ARTICLES

The New Colossus

by WILLIAM GREIDER

The New Politics of Capital

While dispirited Democrats stew over their party's uncertain future, they might check out an unusual cluster of progressive "activists" forming within their ranks. Some politicians with real muscle are pursuing far-ranging possibilities for reforming the economic system. Their potential for driving important change is not widely recognized, perhaps because the reformers are drawn from unglamorous backbenches of state government—treasurers, comptrollers, pension-fund trustees. Yet these state officials, unlike the minority Democrats in Congress, have decision-making power and control over enormous pools of investment capital. They are fiduciaries who manage the vast wealth stored by state governments in public-employee pension funds, invested in behalf of working people—civil servants, teachers and other types of public workers—who as future retirees are "beneficial owners" of the capital.

In the wake of Enron-style corporate scandals, in which public pension funds lost more than $300 billion, some of the leading funds have restyled themselves as more aggressive reformers. They are picking fights with Wall Street orthodoxy they long accepted, like the obsessive maximizing of short-term gains. More important, they are broadening their definition of fiduciary obligations to retirees by trying to enforce corporate responsibilities to serve society's long-term prospects. Instead of adhering passively to market dogma, the activist funds now regularly accuse corporate managements and major financial houses of negligently or willfully injuring the long-term interests of pension-fund investors, therefore injuring the economy and society, too. Pension-fund wealth is thus being mobilized as financial leverage to break up the narrow-minded thinking of finance capital and to confront the antisocial behavior of corporations.

The core players in this struggle are the largest and most progressive pension funds in the nation—anchored by blue-state constituencies in California and New York. The heavyweights are occasionally joined by a handful of smaller states like Connecticut, North Carolina, Iowa and a few others where pension officials are kindred spirits. Together and individually, their efforts are possibly the only reform impulse ascendant among Democrats. Party leaders trying to rethink strategies could learn a lot from these state-level officials (and come to their political defense, if they had the nerve). "We're thirty-year investors and we have to take the long view," California Treasurer Phil Angelides explains. "I believe one of the things that led to the corruption of recent years was this notion that infected America that wealth is somehow created in six to nine months and all that matters is whether this quarter's returns are better than last quarter's—not whether you are building companies and products and an economy that will have enduring value."

His resonant phrase—"enduring value"—effectively summarizes the reform objective. The reformers understand that the current laissez-faire, let-'er-rip system damages important social values—equitable treatment of workers, the environment and other commonly shared public assets—and that both workers and retirees (and the state taxpayers who put up the money for public pension funds) have a strong self-interest, personal as well as financial, in husbanding the distant future: a healthy society and strong economy for themselves and their families.

The best evidence that the reform-minded pension funds are onto something—maybe something big—is the fierce and nasty counterattack launched by business and financial interests. Last

spring, the Business Roundtable, the US Chamber of Commerce and the American Enterprise Institute began a simultaneous barrage of complaints and name-calling accusations (faithfully echoed by the *Wall Street Journal* and *Forbes*). State pension officials, they warned, are departing dangerously from their fiduciary duties, putting "social issues" first and becoming pawns of organized labor. AEI's economic-policy director claimed CalPERS (the mammoth California Public Employees' Retirement System) "is abusing the public trust in a manner as serious and grave as any I have seen. They have a pool of money controlled by politicians and they are using that pool to strong-arm changes in targeted companies."

Why California Matters

CalPERS is the largest pension fund in the nation, holding $180 billion, and it is indeed trying to "strong-arm" companies—scores of them—into making reforms. Angelides has become a favorite target of the corporate critics—and a visible point man for pension-fund activism—because he sits on the boards of both CalPERS and CalSTRS (California State Teachers Retirement System), the country's second-largest, with holdings of another $125 billion. Angelides has pushed both funds to adopt a whirlwind of reforms—dumping tobacco stocks, blacklisting ten "emerging markets" that ignore international labor standards, redeploying capital to neglected sectors like inner-city redevelopment and innovative environmental technologies, and, above all, peppering scores of corporations, banks, brokerages, financial markets and federal regulators with critiques and demands for change.

