# 5 The limits to labour's capital and the new activism

Trade unions are believed to have experienced a renewal since the 1990s. Viewed against the backdrop of mass investment culture, this revitalization does not refer to union members' role as workers, but to their role as active shareholders. Union organizations, such as trade union organizations, union-based pension funds, individual union members and labour-oriented investment funds, have become increasingly cognizant of their powers as 'owners' of vast amounts of social security capital (see Chapters 1 and 2), or what some commentators have referred to as 'labour's capital' (Fung *et al.*, 2001). Unlike traditional forms of union activism, which have relied primarily on strikes and picketing to gain concessions from management to improve workers' welfare, the new activism focuses on ensuring that good corporate governance practices are met by way of proxy voting, dialogue and negotiation with management and other shareholders. By flexing their financial clout through shareholder oversight and influence on corporate decision making, proponents of this new activism believe that unions will make more inroads in securing workers' interests than by engaging older strategies to change corporate behaviour (Schwab and Thomas, 1998). In other words, there is an implicit assumption that the maximization of shareholder value, which lies at the heart of corporate governance theory and practice (see Chapter 3), will lead to improved welfare benefits for all, including workers.

Despite the enthusiasm for this so-called 'new activism' and its ability to effect positive social change, observers have conceded that workers still do not exercise meaningful control over their capital (Baker and Fung, 2001; Hebb, 2001). This lack of control is particularly evident in the growing insecurity of retirement income and the ever-widening gap between executive pay and compensation packages on the one hand, and workers' wages on the other (Weller and White, 2001; Brennan, 2005, 2008; Mishel *et al.*, 2007). Two major and overlapping perspectives dominate the explanations regarding the limits to union-led shareholder activism: (1) the weak corporate governance perspective; and (2) the myopic market model. The first explanation locates the majority of blame with the ongoing passivity of shareholders to ensure that management adheres to good corporate governance practices, thereby working toward maintaining shareholder value. The second explanation, the myopic market view, finds fault with the short-term and speculative nature of money managers and financial markets. The shortsightedness by the financial community has, in turn, placed pressure on corporate management to focus on improving the price of company shares as opposed to keeping an eye on the long-term benefits of reinvesting in production processes, worker training and so forth – all of which aid in improving the welfare of workers (Baker and Fung, 2001; Brennan, 2005). My main thesis in this chapter is that while the two explanations mentioned above are helpful in understanding why organized labour continues to wield little control over its pension fund capital, the accounts fail to capture some of the deeper causes of the limits plaguing the new activism, specifically those rooted in the contradictions and power relations of capitalist society. As such, these accounts explain away the underlying causes of the limits to union-led shareholder activism, as well as the depoliticizing tendencies inherent in the corporate governance doctrine. I develop this argument in four main sections. The first section maps the rise and significance of the debates about labour-shareholder activism, and establishes their relevance to changes in both financial markets and corporate governance. The second section identifies the chief limitations to union-led shareholder activism since its rise in the early 1990s and explores the two major perspectives that have been used in the debates to explain the weakness surrounding this novel form of activism. The third section critically evaluates these two explanations, aiming to transcend mainstream analyses by identifying the underlying causes that have led to the weakness in union-led shareholder activism. The fourth section concludes by drawing out the analytical and political limits to the new activism.

## The changing landscape of investment in Corporate America

In his controversial book, *The Unseen Revolution: How Pension Fund Socialism Came to America*, Peter Drucker argues that through their pension funds, workers have come to represent a controlling share of equity capital. The growth in pension fund assets, according to Drucker, translates into the 'ownership of the means of production by workers', and therefore a state of socialism. Labour, seen as the source of all value, now receives the 'full fruits of the productive process' through pension savings (Drucker, 1976: 4). While Drucker's analysis of the socialist features of pension funds has proven overly optimistic, at least in terms of the power workers wield over their pension fund capital, his insight into workers' ability to influence corporate behaviour through their pension funds has undergone a recent revival. There are at least two interrelated reasons for this renewal: (1) the astronomical rise in levels of corporate ownership by institutional investors, especially in the form of pension plans; and (2) the growing interest in good corporate governance and its key objective, the maintenance of shareholder value, which has been spurred on by the general increase in shareholder activism since the early 1990s.

With regard to the first point, there has been a staggering increase in ownership levels among US institutional investors (e.g. pension funds, investment companies, insurance companies, banks and foundations) over the past several



decades. As discussed in Chapter 1, US institutional investors as a whole have increased their share of US equity markets substantially (The Conference Board, 2007a). Pension funds represent the largest type of institutional investor, with 38.9 per cent of total assets in 2005. Of this category, private pension funds, especially open-ended mutual funds,[1] have experienced the most rapid levels of growth since the 1980s, largely, although not exclusively, due to state-led privatization campaigns within the Ownership Society (see Chapter 2). Private pension funds, for instance, have amassed institutional investor assets totalling 23.8 per cent in 2005 (ibid).

Despite their size, private pension funds, such as DC schemes like 401(k), have not been major sources of shareholder activism. There are at least two reasons for this. First, unlike guaranteed DB plans, employer-sponsored, market-based DC schemes are subject to specific controls under the Department of Labour's ERISA, which limits the ability of money managers to engage in corporate governance activities (Blair, 1995; see also Chapter 2). Second, DC plans (mutual funds) are largely indexed. The significance of indexing for shareholder activism is that 'Index fund managers may have no interest in shareholder activism since they merely adjust their holdings when the mix of the index changes and only want to follow the index, not influence it' (Federal Reserve Board, 2002). For these and other reasons, DC retirement plans have not been at the forefront of holding corporate executives accountable to shareholder concerns, such as the bid for equal access discussed in Chapter 4.

In contrast to DC plans, union-sponsored pension plans, most of which are more secure, DB plans, have played an important role in contesting strategies and decisions made by corporate management (Schwab and Thomas, 1998; Hawley and Williams, 2000). The total institutional investment assets of activist state and local funds are considerably less than their private counterparts; however, public and local pension funds have not only grown relative to the private sector corporate pension funds, but have also devoted a greater percentage of their assets to equities. With a membership base consisting largely of unionized workers, these funds exercise their clout through proxy voting, proxy fights and other interventionist strategies aimed at ensuring good corporate governance practices, making them the most active category among pension plans (The Conference Board, 2007a).

The growing voice of the activist funds relates to the second point concerning the revival of workers' ability to effect corporate change through their pension savings. Most contemporary scholars seem to agree with Drucker's claim that there has been a fundamental shift in power with regard to pension funds since the Second World War, and, by extension, that pensions funds have come to represent new power centres that offer new opportunities to those who dominate them (Drucker, 1976; Rifkin and Barber, 1978; Blasi, 1988; O'Barr and Conely, 1992; Clark, 2000; Fung *et al.*, 2001; Blackburn, 2002). In their extensive and path-breaking study of labour-shareholder activism, Stewart J. Schwab and Randall S. Thomas go so far as to suggest that labour unions are active again, but this time in the form of capitalists (Schwab and Thomas, 1998). The umbrella term 'labour-shareholder activism' captures these new union tactics aimed at protecting their members' interests in a manner distinct from traditional strategies such as strikes and picketing (O'Connor, 2001). For trade unions, this new activism has translated into a powerful presence in the private sector, despite shrinking membership and density in key sectors of the US economy (Moody, 1997; Mishel *et al.*, 2003).

