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Book Review

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Sanford M. Jacoby. Labor in the Age of Finance: Pensions, Politics, and Corporations from Deindustrialization to Dodd-Frank. Princeton, NJ: Princeton University Press, 2021. 368 pp. $35.00/£28.00, hardcover.

What happens when workers become capitalists? Jacoby's fascinating new book describes efforts by U.S. unions and worker groups to exploit the leverage afforded by their own capital accumulations. Public sector and union pension funds are now among the biggest institutional investors, and their size and numbers have given them prominence in U.S. capital markets. During an era in which unions declined and neo-liberal policies were ascendant, what did they do with their financial clout? Have they supported higher wages for employees or higher profits to reward themselves and other investors? Did they recognize their own contradictory interests? And how was labor's use of its financial power connected to shifts in corporate governance and other changes associated with financialization?

Jacoby begins by noting that U.S. unions were traditionally uninterested in banking and finance. Although banks have been politically controversial at key points in U.S. history and have featured in numerous financial crises, they were not a primary concern for organized labor. Nor did labor play a part in deregulation of finance during the last decades of the 20th century. Groups like the Knights of Labor, American Federation of Labor (AFL), Congress of Industrial Organizations (CIO), and others had their hands full and were focused on workplace issues like wages, working conditions, benefits, job security, and the ability to recruit members in the face of management hostility. Previous periods of financialization didn't motivate labor groups to prioritize banks or other financial institutions (p. 9), and so with only a few exceptions, such as the CIO's support for the Bretton Woods arrangement at the end of World War II (p. 20), labor was disengaged from finance. But that period of indifference has ended.

American pension arrangements set the stage for labor's growing role in finance. Whether as part of a public sector pension plan or as benefits that unions obtained for their own members, financial assets accumulated and were invested to benefit retired workers. Long-term pension liabilities need to be matched by long-term assets, and this reality can impart a long-term perspective (p. 39). Aside from generating a revenue stream to support future retirees, could financial assets be used to do anything else? Well, that depended on the type of financial instruments that pension funds acquired. The most basic distinction is between bonds and shares (or debt and equity). Roughly, a bond gives the holder a claim over interest paid by the bond issuer, and there is little bondholders can do to express dissatisfaction except for selling off the bond. To use the distinction made famous by Albert O. Hirschman, bonds provide exit but no voice to investors. By contrast, shares in a company offer an ownership interest that includes a residual claim over profits but also a role in the

governance of the firm. Shareholders get to vote in company elections, help choose company directors, or weigh in on matters put before the shareholders. An unhappy shareholder can submit resolutions or vote against a company's management team, and they can also sell off their shares. In other words, shareholders have both exit and voice. As political instruments, shares provide more options than bonds.

Initially, pension funds invested overwhelmingly in bonds, which were considered a safer and more conservative investment than stocks. Frequently, such prudence was mandated by government regulations. But as pension funds shifted their portfolios away from bonds and toward equities (pp. 35, 108), the latter gave them the possibility of playing more of a role in corporate politics, as well as the prospect of higher returns. Corporations function like "mini-polities" and consequently pose questions of interest, ownership, power, and control. Do those who own a firm also control it? In the early 1930s, Adolf Berle and Gardiner Means' classic answer to this question argued that ownership and control had separated in large, publicly traded firms, with managers firmly in control. A new type of ownership had emerged, but with weakened powers. Later, scholars criticized the divergence between shareholders and managers and supported measures to bring them back into alignment and ensure that the latter served the former. And what happened when owners became more heterogeneous, consisting of workers (or their representatives) as well as regular investors? Modern corporations have become a site for multiple struggles between labor and capital, owners and management, and even among different ownership interests. And even as they attempted to resolve these conflicts, corporations have increasingly been burdened with social responsibilities that go beyond their own narrow financial interests.

A simple class analysis views the conflict between workers and management as zero-sum: these two groups fight over a firm's value-added and try to appropriate economic surplus in the form of higher wages or profits, respectively. But Jacoby shows that the politics are not dichotomous and are deeply shaped by outside legal and regulatory institutions. For example, the U.S. Securities and Exchange Commission (SEC) mediated relations between workers-as-shareholders and management, constraining labor's ability to leverage its shareholder rights by protecting the power and autonomy of management (pp. 87–88). Shareholder activism did not occur automatically, and much of labor's ability to use its financial resources depended on SEC policy and rulings. Consequently, labor organizations began to lobby the SEC and relevant congressional oversight committees to obtain more favorable rulings. This forced a political reorientation and reflected labor's realization that it could no longer depend on the U.S. Department of Labor as its sole agency partner. Furthermore, labor's power to strike and organize significantly weakened in the latter part of the 20th century, and labor's shareholder rights provided a new resource in a period otherwise marked by many defeats.