Angelides has only one vote among the numerous board members at each pension fund, but he regularly prevails because his partner in reform is organized labor. Sean Harrigan, the regional director of the United Food and Commercial Workers, was, until very recently, the CalPERS board president. Alert elements in labor—unions led principally by the Service Employees (SEIU) and State, County and Municipal Employees (AFSCME)—are closely involved, mobilizing grassroots support and lobbying the policy-makers. Harrigan and Angelides have collected a lot of enemies, one might say, in all the right places. "The old holders of capital—the old status quo—are very nervous about this discussion of capital and the larger context of what's good for the economy," Angelides warns. "They don't want these questions asked. They don't want the old order to be changed. They want to control capital and they want to control it to their benefit, not to the larger economy's."

Harrigan tried to downplay the conflict, suggesting the trustees were simply advocating "corporate governance" improvements, as they have done for years, to better align corporate managements with the interests of the corporate shareholders. "We think we are having an impact on the marketplace and influencing the way companies behave, at least on the margins," Harrigan told me. "There's been some marginal progress—that's all it is."

His opponents, it became clear, did not buy bland reassurances. In early December Harrigan was abruptly ousted from his position—whacked through an obscure maneuver at the State Personnel Board that reformers attributed to business-financial lobbyists allied with right-wing Republicans and assisted by Governor Arnold Schwarzenegger. The governor denied any role, but he followed up a few weeks later by proposing legislation to begin breaking up CalPERS into private personalized accounts similar to 401(k)s, thus dispersing its financial power and diluting its ability to exercise reform leverage.

What had been remote skirmishes over esoteric financial rules suddenly became a very visible political fight. To Angelides, the collision was fundamental and inevitable. "Look," he says, "in the course of a reform movement, you are going to rattle some cages and upset some people who have power. But if you're not willing to do that, what good are you as a reformer?"

Neither the treasurer nor his colleagues on the two pension-fund boards appear to be backing away from the fight. Two weeks after Harrigan was dumped, CalPERS trustees adopted another new labor-backed investment policy, this time against investing in corporations that profit by privatization of public services and jobs. "We are just beginning to have an impact on the ethos, the thinking, the culture in corporate America and the financial markets," Angelides says. "Why would we stop now? Not on my watch, we're not."

Building on the Past

The current wave of pension-fund reformers is building upon shareholder activism pioneered thirty years ago by churches and other social activists, most famously in the campaign to end apartheid in South Africa. The shareholder-petition movement continues to grow and exert influence, but has always suffered from an essential weakness: Under existing rules, CEOs and boards of directors are free to ignore the dissidents, even when their policy proposals draw overwhelming support from other shareholders. Many managements do decide to be responsive, if only for good public relations. But the vision of pension-fund power has never been fully realized. These new activists might conceivably be different.

For one thing, the state funds have grown enormously in financial girth. Fiduciary institutions in general (including mutual funds, corporate pension funds and some others) are now the majority owners of the 1,000 largest US companies and collectively Wall Street's largest customer. The new strategies also seem more systematically focused because the public pension funds are not distant critics promoting broad principles of "socially responsible" behavior but major owners asking boards of directors tough and precise balance-sheet questions. Organized labor's active engagement also promises a much stronger base of popular support for reform ideas. So far, the collaborations among the progressive funds have brought together as much as $700 billion to support a corporate-governance issue, with a prospect of far greater firepower if other state pension funds join the cause (nationwide, public funds hold about $2.7 trillion and union-managed funds have another $400 billion).

The coalescence of labor and environmental activism is visible on an issue stalemated in regular politics—global warming. The overseers of around $800 billion in investor wealth have endorsed the Investor Network on Climate Risk, a coalition of pension funds with church-based, environmentalist and other like-minded shareholder activists led by Connecticut Treasurer Denise Nap-

pier. The coalition is methodically engaging major corporations in the oil, auto and electric-utility sectors, which are the leading US sources of carbon emissions—that is, global warming. The strategy is beginning to win some meaningful admissions of corporate exposure to financial risks (more about this later).