As discussed in Chapter 1, corporate governance, with its emphasis on maximizing shareholder value, became the new management mantra in response to the mergers, acquisitions and bankruptcies that plagued Corporate America during the 1980s. To recap briefly, corporate governance refers to 'the system by which business corporations are directed and controlled, so as to enhance shareholder value'. The maximization of shareholder value describes a strategy in which managers are required 'to pay more attention to increasing the returns on the assets of the firm in order to increase the value of these assets to shareholders and pay less attention to other constituencies, such as employees and communities' (Brennan, 2008: 27; see also Fligstein and Shin, 2005). While labour-shareholder activism has assumed different forms, such as economically targeted investments (ETIs), social screening, and shareholder advocacy initiatives (Hebb, 2001; see also Chapter 7), the main strategy to effect change in publicly held corporations has been shareholder advocacy through proxy proposals, or, put another way, filing resolutions that appear on corporate proxies on which all shareholders are to vote during proxy season.[2] Indeed, as Maureen O'Connor (2001) notes, union-led activism largely involves submitting precatory (advisory) shareholder proposals.

Before continuing this discussion, it is instructive to provide a brief excursion into the basics of shareholder proposals. The procedure of submitting a shareholder proposal is regulated by the SEC Rule 14a-8. Any shareholder, who has continuously held shares of at least $2,000, or 1 per cent of the company value, may submit at most one proposal of 500 words or less per annual meeting (Tkac, 2006). The content of the proposal may be contested, as was the case with the equal access proposal discussed in Chapter 4, by the firm's management, which can petition the SEC to exclude a proposal on one of the four following grounds: (1) the proposal reflects a personal grievance; (2) the proposal requires the firm to violate state, federal or international law; (3) the proposal relates to operations accounting for less than 5 per cent of the firm's assets, sales and revenue; or (4) the proposal relates to the company's ordinary business operations (ibid.: 4). The last point is the one that most corporations cite when attempting to exclude proposals that management deems as 'anti-value' activism, such as special interests linked to union demands (see Chapter 4). It is important to make clear that even if challenges by management fail and a proposal goes to – and *wins* – a shareholder vote, there is no guarantee corporate behaviour will be affected. This is because management is not required to implement successful proposals. Over the years, unions have gained management attention by submitting changes to company by-laws to make their resolutions binding (O'Connor, 2001; Tkac, 2006).



In their bid to use their shareholder rights to influence managers, unions have sought to align themselves with other shareholders. This alignment has largely been accomplished by appealing to the broader (and common) concern of protecting shareholder value, that is, the economic best interests of beneficiaries, as opposed to specific claims that could further the interests of workers, such as wage increases and other forms of social protection (Weller and White, 2001; Brennan, 2005). In other words, since 2002, unions have shifted their focus on social advocacy and moved their attention entirely to corporate governance proposals (Tkac, 2006). Given the hegemonic position of corporate governance and its guiding principle of shareholder value (see Chapters 1 and 2), union-sponsored pension funds have tried to target issues that will garner a fair amount of support from other non-unionized shareholders, such as executive compensation reform, declassified boards (i.e. boards in which all directors are elected annually), golden parachutes, disclosure of political contributions, an end to 'poison pill' provisions[3] and so on. Some commentators have gone so far as to suggest that the success of union-led shareholder campaigns is dependent on the quality of partnerships and networks that unions forge with other key institutional investors (Schwab and Thomas, 1998; Chakrabarti, 2004). As we saw in the previous chapter, the most powerful institutional investors represent influential financial interests, which, more often than not, reflect the same interests as corporate management. Through these new partnerships, the proponents of this new activism believe that there has been a major realignment of the traditional ideologies and/or relationships between shareholders, workers and managers (Blasi, 1988; Schwab and Thomas, 1998; cf. Useem, 1993).[4]

During the 2006 proxy season, corporations faced more than 200 shareholder proposals from major union-sponsored pension funds, which were responsible for filing the largest number of shareholder proposals of any group. As is evident from Table 5.1, these proposals dealt with corporate governance, largely focusing on executive pay and board accountability, as opposed to social issues (cf. Tkac, 2006). This point is illustrated by the following figures:

> In 2006, 295 of 699 shareholder proposals were introduced by union pension funds. By contrast, for 2006, public pension funds sponsored 31 proposals; mutual funds and other types of equity funds, 23; social or religious funds, 39; and individuals, 280.
>
> (*Pensions & Investments*, 2007b)

## Explaining the limits to labour's capital

Despite the rising levels of ownership and novel forms of activism by labour-sponsored pension funds in public corporations, these funds have made little progress in safeguarding the general welfare of unionized workers, especially with regard to protecting pension savings and curbing what many perceive to be excessive levels of executive pay and compensation, especially vis-à-vis workers' wages. This section focuses attention on these set-backs for labour and

*Table 5.1* Key proposals of US union pension funds in the 2006 proxy season

| *Union pension fund* | *Size of fund ($)* | *Proposal* |
|---|---|---|
| United Brotherhood of Carpenters and Joiners of America Pension Fund | 558 million | A call for a majority vote to elect directors (i.e. 'equal access proposal', discussed in Chapter 4) and greater linkage of pay and corporate performance |
| American Federation of Labour-Congress of Industrial Organizations Retirement Fund | 180 million | The fund introduced proposals at 28 companies, including resolutions for independence of compensation consultants used by boards |
| American Federation of State, County and Municipal Employees Staff Pension Plan | 850 million | The fund introduced proposals at 27 companies, including one resolution calling for corporations to reimburse shareholders' expenses in proxy contests that meet certain conditions |
| The International Brotherhood of Teamsters General Fund | 100 billion* | The Teamsters introduced proposals at 19 companies, focusing on issues that include backdating of executive stock options and board independence, including separation of the chairman and CEO positions |

Sources: *Pensions & Investments* (2007).

Note
* Approximate figure for 2006 representing Teamster-affiliated pension and benefit funds. Letter issued from The International Brotherhood of Teamsters to the SEC on 7 April 2006, accessed on 3 August 2008, available at: www.sec.gov/rules/proposed/s70306/s70306–371.pdf.

elaborates on the two dominant explanations in mainstream debates as to why labour continues to lack control over pension fund capital, especially as this pertains to two key areas: financial markets and corporate management.