Starting in the early 1970s, a number of liberal church groups recognized the possibility that as investors, they might seek more than just financial returns. Their pension funds started to track and divest from corporations that did business in apartheid South Africa. As an explicitly racist and anti-democratic political regime, South Africa's government offered an easy political target. Activists could boycott South African goods but also avoid investing in firms that did business in the country, pursuing their political goals in both product and capital

markets. This application of non-financial criteria in the marketplace set the stage for ''socially responsible'' investing and helped develop an infrastructure that could routinely apply a number of ''social screens'' to investment alternatives. These evaluative standards were applied outwardly at first, against a problematic foreign regime, but inspired others to use financial resources domestically.

The California Public Employees' Retirement System (CALPERS) had no explicit religious affiliation but started to use its secular dollars to achieve some political goals. As it shifted its assets from bonds to equities in the 1980s, it embraced the goal of long-term shareholder value. Using the newly formed Council of Institutional Investors, CALPERS helped to design and then diffuse a code of corporate governance that Jacoby calls the ''cook book'' (pp. 45–46). This set of organizational recipes complemented ''agency theory'' from financial economics in emphasizing the primacy of shareholders. Corporate governance reforms would solve the problem of managers whose interests diverged from those of shareholders. CEO compensation shifted away from salary to salary plus bonuses, stock, and stock options, to ensure that CEOs narrowly served shareholder interests. Shareholders were given more power to choose the board of directors, making it harder for incumbent management to select a compliant board. The cook book also applied to various takeover defenses invented after the wave of corporate mergers and acquisitions in the early 1980s. Aside from its content, the significance of the cook book partly stemmed from its institutional provenance but also from the fact that it was a portable and summary statement of practice: an excellent vehicle for adoption and diffusion. As such, many union pension funds followed their public sector counterparts in embracing the cook book and applying it to corporate governance.

The cook book seemed like a tidy package of best practices, but its effects were messy. In particular, as reformers tackled CEO compensation and sought to ensure that CEOs pursued long-term shareholder value, they incentivized corporate leadership to become more ruthless in reducing costs, outsourcing activities, and downsizing workforces. In effect, CEOs were paid to go after their own workers. Increasing reliance on stock options as a means of compensation was good for shareholders but great for CEOs, exacerbating economic inequalities within firms as CEO compensation soared. The contradictions were perhaps most acute in the relationship between private equity and union pension funds. The tax code favors debt over equity as a way to raise capital, so private equity groups typically acquire a firm, load it with debt, and then cut costs (especially labor costs) in order to earn profits that reward their investors. In some service industries, wages and benefits were the biggest target for cost reduction. As Jacoby details in Chapter 8, public sector pensions started to put money into private equity starting in the 1990s, funding investors who directly harmed the interests of the workers whose employer they acquired. The returns were good for pension funds, but the effects were costly for the labor force. One union, the Service Employees International Union (SEIU), tried to minimize the damage by setting standards for how private equity groups would treat employees, but this did little to mitigate the larger problem.

Jacoby brings his historical narrative into the post-2008 era of the Dodd–Frank reforms. The Occupy Wall Street movement brought some public attention and political energy to a critique of finance, but there seems little chance

that labor groups can escape the dilemma posed by their own financial interests as institutional investors. Despite widespread adoption of the cook book, corporate CEOs are still enriched by compensation schemes that protect shareholder value and divert a firm's surplus from labor to capital. There is, it seems, no simple trick of corporate governance that can resolve the dilemma. To turn the tide, labor will have to look outside the corporation if it is to reverse some of the losses it suffered in the last several decades.

Jacoby's account offers a wealth of detail, and readers will consume a steady diet of financial acronyms and technical information. Some may learn rather more about accounting rules than they wished. But all of this material is organized into a coherent and compelling argument, and it will benefit those interested in corporate governance, the history of corporate social responsibility, and the role firms play in mediating economic inequality. I would have liked to learn more about how union pension funds engaged exotic financial instruments beyond just stocks and bonds (e.g., over-the-counter financial derivatives, structured finance, securitized instruments), but this information may have required a deeper dive into pension balance sheets and off-balance-sheet activities than most readers would tolerate. How much flexibility there is in the legal definition of ''fiduciary responsibility'' is another topic ripe for further exploration. And it would have been interesting to examine directly the internal tradeoffs performed by unions as they tried to reconcile their mission to protect the wages and jobs of current workers against the obligation to maintain the incomes of their retired members. For now, this intergenerational conflict seems to have been largely won by the pension beneficiaries, but it is hard to be optimistic about the long-run prospects of ''rentier unionism.''

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