Other initiatives have led to swift and bloody conflicts. New York State Comptroller Alan Hevesi, a gray, subdued figure alongside Angelides, brings another $121 billion to the table as the single manager of the New York State Common Retirement Fund, third-largest in the nation. Other regulars include William Thompson Jr., who runs the New York City pension funds (more than $80 billion), and North Carolina Treasurer Richard Moore ($63 billion). Last fall Hevesi scored against Sinclair Broadcasting, which intended to televise a nasty propaganda film attacking John Kerry in the guise of "news." As a substantial shareholder, Hevesi objected; Sinclair backed down. Hevesi recently won an important corporate-accountability precedent in his fund's investor lawsuit against fraud-riddled WorldCom. Ten former directors of the collapsed telecom company agreed to pay $18 million out of their own pockets rather than risk further exposure to fraud accusations. A year ago Angelides scored a bull's-eye when he demanded the resignation of Richard Grasso, the grossly overpaid president of the New York Stock Exchange. Other pension leaders jumped aboard. Grasso was gone the next day.

The Spitzer Factor

These officials draw inspiration from the stunning reform victories won by New York State Attorney General Eliot Spitzer, who has blistered financiers and corporate moguls with his continuing exposures of scandal. When Spitzer demanded and won reformed operating rules from Merrill Lynch, the pension-fund leaders embraced the principles and applied them as their own new rules for the banks and financial houses handling their money. More recently, Spitzer exposed a bid-rigging scandal in the insurance industry. Four pension funds, led by AFSCME, nominated an independent director for the board of Marsh & McLennan and the firm accepted him—a former federal prosecutor now collaborating with the AG on reforms.

Spitzer intends to run for New York governor in 2006. Angelides intends to do the same in California (though his prospects were dimmed by the abrupt rise of Gov. Arnold). The two men can be seen as representative figures, since each is trying to revive an important dimension of the reform tradition their party has virtually abandoned. Like the earlier Progressives, Spitzer seeks to tame the abuses and excesses of American capitalism, using inventive approaches and toughness (who else is taking on his home state's most powerful industry?). Angelides is more like a New Dealer—an economic liberal who seeks to transform the system more deeply. He boldly espouses basic principles of economic liberalism (and forgotten principles of sound investing) without apology.

With both Spitzer and Angelides running in 2006, Democrats will hear from aggressive campaigns that could provide building blocks for regenerating a reform-minded party. Angelides, for instance, articulates—actually resurrects—old wisdom about the nature of economic development. Public investment and private enterprise are not at war with each other, as the right has taught

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people to believe. They are mutually reinforcing and the key to insuring equitable opportunities for all (if you doubt this, check out the history of the world's sixth-largest economy—California).

If Democrats looked more closely at the issues that Spitzer-Angelides bring to corporate governance, they would find a powerful rebuke to George W. Bush's loose talk about "democracy" and the "ownership society." While Bush calls for democracy worldwide, he is smothering the ownership rights of corporate shareowners at home. In behalf of business-financial elites, the White House has bullied Securities and Exchange Commission (SEC) chairman William Donaldson (a GOP financier himself) for favoring the proposal to allow major institutional investors like public pension funds to nominate independent directors to corporate boards. If that proposal is killed, as appears likely, reformers led by the Carpenters Union will be pushing a more direct initiative at the corporations: requiring that directors and CEOs who run unopposed at least win with majority support from the shareholders. How radical is that? Too radical for the status quo's moguls and titans. They know that majority rule would allow a broad coalition of institutional investors to withhold their votes and veto entrenched managements.

A Way to Talk About Power

Converting obscure financial issues into broadly understood political issues requires deft translation, but will speak to a very broad audience of abused Americans. It's a way to talk about excessive corporate power—a major public concern, according to polls, yet seldom mentioned—with concrete examples rather than abstractions.

Labor seems to understand the potential politics better than most. Numerous unions are getting engaged, and a few have committed real resources to organizing and educating. Now some fifty AFSCME members are pension trustees around the country. SEIU has a staff of ten field organizers nationwide who stay close to pension boards and the relevant elections. Together, the two unions backed a librarian elected by co-workers to Ohio's retirement board, gaining a 5-to-4 majority at the $65 billion fund. Three new labor-friendly members were elected in New Mexico, two more in Maryland.

