that a percent or two reduction in premiums may provide the margin of profit necessary for a union contractor to win a low bid.

Currently, the LMC is coordinating the joint efforts of the Florida Equipment Contractors Association (composed of all unionized crane contractors) and the Operating Engineers 675 Political Action Fund in getting each county in the state to pass laws requiring crane operators to be tested and licensed. Many nonunion crane operators are not properly trained, and they have become an increasing safety menace on construction sites throughout the state. Local 675 argues that licensure will reduce the safety risks to construction workers, while at the same time lowering construction costs to contractors and consumers. The powerful 600,000-
member Florida Consumers Federation has already pledged its full support in this effort.

After working with other unions to get counties and municipalities within its nine-county jurisdiction to pass prevailing wage laws, Local 675 is asking that these same groups pass prevailing health benefits laws. These laws mandate that any construction company which bids on public projects must offer health benefits to its employees and their families “consistent with the existing standards for like workers in the community.” Less than 2% of nonunion construction companies in Florida offer such health benefits. Unions, community health care activists and lawmakers have declared it immoral for a company to win a bid just because it does not meet the community’s standard for family health care. Earlier this year, the booming city of Sunrise in Broward County passed the Local 675 “Indigent Health Care” ordinance, becoming the first such law in the nation.

The leaders of 675 feel their capital strategies approach is essential for survival, but ultimately it represents only half of the formula for success. Until all crane operators in their jurisdiction join the union, the pressure from the nonunion companies on union standards will continue. Local 675 has recently instituted an aggressive grassroots organizing project to enroll nonunion
workers in the Operating Engineers.

Walton’s formula for success has always been to go on the offensive, to fight the nonunion encroachment by researching and knowing all the elements that make up the construction industry. The bottom line is that Walton has found alternatives to management’s argument that workers must give concessions because labor costs are the only area in which employers can compete. Through controlling the LMC process and the investment policies of its jointly trusteed pension fund, Local 675 has kept wages and benefits stable while forcing management to give up their exclusive power to make business decisions.

Capital Wars in the U.S.A.

At first other unions were hesitant in following Walton’s lead. Their attorneys and fund managers said it would spell real trouble, and that they were better off assigning their fiduciary responsibilities to the professionals.

To make matters worse, the Labor Department, which interprets and administers the nation’s pension laws, sued the 675 pension fund over the Park Central deal and the low-cost mortgage program. Though this temporarily had the effect of scaring away other unions from taking control of their pension funds, the Labor Department’s plan backfired when the federal courts ruled in Walton’s favor and ordered the government to pay all legal fees. The appellate courts have upheld the lower court’s ruling, thus making Ray Donovan vs. Dennis Walton a great precedent for other unions.

Since the favorable court decisions, the pension fund investment strategy has blossomed and spread throughout the United States. Walton is constantly being asked to address groups of unionists, pension trustees and academics around the country. Three documentary films have been made about his efforts, and the 675 pension story was the subject of a NBC white paper.

In Florida, the state Building Trades Council, under the leadership of Joe Martin from the Ironworkers and George Hudspeth of the Electrical Workers, has formed the Florida Affirmative Investment Roundtable (FAIR). Representatives of member unions literally sit at a table and are offered investment opportunities in major all-union construction projects. A miniature version of FAIR in Palm Beach County, PAIR, recently funded the construction of the $52 million Hilton Hotel Complex and Convention Center. Participating unions—Bricklayers, Ironworkers, Electrical Workers and Plumbers—invested only $2.5 million in the project. It created
1.3 million hours of work for union members and provided a net return to the pension funds of 24%.

Nationally, the AFL-CIO has been supportive of developing pension fund strategies for some time. The Industrial Union Department publishes a monthly newsletter, *Labor & Investments*, which keeps track of developments around the country.

Since 1964, the Federation’s Housing Investment Trust (HIT) has invested more than $650 million in union-built single-family and multi-family housing, retirement centers and nursing homes. Last year, the Fed initiated a Building Investment Trust (BIT) to become a player in major commercial and industrial real estate development. Ground was broken this summer on BIT’s first project—a 126-room hotel in Taos, New Mexico.

As the Reagan-created low-income housing crisis has been driving poor families into the streets, some local building trades unions have begun to coalesce with community groups and local governments to finance affordable housing.

The New York State AFL-CIO, for example, has joined with a coalition of churches and synagogues to rehabilitate abandoned buildings in Brooklyn. Six union pension funds have invested $10 million thus far in this “New Communities” project. In Boston, the Bricklayers and Laborers have formed the B&L Non-Profit Housing Co., through which pension money is invested in government-insured certificates of deposit in a local bank. The bank, in turn, invests this money in 100% union-built housing for
low and moderate income families. The homes can be sold at 40% below market value because of the unique financing and because Boston Mayor Ray Flynn helped secure favorable prices for the land.

In a different sort of venture, the Sheet Metal Workers International Union has recently purchased a 22% stake in a major manufacturer of photovoltaic solar energy panels. Encouraging this new technology provides jobs for Sheet Metal Workers both in the manufacture and the installation of solar panels. The union is also financing the building of the manufacturer's new plants 100% union and is investing in housing construction that uses these energy-efficient, union-made products.

One of the problems sheet metal contractors are having is in obtaining affordable asbestos insurance. This insurance is necessary because of the large amounts of asbestos in buildings being retrofitted for energy efficiency. To assure the availability of affordable coverage to union contractors, the union's pension fund has purchased a 30% share of an insurance company.

Building trades unions are also beginning to use their financial leverage to affect the banks. Since 1978 Kansas City building trades have targeted local banks for asset transfers. Whenever the unions discover that a local bank is financing non-union construction projects, the call goes out to transfer union-related funds from that bank. In the past ten years more than $30 million in union-related assets have been transferred from "rat" banks.

And in Massachusetts, the Carpenters recently opened the First Trade Union Savings Bank, which attracted nearly $100 million in deposits in its first six months. Mortgages are slightly below most area lenders, and union members (who make up 60% of the depositors) pay half the going rate for attorney's fees at real estate closings. The bank plans to open a trust department to manage pension funds for area unions, and it has already made numerous construction loans.

The list of unions becoming involved with these strategies is becoming larger every day, but folks like Dennis Walton know the labor movement has barely seen the tip of the iceberg. A recent study, for example, disclosed that U.S. workers' pension funds (two-thirds of which are union-negotiated) now own 50% of all outstanding stock in corporate America.

Following the lead of Dennis Walton, the building trades have begun to demonstrate to the rest of the labor movement that by taking control of these funds (and using other capital strategies as well) maybe—just maybe—we can become the victors instead of the victims of Capital Wars.