Although US capital markets are currently financed by $9.4 trillion of workers' pension fund savings, of which $2.69 trillion are held by public pension funds (The Conference Board, 2007a), there has been a general decline of the average real pension benefit by one-third since the 1980s (Brennan, 2005). Mishel *et al.* (2007) draw on the category of 'retirement income adequacy' in order to measure the ability of individuals to replace at least half their current income based on their expected pension, Social Security benefits and returns on personal savings. According to their study, 27.2 per cent of households headed by someone aged 47–64 expected their retirement income to be *inadequate.* In contrast to the level playing field depicted by the rhetoric of the Ownership Society (see Chapter 2), Table 5.2 reveals how the numbers regarding retirement income adequacy vary along class and racial lines. While there was an improvement in the overall levels of expected retirement adequacy from 1998 to 2001, most gains were wiped out between 2001 and 2004, largely due to the surge of corporate scandals (ibid.). It is expected that these levels will be adversely affected by the 2008 credit crisis.



*Table 5.2* Retirement income adequacy,* 1989–2004

| *Group* | *1989* | *1998* | *2001* | *2004* | *1989–2001 Percentage-point change* | *2001–2004 Percentage-point change* |
|---|---|---|---|---|---|---|
| *By Race/Ethnicity* | | | | | | |
| Non-Hispanic White | 27.3 | 40.3 | 25.4 | 24.1 | −2.0 | −1.3 |
| African-American or Hispanic | 42.1 | 52.7 | 40.0 | 39.0 | −2.1 | −1.0 |
| *By Education* | | | | | | |
| Less than high school | 39.2 | 48.6 | 29.2 | 46.6 | −10.0 | 17.4 |
| High school degree | 24.7 | 40.9 | 29.0 | 28.8 | 4.3 | −0.2 |
| College degree or more | 20.8 | 40.7 | 25.4 | 21.2 | 4.6 | −4.2 |

Source: Adapted from Mishel *et al.* (2007: 270).

Note
* Percentage of households headed by someone aged 47–64 with expected retirement income less than one half of current income.

The myopic market model represents a key perspective in explaining the inability of the new activism to effect change by assuming greater control over old-age savings in order to create long-term wealth, especially as it pertains to protecting the security of workers' pensions. Generally speaking, this view, as employed in the labour-shareholder activism debates, is comprised of two strands. On the one hand, it posits that the dominance of financial concerns driven by the principle of maximizing shareholder value has permeated the management of old-age savings to such a degree that corporate ownership has not been accompanied by commensurate levels of influence and control by US workers, because pensions are not managed directly by their beneficiaries (Rifkin and Barber, 1978; Hebb, 2001). Instead, they are held in trust and invested by money managers in the capital market on behalf of those beneficiaries. This has resulted in a situation in which relatively few corporations, state governments or unions manage their employee pension funds in-house. Most give over investment responsibility to bank trust departments, insurance companies and independent asset managers (Rifkin and Barber, 1978: 91; cf. Clark, 2000). Jeremy Rifkin and Randy Barber suggest that the transfer, or outsourcing, of daily investment decisions has led to a situation in which trade unions and states have relinquished control over pension fund capital to the financial establishment (Rifkin and Barber, 1978: 11). William Graebner argues that the tension between ownership and control still exists. Despite the fact that workers are owners of a vast amount of money, they have gained none of the power that historically accrues to such wealth (Graebner, 1980; Ingham, 2000).

On the other hand, the myopic market perspective holds that the pressure to rapidly boost returns on capital has not only led to increased risk for pension savers and retirees, but has also compromised other social issues affecting labour as a result of the influence and power of financial markets (cf. Blair, 1995; Baker and Fung, 2001; Hebb, 2001). Put another way, the primacy given to the maximization of shareholder value underpins the perspective that 'short-term increases in stock valuation justify such forms of distress as closing otherwise productive facilities, shifting work to lower-wage or less regulated regions, and selling off pieces of coherent business complexes' (Hebb, 2001: 2–3; Baker and Fung, 2001). This position has been supported by numerous scholars, from a variety of disciplines, who are critical of the meaning and social impact of what they refer to as the ideology of shareholder value (Lazonick and O'Sullivan, 2000; Erturk *et al.*, 2004; Aglietta and Rebérioux, 2005; Fligstein and Shin, 2005; see also Chapters 1 and 2). A case in point is the dramatic increase in share repurchases in the neoliberal era. As discussed in previous chapters, corporations have traditionally raised capital by selling shares on the stock market. Firms have, in turn, traditionally used this capital for productive purposes in order to generate profits for shareholders (dividends). However, since the 1980s the level of share repurchases, that is, firms repurchasing their own shares as opposed to offering shares for sale in new equity issues, has skyrocketed. As David M. Brennan observes,

> During the 1950s, 1960s, and 1970s, firms were, in aggregate, net sellers of equities. In the 1950s, firms raised $1.96 billion per year on average on net new equity issues. For the 1960s, this annual average was $1.16 billion, and the 1970s experienced an average of $5.52 billion per year in net new equity issues ... During the 1980s and the 1990s, however, net new equity issues based on annual averages were –$55.89 and –$69.4 billion, respectively. In the year 2000, net new equity issues were –$150.6 billion. This means that, in aggregate, U.S. firms were repurchasing their own shares in excess of what they offered for sale in new equity issues.
>
> (Brennan, 2008: 89–90)

Institutional investors and corporate management, as opposed to labour, have been the biggest winners of these share repurchases. L. Josh Bivens and Christian E. Weller (2005) argue that the link between the simultaneous rise in share repurchases and poor wage and employment growth is due to the growing influence of institutional investors and their demand for higher levels of return on their shares. Brennan suggests that another aspect of the growth of share repurchases is to be found in the sharp rise in the use of stock options to pay CEOs in order to ensure that they remain focused on increasing shareholder value (Brennan, 2008). As discussed in Chapter 3, the 'carrot' feature of stock options is rooted in the assumption of the corporate governance doctrine, i.e. that agents (management) will act rationally (in terms of 'profit-seeking' behaviour) and align their interests with the principals (shareholders).

A second, related manifestation of the lack of influence of workers over their pension fund capital is the unprecedented increase in the ratio between the compensation of executives and workers in the US over the past two decades. In real terms, average executive compensation has risen to almost 300 per cent of average wages since 1990 (ibid.). According to a preliminary analysis by The



Corporate Library, the average CEO of a Standard & Poor's 500 company in 2006 received $14.78 million in total compensation. This amounts to a 9.4 per cent increase in CEO pay over 2005 (AFL-CIO, 2007). In contrast, the average worker has received less than 5 per cent in pay raises over the period from 1990 to 2006. In fact, wages, compensation and income growth for the typical worker and family have lagged significantly behind the country's rapid increase in productivity, which grew to 81 per cent between 1973 and 2005 (Mishel *et al.*, 2007).[5]

A basic premise of the corporate governance doctrine posits that management should be aptly rewarded with stock options and adequate compensation that will not only attract and retain the best talent, but also ensure that the interests of the so-called agents (executives) are aligned with the principals or owners (shareholders) (see Chapter 3; cf. Fama, 1980). In contrast to this view, there has been a vast and rigorous research that has demonstrated 'a weak or non-existent relation between pay and performance' (Erturk *et al.*, 2008; see also Tosi *et al.*, 2000). Indeed, over the years, executive pay has risen at a much faster rate than the stock market or corporate profits (Institute for Policy Studies and United for a Fair Economy, 2007). Executive pay excesses come at the expense of shareholders and stakeholders, the company, and its employees. According to the AFL-CIO,[6]