Oddly enough, this small-d democratic brand of politics is well suited to the daunting realm of finance capital. At its best, organizing is about building "relationships with power," and Wall Street itself functions daily on the power relationships among major financial players—the people who make the deals and decide who gets what, who's in charge, whose values will be reflected in how a company operates. The problem is, the millions of workers who, collectively, are major corporate shareowners do not get a seat at the table appropriate to their wealth. (The same orphaned status applies to most small investors, who turn over their savings to mutual funds that proceed to ignore their interests.) Creating trustworthy financial intermediaries that speak reliably for their clients is a fundamental reform in itself.

In this convergence of rising politicians and activist elements, are we glimpsing the vanguard of a new kind of reform politics? My answer is: yes, maybe. This reform impulse is different because it seeks to change the system from within, using workers' capital as the driving wedge. Yet it is also traditionally liberal in that the latter-day reformers seek to leverage government's regulatory system and build popular support for new and stronger regulatory legislation (though not yet in Washington).

Thinking Like a Capitalist

The largest public pension funds, including CalPERS, have always been conflicted in their obligations to workers and retirees. They are supposed to invest only in the "best interests" of their beneficial owners, which traditionally has meant seeking the best financial returns. But they have often seemed to be playing for the other side—trashing the environment, workers and communities, and cutting costs in ways that undermine long-term economic prospects. Dennak Murphy, a West Coast organizer for SEIU, crisply explains: "We have nearly 800,000 members, most of whom are in public employee retirement funds [including 210,000 in CalPERS]. The pension funds take their money and buy stocks in two or three thousand companies. Then a lot of those companies turn around and screw the workers."

No other major investors in finance capital would tolerate such abuse for long—they would dump the stocks and perhaps plot retaliation. Pension-fund managers are expected to look the other way and accept collateral damage to their members as unavoidable on the grounds that diversification—spreading their investments across the entire stock market and effectively owning the broad economy—reduces their risk. Passivity does not protect them from horrendous losses, however. CalPERS lost $586 million on WorldCom alone.

Grossly oversimplified, the reform strategy is guided by two interacting principles: First, pension funds should invest to restore the once-common understanding that, in the long run, you can't have a successful economy and a failing society (roughly speaking, that's what the "market ideology" ignores). Second, while pension funds adopt this perspective to advance the self-interest of their members (including long-term financial soundness), they should also use their leverage to make the financial system incorporate these principles as the system's operating routines.

If the happy day ever arrives when the financial system itself recognizes and reinforces the values of long-term investing, miscreant corporations will be punished in terms they can readily understand: falling stock prices and higher costs on their borrowing. Stock-market analysts will then have to calculate what they now routinely ignore—the long-term economic consequences of social destruction—and investors will learn to prefer shares in healthy companies. The marketplace, in effect, will have the information to "mark down" bad guys and reward managements that are truly forward-looking. That, at least, is the vision.

Angelides is familiar with the accounting fallacies of capitalism because he's a capitalist himself, a developer and investor who made his fortune in California real estate. "I would make the case—this comes from my experience in real estate—that the best, most highly regarded companies are the ones that are profitable and also produce products that are of utility to society, that increase our productivity and enrich our lives," he says. "When people step back and ask what they most want to see in the private sector, it is both profitability and good results for society. There is no reason capital shouldn't be held to the same standard."

Angelides led a tough, two-year fight to persuade CalPERS and CalSTRS to dump tobacco company stocks from their portfolios, but he prevailed on hard facts of investor risk, not social sentiment. "We worked day and night to lay out the risks to the companies—the increasing regulatory climate, the increasing lawsuits the companies would face," he recalls. "It wasn't simply that we don't like tobacco."

Acknowledging Risks to Society

Yet when even the largest pension fund withdraws its capital from antisocial companies, they are unlikely to feel the sting. For genuine muscle, the reformers will have to generate a market-wide reaction to their critiques—with many investors, large and small, shunning the companies. That's why activists are working to accomplish their second strategic principle: convincing the governing institutions of the financial system to acknowledge that society's risks are also financial risks and that these factors should be made standard elements in evaluating corporate worth.