> Excessive CEO pay takes dollars out of the pockets of shareholders – including the retirement savings of America's working families. Moreover, a poorly designed executive compensation package can reward decisions that are not in the long-term interests of a company, its shareholders and employees.
>
> (AFL-CIO, 2007)

The recent flurry of stock option scandals in the US is a case in point regarding the abuses linked to excessive executive compensation packages. While the SEC has been investigating as many as 160 companies for possible backdating violations, some observers estimate that there are approximately 700 US public companies that have received or provided manipulated stock option grants (Bebchuk *et al.*, 2006; Brennan, 2008). Stock options, which grant CEOs the right to purchase shares at a set price, usually after the stock's closing price on the grant date, are believed by some to provide CEOs with an incentive to work harder to increase their company's stock price. Recent findings have revealed that CEOs not only have received and cashed-in generous stock options at a time when a company's share price was sinking, but they have also engaged in the practice of 'backdating' their stock options. 'Backdating' refers to a strategy in which executives select a date when the stock was trading at a relative lower price than the date of their options grant, which, in turn, results in an instant profit (see Chapter 3). The *Wall Street Journal* succinctly captured the gist of backdating by comparing it to being allowed to bet on a horse race after it is over (*Wall Street Journal*, 2006).

While the proponents of union-led shareholder activism acknowledge these limits, they have largely been understood and explained as weaknesses related to poor corporate governance practices. According to this perspective, the above problems affecting the welfare of workers can and should be resolved by encouraging workers to undertake a more aggressive role as shareholders and thereby hold the executive accountable. Old-style union tactics are not considered as effective or suitable to achieve these ends. Union-sponsored pension funds can only effectively influence management by drawing on their position as company shareholders rather than workers. As noted earlier, union-sponsored pension funds are most effective when they align themselves with other institutional investors so as to have the greatest impact on corporate management during proxy voting. According to the proponents of this view, this alignment has usually resulted in increased transparency, stronger corporate governance and greater accountability on the part of management (Hebb, 2001: 6; O'Connor, 2001). Various authors credit this new activism with bringing about a major realignment of the traditional ideologies and/or relationships between shareholders, workers and managers in what is framed as a predominantly positive, win–win situation (Blasi, 1988; Useem, 1993; Schwab and Thomas, 1998).

While the weak corporate governance and myopic market explanations point to important and relevant structures and practices that inhibit labour-shareholder activism, they remain incomplete in that they fail to capture the underlying causes of the contradictions and social relations of power linked to this activism. In what follows, I have two interrelated goals: (1) to identify the analytical weaknesses of existing explanations of the limits to the new activism; and (2) to shift analysis to the wider capitalist society. The latter objective entails the following two steps. First, I will explore the role of labour and the neoliberal state *within* the context of capitalist society and the relations of domination therein, establishing an analytical framework that allows us to move beyond the depoliticizing boundaries of the corporate governance doctrine. Second, I will transcend the focus on the short-term nature of financial markets by examining the underlying relations of power and contradictions inherent in the social power of money and the wider credit system.

## Transcending the weak corporate governance perspective

I have stressed throughout the book that corporate governance is not a neutral field of study, but rather one that is firmly rooted in the larger and hegemonic neoliberal paradigm. It is useful to recap some of the key criticisms of the corporate governance doctrine introduced in earlier chapters (especially Chapters 1, 3 and 4), as these criticisms inform the following attempt to transcend explanations provided in the labour-shareholder activism debates.

In what follows, I demonstrate that the labour-shareholder activism debates repeat the same common-sense assumptions of mainstream corporate governance theorists in explaining the continued inability of organized labour to exercise meaningful control over their pension funds, particularly with regard to



excessive levels of executive compensation packages. This is particularly evident in arguments suggesting that the limits to labour-shareholder activism lie in ineffective strategies pursued by organized labour groups to improve corporate governance, as opposed to the existing legal system. The new activism will fail to garner support from other, non-unionized, shareholders and corporate management if the proposals for reform by union-led shareholder activism are seen as contrary to the fundamental goal of increasing shareholder value. Management groups have claimed, for instance, that most union-sponsored shareholder reform is 'part of a "corporate campaign" designed to win other concessions for workers. Corporate management representatives have even asked the SEC to restrict unions' ability to submit shareholder proposals' (Schwab and Thomas, 1998: 1022). As noted in the previous chapter, the CEO and President of the U.S. Chamber of Commerce, Thomas J. Donohue, drew a distinction between pro-value and anti-value activism. While pro-value activism inspires public involvement in markets and raises returns, anti-value activism is believed to reduce democracy and shareholder value. Some examples given by Donohue of anti-value activism include pro-union policies, which are usually spearheaded by the political interests of top officials of public pension funds (U.S. Chamber of Commerce, 2006). It should be noted that union leaders hold powerful positions on the board of directors in large and influential public pension funds in the US, such as the CalPERS (see Chapter 6). As seen in the previous chapter on the myth of corporate democracy, anti-value activism is portrayed as an attempt by unions to use their role as shareholders primarily to regain strength in collective bargaining and increasing membership institutions (Ghilarducci, 1992: 121; Schwab and Thomas, 1998).

According to many commentators, the legal system does not need to be altered to deal with the new activism or its specific demands, including the issue of equal access discussed in the previous chapter (O'Connor, 2001). Stewart J. Schwab and Randall S. Thomas, for instance, argue that the existing legal and economic framework in the US will keep labour-shareholder activism from dominating debates about corporate governance due to existing fiduciary checks, such as the primacy money managers must place on financial concerns over social concerns (i.e. job security, wages) (Schwab and Thomas, 1998). For her part, Marleen O'Connor freely acknowledges that the National Labour Relations Act does not adequately protect workers' rights against managers, but she says that unions do not require an amendment to the labour code, as they can use their rights as shareholders to exert power over managers (O'Connor, 2001: 67; see also Schwab and Thomas, 1998). O'Connor goes so far as to suggest that 'corporate governance will trump labour laws in importance, and shareholder rights will constitute a new focal point for labour relations in the US in the twenty-first century' (O'Connor, 2001: 67).

The above view, which represents one of the chief positions by those who advocate the weak corporate governance perspective, is based on the understanding that workers can no longer rely on the state to protect their rights or improve their security in the current era of neoliberal-led capitalism. Instead, workers should move away from old forms of activism, which included struggles in and against the state, as well as corporate management, toward market-based solutions that focus on maximizing shareholder value. This premise reflects all three common-sense assumptions inherent in corporate governance theory (see Chapter 3). Proponents of the weak corporate governance perspective adhere to the belief that the neutral state and the existing labour and corporate laws that frame labour-led shareholder activism are unproblematic because they embody the common good of American society. Moreover, proponents argue that the rationality and competitive forces of the marketplace, in which corporate governance is exercised, will lead to equilibrium, thereby ensuring the maximization of shareholder value, which is assumed to be the best outcome. Implicit in this argument is the notion that the rational and competitive process(es) necessary to achieving maximum shareholder value (i.e. the alignment of the divergent interests of workers/shareholders and management) occur on a smooth and level playing field, devoid of relations of domination and exploitation that characterize capitalist society, a fallacy critiqued in detail in Chapters 3 and 4.

Understanding the strengths and limits of labour-led shareholder activism in terms of its ability to meet the requirements of shareholder value does not provide a meaningful explanation as to why labour-led shareholder initiatives are antithetical to shareholder value, as opposed to excessive compensation packages for corporate executives. Furthermore, and more fundamentally, it does not help to explain why there continue to exist growing inequities between executive and workers' pay, or why workers' wages have not kept up with productivity rises in the US over the past several decades (Mishel *et al.*, 2007; Moody, 2007). As discussed in Chapters 3 and 4, shareholder value, which forms the core of mainstream corporate governance theory and practice, is not an irrefutable premise; but instead, an ideology that is subjective in nature, promoting the particular interests of some over others, especially those of the management and board of directors over workers and other stakeholders (cf. Aglietta and Rebérioux, 2005; Brennan, 2008). As several scholars have demonstrated, the goal of maximizing shareholder value has had little to do with economic prosperity since the rise of neoliberal rule in the early 1980s in the US (Lazonick and O'Sullivan, 2000; Fligstein and Shin, 2005).

By moving outside of the depoliticizing tendencies of the corporate governance doctrine and situating union-based shareholder activism within the wider social relations of power and contradictions that underpin capitalist society, we are able to provide a more complete picture of the causes of the main weakness of this new activism. In order to do so effectively, however, two primary issues need to be confronted and transcended in the debates. The first is the failure to grasp the fact that labour is not an economic category but instead a social relation within the wider capital accumulation process, which is marked by conflict between social classes. By ignoring this perspective, the labour-shareholder debates side-step relations of exploitation and domination, reducing complex social interaction between variegated groups and classes to the simplified (depoliticizing) terms of the corporate governance doctrine, which focuses exclusively on the maximization of shareholder value. In treating labour as an economic category, as opposed to a social category, the debates also fail to grasp that labour's subordinate position in the capital accumulation process is not a natural and thus eternal feature, but instead needs to be reproduced by the dominant social forces of society.



Within a Marxist perspective, the defining feature of capitalist society is the necessary exploitation of labour power in order to extract surplus labour, i.e. labour time over and above that which is required to produce the value embodied in the wage. On this view, the subordinate classes perform work for the reproduction of the ruling class, and therefore end up working to reproduce the very conditions of their own subjugation, exploitation and dependence. Marx refers to the extraction of surplus labour in class societies as the exploitation of labour (Fine, 1989; Marx, 1991). Obviously, the reproduction of capitalist society depends on other forms of social discipline and control. The emergence of the hegemonic position of the corporate governance doctrine in academia and policy-making circles is discussed in previous chapters, with an emphasis on: its naturalization (Chapter 3); its attempt to make capitalist society irrelevant (Chapter 4); and its centrality in the ideological and disciplinary (neoliberal) features of the Ownership Society (Chapter 2).

Within the context of the public corporation, the direct and exploitative relation between labour (skilled and unskilled workers) and capitalists (owners of the means of production) is difficult to discern, largely because ownership of the corporation has been dispersed into shares, and the identity of class has been concealed by the homogenizing and harmonizing term 'shareholders' (Renner, 1949; Scott, 1997). The social power of money plays a central role in obfuscating the class nature of exploitation and creating the illusion of democracy. I discuss the role of money in more detail below. For now, it is important to stress that social classes, as discussed in Chapter 4, have not disappeared in either the context of the corporation or, more generally, capitalist society; but rather have been, and are continually being, transformed through the contradictory and conflict-ridden nature of capital accumulation (Marx, 1976; Holloway and Picciotto, 1991; Jessop, 1991). This position is based on the understanding that class is not a thing, but instead is a social and cultural formation that assumes its dynamicism from struggles rooted in the historical unfolding of capital accumulation processes (Thompson, 1991; cf. Scott, 1997; Carroll, 2004).

The second and related issue that must be confronted in order to overcome the limits within the weak corporate governance approach to labour-led shareholder activism is that the state, including its legal regime, is neither a natural nor a neutral object, but an historical social relation that is an integral feature of capitalist society. As discussed in Chapters 1 and 2, the state is neither neutral nor a separate political entity from the market; neither is it an objective actor, nor a mere instrument of class or class fractions (e.g. financial, industrial capital). Instead, the state is a complex, contradictory and dynamic historical social relation that both influences, and is influenced by, the shifting relations of power within capitalist society (Hirsch, 1991). The state plays an integral role in reproducing the subordinate position of labour in the wider capital accumulation strategy. At the heart of this strategy are financial markets and transactions, which are supported by a wide range of neoliberal policies, including privatization, deregulation and liberalization schemes – all of which have affected the power relations between management and labour.

Instead of problematizing the role of the capitalist state, many of the proponents of labour-shareholder activism tend to blame authorless, external forces of globalization and deregulated financial markets for the weakened position of labour vis-à-vis corporate management (Rifkin and Barber, 1978; Fung *et al.*, 2001). In doing so, the debates fail to grasp that the new activism is part and parcel of several decades of strategic neoliberal domination over labour. Greg Albo appropriately refers to neoliberal strategies as the politics of 'competitive austerity' (Albo, 1994). Such strategies have led to, among other things, the dispossession of millions of workers' pension savings, increased levels of personal debt, job insecurity and systematic attempts to discipline labour by threatening workers with investment strikes or capital flight if they do not accept lower wages and a reduction in social benefits (Mishel *et al.*, 2003, 2007; Moody, 2007). The problem with mainstream literature is that it understands competitiveness as a natural, given and rational phenomenon, rather than a constructed strategy that is directly linked to capitalist interests, the ongoing crisis of overaccumulation and state-led policies (Panitch, 1994; Harvey, 2005).

Neoliberal forms of social discipline, as well as commodification strategies employed by both corporations and states, are largely neglected in the labour-shareholder activism debates. For the proponents of labour-shareholder activism, old forms of protest by unionized workers are a thing of the past, since globalization has shifted the goal posts. Cheaper labour and capital in the global South and the domination of financial markets are two major outcomes of globalization. Proponents of labour-shareholder activism uncritically accept that social change is deterministically imposed on labour (seen as an economic category) by the unstoppable and neutral forces of globalization (Bieler *et al.*, 2008). In doing so, they remain blind to the fact that labour-shareholder activism is not only rooted in new forms of exploitation and neoliberal domination, but also assists, to some degree, in reproducing the status quo. The primacy granted to shareholder value in the corporate governance doctrine neutralizes and depoliticizes the class nature of the neoliberal restructuring of labour markets by encouraging workers to focus on aligning themselves with other shareholders to encourage good corporate governance practices, as opposed to winning more substantial gains of ownership. These gains may be regarded as decreased levels of exploitation through increased social protection that is legally mandated, as well as more control over productive processes. In contrast to the proponents of the new activism, I argue that such gains should be achieved by the legal imperative of the democratic state as opposed to the de facto promises made by powerful interests in the private sector.



The legal system in the US has helped pave the way for the successful implementation of neoliberal restructuring of labour relations. On the one hand, US labour law has long been skewed in the interests of employers, which calls into question the pluralist relationships between management and workers. As Dan Clawson and Mary Ann Clawson note, among industrial democracies, US labour law is unique in that it allows employers to actively oppose their employees' decision to unionize. A series of court and administrative decisions over the years have further narrowed employee union rights, while expanding employer rights. Furthermore, while workers are guaranteed the right to strike and may not be penalized for doing so, employers are guaranteed the right to maintain production during a strike and may hire permanent replacement workers (Clawson and Clawson, 1999: 100). On the other hand, aside from the ERISA of 1974, which dictates how far unions can flex their financial muscles, especially with regard to fiduciary requirements governing various types of pension plans (Ghilarducci, 1992; Clark, 2000), there are other notable limits to the power of pension fund activism. As noted earlier, according to the SEC's rule, management can omit shareholder proposals that 'deal with a matter relating to the conduct of the ordinary business' (Tkac, 2006: 4; see also Weller and White, 2001). Through this law, the state ensures that shareholders, including union pension fund activists, keep their resolutions and voting behaviour in line with the overall goal of shareholder value (see, for example, Table 5.1), as opposed to engaging in 'anti-value' activist strategies, which fall under the term of SRI strategies (see Chapter 7). Another legal restriction imposed by the state vis-à-vis labour-shareholder activism, is contained in corporate charters and corporate by-laws (ibid.). Many votes are not legally binding, and to change corporate by-laws often requires that the super-majority wins, which, as previously noted, is a rare occurrence (Tkac, 2006). As noted above by O'Connor (2001), labour groups have begun to challenge corporate by-laws as part of their wider shareholder activism strategies, but the process has been slow and arduous, largely due to the relations of power both within the corporation and wider capitalist society (see Chapter 4).

## Transcending the myopic market explanation

> … not violence, but credit may be a rather ultimate seat of control within modern societies.
>
> (C. Wright Mills (1964), quoted in Zeitlin, 1989: 111)

> [F]inancial markets are cutting our throats with our own money, and it has to stop.
>
> (Leo W. Gerard, International President, United Steel Workers of America, 2001)

While proponents of the myopic market perspective are cognizant of the fact that the dominant, free-market ideology underpinning the current organization of financial markets is neither neutral nor value-free (Hebb, 2001), this perspective incorrectly assumes that the present status of the highly deregulated financial markets is a natural phenomenon that has evolved progressively through the internal processes of the market, or through the unstoppable, external forces of globalization (Baker and Fung, 2001). This assumption leads to at least two problems with the myopic market perspective. First, while the proponents of the myopic market view correctly identify several key weaknesses of the present financial system, such as preference for short-term rewards to boost the price of company stock and the relative power that money managers wield over the investment decisions of workers' pension savings, these characteristics are not natural occurrences, as the myopic market perspective would have us believe. Instead, I suggest that they should be understood as social constructs that not only serve particular interests, but are also inherently conflictual and contradictory in nature. A second limitation of the myopic market perspective is that while the debates on labour-shareholder activism politicize the role of workers vis-à-vis the financial system, the discussions tend to treat the financial realm in an apolitical manner (Langley, 2008). This oversight, I argue, leads to an incomplete assessment and explanation of the limitations to union-led shareholder activism because it fails to engage with the struggles and contradictions that accompany relations of power, that is, those inherent in the wider capitalist society, including the credit system (see Chapters 1 and 3).

In my attempt to move beyond the above two weaknesses of the myopic market perspective, I look at the social power and contradictions entailed in two categories: money and the credit system. These two highly interrelated features, which are central to the financial system and pension fund capital, have been understood in the myopic market debates as neutral objects, devoid of social power in their own right. I draw on a Marxist-informed perspective of money and the credit system in order to draw out the social features of the financial system and the ways in which the status quo is recreated and represented as a natural and apolitical feature of capitalist society. The objective of this exercise is to provide an alternative perspective on how we can better understand the underlying dynamics of the limitations to the new activism, especially in terms of protecting the pension savings of unionized workers.

Despite its centrality to the discussions, the new activism debates do not provide a precise definition of pension fund capital. Based on the applications of this term in the debates, we can deduce that pension fund capital refers to a passive object in the form of a pool of deferred wages or salaries that, in turn, is 'acted upon' by money managers and trustees of pension funds through investment decisions. The aim of, or fiduciary duty behind, these decisions is to ensure that they generate stable growth over the long term through investment in shares, bonds, property and other income-producing assets in order to generate a stable income from which to pay the pensions of its retired members (Scott, 1997: 67; Minns, 2001). The problem, as understood in labour-shareholder activism debates, is that the ability of unionized workers to adequately protect their pension savings is impeded by the dominance of the financial community over daily decision-making processes, as well as the short-term nature of capital markets. While this is true, there is more to the explanation than is provided for in the myopic market perspective.



As explained in Chapter 2, when money and, by extension, pension fund capital, is treated as a social relation embedded in capitalist society, it permits a deeper understanding of the relations of power that run through the primacy of shareholder value and financial concerns, which, according to the myopic market perspective, are the root cause of workers' lack of control over their capital, including the protection of their pension savings. In Marxist theory, money is significant because it conceals underlying social power within the wider capital relation. This social power is concealed in the very nature of money, due to the latter's ability to act as the embodiment of exchange value, for instance, by standing opposed to all other commodities and their use values. In doing so, money assumes an independent, external and, therefore, objective standing vis-à-vis the power relations of exchange (Harvey, 1999). While the interests of money managers have not been well aligned with the long-term interests of unionized workers, there is more to the limitation than the myopic market perspective allows. Specifically, workers' ability to influence the investment decisions of their pension savings (deferred wages or salaries) are restricted by more fundamental barriers involving a complex array of contradictions and limitations surrounding their identity as workers and savers, as well as the very nature of how money is organized by the credit system in capitalist society (Harvey, 1999, 2005; see also Chapter 3).

Marx's notion of the 'community of money' permits us to transcend the surface level explanation provided by the myopic market viewpoint. Marx characterizes capitalist society as a community of money in which social relations are 'strongly marked by individualism and concepts of liberty, freedom, and equality backed by laws of private property, rights to appropriation, and freedom of contract' (Harvey, 1989: 168). As an expression of liberty, for instance, money signals voluntary exchanges between equals on the market. As a relation of formal equality, money represents, or more precisely conceals, exploitative relations as relations of formal equality: everybody is equal before money (Bonefeld, 1995: 183). Money in the form of pension fund capital acts as the great equalizer, as it establishes a bond between divergent interests – e.g. capitalists, landlords, governments, workers, managers and so forth – who lose their class identity and become shareholders, meeting on a level playing field at the annual general meetings of public corporations. Thus, the confrontation between unions and management has moved from the shop floor and the picket lines to the 'democratic' setting of proxy voting (see Chapter 4). Moreover, within the neutralizing and depoliticizing features of corporate governance, divergent class interests and unequal relations of domination among various institutional investors (e.g. public pension funds, mutual funds, private equity funds and so forth) are not only concealed and smoothed over as each group takes on the blanket, and generic, identity of 'shareholders', but also are united in ensuring that corporate management achieves the highest possible return on their investment (Brennan, 2005, 2008).

The relations of power and domination that are inherent in Marx's community of money are taken for granted by the myopic market perspective. Yet, these relations draw attention to the important connection of workers to corporations, and thus the exercise of control over corporate management that is represented in terms of 'shareholder power'. The notion of 'shareholder power' is understood in highly sanitized, monetary terms, such as the number of shares (minimum amount required to vote) and types of shares (common or preferred stock), all of which are portrayed as legal and, therefore, objective rules created by a capitalist state. In this way, the role of labour in the exploitative relations of production vis-à-vis the corporations are severed, sanitized of class relations and depoliticized by the uncritical treatment of the social power of money vis-à-vis social security capital. This perspective is further reinforced by the hegemonic status of corporate governance as the dominant manner not only in which to analyse corporate behaviour, but also in which to engage corporate management, by ensuring that the latter create shareholder value. Within the neutral and socially constructed bounds of corporate governance, all interactions involving a plurality of economic actors (e.g. labour-shareholders, management, the wider shareholder community and so forth) are believed to eventually lead to a harmonious outcome (see Chapters 3 and 4).

The appearance of equality and concealment of exploitation and domination in the community of money is further reinforced, and complicated, in the current era of financialization. The latter describes 'a pattern of accumulation in which profit-making occurs increasingly through financial channels rather than through trade and commodity production' (Krippner, 2005: 181; see also Arrighi, 1994; Holloway, 1995). The dominance of money, as opposed to productive capital, emerges from the deeper crisis and contradictions of capital accumulation, such as the crisis of overaccumulation, which refers to a condition where surpluses of capital lie idle with no profitable outlets in productive investment (Harvey, 2005; see also Chapter 3). The credit system plays an integral role in attempts to overcome barriers to the expansion of capital in times of crisis. Debt-driven forms of accumulation (i.e. consumer, corporate and state debt), which have dominated US economic expansion over the past several decades, are a case in point. As Geoffrey Ingham notes, in the US

> overall debt – corporate and household – can be taken as a rough guide to the level of expansion of the financial sector, which rose from 130 to 150 per cent of the GDP [gross domestic product] in the 1950s to over 250 per cent in the early 1990s.
>
> (Ingham, 2000: 73)

For Marx, credit was a Janus-faced creature in that it represents both swindler and prophet. One the one hand, it exists as a lever for expanded reproduction as it realizes the internal relation of production and circulation without this relation



having been performed, i.e. fictitious capital (Marx, 1991; Harvey, 1999). 'On the other hand', Marx argued, 'it develops the motive of capital production, enrichment by the exploitation of others' labour, into the purest and most colossal system of gambling and swindling, and restricts ever more the already small numbers of exploiters of social wealth' (Marx, 1991: 572–573). Aside from its ability to overcome – albeit temporarily and contradictorily – the barriers to capital valorization, the credit system accomplishes another important role in capital accumulation, namely: masking relations of power and exploitation. It is within the credit system, for instance, that money is able to dissociate itself from the exploitation of labour in the form of credit, thereby continuing to perpetuate the appearance of a harmonious, equal and individualistic community of money (Bonefeld, 1995). This acts to depoliticize further the social power inherent in pension fund capital. In the credit system, for instance, pension fund capital in the form of equity holdings in public corporations, appears as a 'mysterious and self-creating source of interest – the source of its own increase' (M … M′) (ibid.: 190). In other words, money appears to increase its value as if by magic. The following quote furnished by legal scholar Paddy Ireland, succinctly captures the fetishization (i.e. the disconnect from the unequal and exploitative social relations of capitalism) that occurs in financial ownership through the objectification of money:

> Some years ago, newspapers in Britain featured an advertisement depicting a man lying on a sofa. We were told that, contrary to appearances, he was working and, indeed, working highly profitably. His money was, so to speak, working for him, albeit in places and ways of which he almost certainly had no knowledge and little interest. Moreover, it was working incessantly, for money, as another advertisement recently pointed out, 'never sleeps'. In reality, of course, the man lying on the sofa was *not* working. But someone, somewhere, certainly was. Indeed, it was these unknown others, dotted no doubt around the globe, working in unknown industries, for unknown wages and in unknown conditions, who were generating the wealth to which the sofa-bound man was entitled to lay (partial) claim by virtue of his ownership of income rights like the joint stock company share. In its way, therefore, the sofa in the advertisement is curiously revealing of the fetishized nature of financial property and interest-bearing capital (money appears to make more money by itself) and the social relations underlying it (it is only able to do so when certain social relations prevail).
>
> (Ireland, 2007: 53–54)

One of the main reasons the credit system can appear sanitized is because it operates in the form of fictitious capital, which refers to a flow of money capital that is not backed by any commodity transaction (see Chapter 3). Put another way, fictitious capital occurs whenever credit is extended in advance, in anticipation of future labour as a counter-value (Harvey, 1999: 265–266). For Marx, the accumulation of capital through investment was represented as

(M … C … M′) in which money (M) is employed to buy raw materials, machines and labour to produce commodities (C), which are then sold, with the capitalist receiving M′ (Marx, 1976; see also Arrighi, 1994). The value of money is not determined through the value it represents in relation to commodities, or, more pronouncedly, in relation to itself, but through the surplus value which it produces for its owner (Bonefeld, 1995: 190). Since the onset of the era of financialization in the early 1970s, corporations and financial institutions have amassed large profits through the creation of fictitious capital ahead of actual commodity production. Financial institutions of all types now accumulate huge quantities of debt as they attempt to make money with borrowed money, including corporate bonds and collateralized debt obligations (CDOs) (Blackburn, 2006). According to the *Wall Street Journal*,

> Corporations are borrowing money at the fastest clip in several years amid a wave of leveraged buy-outs and acquisitions, rising capital expenditures and pressure from shareholders for larger dividends and share buybacks …. Non-financial companies saw their debt rise 6.3 percent in the last 12 months …. That is the fastest yearly growth for debt in five years
>
> (Magdoff, 2006: 3)

As discussed in Chapter 1, the chickens came home to roost in 2007 in the form of the sub-prime mortgage scandal, which involved high levels of CDOs, among other risky and opaque financial products (cf. Blackburn, 2006).

Since the connection between money and exploitation is further severed in the credit system, the class-based relations of power within the credit system are generally ignored in favour of a focus on financial markets and financial actors. The latter, especially within the myopic market framework, are seen as the primary culprits in eroding workers' livelihoods – a view that glosses over the relations of power and domination imbued in the credit system (Harvey, 1999). The new activism debates, for instance, understand an increase in the value of pension fund capital as a result of the behaviour of money managers, such as the choice to engage in high risk, short-term ventures, the decision to draw on reliable information and so on (Baker and Fung, 2001). The dependency of workers' savings on financial markets is viewed as a natural phenomenon that involves rational economic actors (agents and principals) interacting on a level playing field to achieve a harmonization of interests. These debates fail to recognize that the construction of pension fund capital is intimately tied to neoliberal forms of restructuring and the disciplinary features therein, which are, fundamentally, a response to, among other things, the inability of corporations to generate adequate levels of profit through production (Minns, 2001). One of the outcomes of the dwindling profit levels of Corporate America has been the rise of private equity firms. These funds purchased more than half of a trillion dollars in US corporations in 2006, which represented a tenfold increase in only three years (see Chapter 1). These new investors wield huge amounts of shares in Corporate America. Private equity firms, for example, hold about 60 per cent of total shares in the beleaguered General Motors. Moreover, the interests of these new investors are antithetical to the interests of unions. Wages and benefits, especially pension benefits, represent the largest costs to companies, and private equity firms are obviously interested in clawing back these costs (*Washington Post*, 2007a); see also Blackburn, 2006).



Finally, the social power of money and the contradictions and struggles played out in the credit system are reproduced and mediated through the capitalist state. In contrast to the myopic market perspective, which views the state as a pluralist institution operating outside the parameters of the market, a Marxist approach to the capitalist state treats the latter as an historical form of social relations of power that is deeply rooted in capitalist society and its particular mode of production and consumption. Although the role and nature of the capitalist state is discussed at length in previous chapters, it is worth underscoring here that the US state has played, and continues to play, a central role in supporting and legitimating class-led strategies carried out through the credit system in order to restructure capitalist society in such a way so as to allow for the continued expansion of capital. The construction, reproduction and expansion of social security capital through the ongoing privatization of pension savings in the form of the Ownership Society exemplifies the central role played by the state (see Chapter 2). Through its ideological and coercive (e.g. legal system) functions, the US state has also played a central role in depoliticizing and delimiting moments of contestation linked to the Ownership Society, including the equal access proposal discussed in Chapter 4 and labour-led shareholder activism. Finally, the state has played a key role in the deregulation of financial markets – both at home and abroad (Panitch and Gindin, 1995; Gowan, 1999; Soederberg, 2004, 2006; Harvey, 2005). This has allowed the superintendents of social security capital, namely institutional investors such as pension and mutual funds, to continually engage in high-risk, speculative activities known more generally as 'arbitrage capitalism' (Arrighi, 1994; Harvey, 2005; Blackburn 2006; see also Chapter 3). These short-term strategies undertaken by money managers should not be interpreted in the narrow confines of either irrational or rational behaviour, as often depicted in the myopic market perspective; rather, they must be understood as part and parcel of the contradictory and conflict-led attempts to overcome perceived barriers to the incessant need to maximize profit.

## Conclusion

I have argued that the two major approaches – weak corporate governance practices and market myopia – are insufficient for understanding why organized labour continues to wield little control over social security capital. Specifically, these two approaches fail to provide full explanations as to the limits to the new activism because they do not grasp the underlying contradictions and power relations of capitalist society. These partial accounts regarding the restrictions plaguing labour-led shareholder activism have translated into policy prescriptions that are equally incomplete, reproducing, in turn, the limited scope of labour vis-à-vis corporate power and the wider financial system. Instead of challenging the existing legal or productive structures in order to provide secure and well-paying jobs, or insisting on the re-regulation of financial markets to mitigate arbitrage capitalism, proponents of the new activism suggest that self-regulatory (and thus market-based) strategies – for example, engaging with corporate executives and money managers to help construct good corporate governance practices to ensure shareholder value – will lead to longer-term investment and thus job creation and economic security. The debates, therefore, remain focused on the financial markets and money managers of pension funds as the primary obstacle to protecting labour's capital. They are less interested in pursuing the deeper roots of disempowerment and exploitation within capitalist production as a structural limitation found within the credit system and pension fund capital itself. Taken together, both mainstream explanations act to depoliticize and marketize resistance, thereby recreating the hegemonic position of the corporate governance doctrine, and, relatedly, the dominance of neoliberal discourse and policy.

In the next chapter, we continue to deepen and widen our analysis of the capitalist nature of shareholder activism with regard to the corporate governance doctrine. Moving beyond the confines of the US context, discussion shifts to the global benchmarking initiative of one of the largest public pension funds in the world, CalPERS. Up to this point, we have concentrated on shareholder activism as a form of resistance. Yet, as we have seen in this chapter, the capitalist nature of financial ownership in corporations presupposes that shareholder activism also entails another feature: a mode of domination. While the latter is present at the domestic level in the US, as is evident in our discussion of labour-led shareholder activism, it assumes a more explicit expression at the global level, especially with regard to North–South relations.

# 6 Corporate governance and entrepreneurial development

## The case of CalPERS' Permissible Country Index

Since the early 1990s, pension funds have played a major role in equity financing in emerging market economies. Equity financing refers to the method by which publicly traded companies in the global South raise long-term capital through the sale of shares (equity) to investors rather than through other financing means such as a bank loans (International Finance Corporation, 2006; World Bank, 2007). Notwithstanding the role of foreign direct investment (FDI),[1] which still constitutes the bulk of private capital flows; equity financing has become a significant source of credit for emerging markets (World Bank, 2005).[2] According to the US investment bank J.P. Morgan Chase & Co., corporate debt in the developing world has risen from $21 billion in 2002 to $111 billion in 2006 (*Financial Times*, 2007; World Bank, 2007).

Given their central position in global financial markets, pension funds are believed to be particularly vulnerable to a wide array of risks (Clark and Hebb, 2005). To monitor and manage these risks, pension funds, like other institutional investors, have created various assessment instruments for 'benchmarking' individual non-US public stock markets to determine their ability to support investment. A chief concern of these assessment exercises has been the compliance of strong corporate governance practices in the developing world.[3] Since the 1990s, various institutional investors have attempted to expand their understanding of corporate governance to include non-financial indicators, such as labour standards, which have also been associated by some with SRI. The benchmarking strategy of the largest US-based public pension fund, CalPERS, is an important case in point and will serve as the primary focus of this chapter.

With assets valued at $176.1 billion (as of 2009), CalPERS represents the leading public pension fund in the US and one of the largest in the world.[4] While the majority of CalPERS' funds are tied up in US corporations, an increasing amount is destined for 27 emerging market economies. CalPERS draws on information gathered by its investment assessment instrument – the Permissible Country Index (hereafter PCI or Index) – to identify suitable investment climates. The Index provides an interesting study, as the 'activism' it is purported to reflect embodies the growing trend in corporate governance discourse to assume a greater concern for social issues (Kawamura, 2002: 14).[5] Through the application of its PCI, CalPERS has sought to promote an understanding of