Confronting industrial producers of carbon emissions, the Investor Network on Climate Risk follows this logic systematically. Connecticut Treasurer Nappier, who leads the network, explains: "My basic premise is that by being an activist I can add value to the companies, not just by the integrity of their financial accounting but on issues we refer to as 'sustainable governance,' like the environment, treatment of workers, diversity in the workforce and on corporate boards. Climate change will affect the long-term value of the companies and therefore our pension-fund portfolio."

The investor network filed shareholder petitions with twenty-five corporations—the big names in oil, autos, electric utilities—asking them to disclose their risk exposure on global warming, then to explain how the companies intend to avoid the potential losses. Last fall, American Electric Power, the largest coal-burning utility and therefore the largest US generator of carbon emissions, startled the industry by responding forthrightly. It not only acknowledged the reality of global warming's threat to the world and its own risk exposure but also predicted that US controls on carbon emissions are likely in the next decade and spelled out its capital investment plans to begin reducing emissions. AEP had rejected previous petitions. Why did it respond this time? "They asked a reasonable question that had an answer," said AEP director Robert Fri. "What would be the economic impact to the nation's largest coal-burning utility? The answer is a lot." Other utilities, like Cinergy, followed with similar reports. In oil, ChevronTexaco and several smaller companies got religion too. In autos, Ford prepared a lame promise to make big changes by 2030.

The noose of global warming is tightening on US industry, as the Kyoto Protocol enters active enforcement. The global reinsurance firm Swiss Re has warned its corporate clients to come up with strategies for global warming or risk losing their liability coverage. The Association of British Insurers warns that "businesses responsible for high emissions of greenhouse gases could be held liable for the damage that is caused by climate change."

CERES, the environmental coalition that does strategy and research for Nappier's network, explains that the business risks go further than lawsuits and regulation. Electric utilities that build new power plants without incorporating carbon reductions may

A CAR BOMB AND THE FIGHT FOR THE REDWOODS

In 1990, a car bomb in Oakland almost killed the legendary Earth First! leader, Judi Bari.

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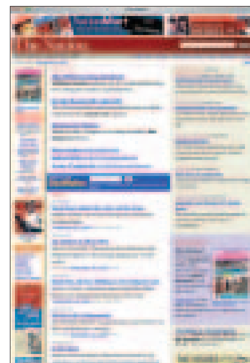

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find they have misused billions in capital and are stuck with obsolete plants. Auto companies that continue to resist the transformation to nonpetroleum cars will lose market share to forward-thinking competitors like Toyota. Energy firms that ignore renewable sources are missing future business opportunities. These sectors might someday find they are the next tobacco industry, facing billions in damage lawsuits, insurance costs and capital losses. Yet most corporations still do not mention global warming in their quarterly disclosures of "material risk." Are they misleading shareholders? Thirteen pension funds have petitioned the SEC to require all companies to disclose these hidden risks.

Meanwhile, the drive to inject these issues into the financial system's formal rules is already under way. In essence, the "social screens" pioneered by "socially responsible investor" funds—excluding rogue products and companies from the portfolio—would be reformulated to market standards. Nappier has promoted the development of an alternative Standard & Poor's 500 index, alongside the existing one, that would include only companies actively committed to sustainable economics. A rival S&P index could deliver serious injury to the stock prices of companies that get kicked out of the "white hat" 500.

Since the risk-rating agencies also failed utterly to alert investors to scores of fraudulent corporations in the recent wave of business scandals, they too are becoming more sensitive to the reform critique. Social issues do affect returns. Contrary to market lore, the accumulated evidence shows that the best-managed and least socially destructive companies also perform better in the stock market than "low road" rivals in the same sector.

Major pension funds, in the end, will still need to diversify their holdings, but diversification can be done more astutely than passive indexed investing that simply buys stocks across the market without making any distinctions. The CalPERS professional staff is designing an experimental index that reflects the overall economy but leaves out companies with a record of high risks and price volatility—factors typically accompanied by negative behavior on "social issues." If this proves successful, CalPERS will have invented a new investment model that other funds can adopt. Angelides also envisions "actions of consequence" for truly notorious corporate behavior. "If there are recalcitrants," he suggests, "you kick them out of the index."

The reformers will get no help from Washington. The Bush Administration clearly stands with the CEOs, who whine about the burdens of complying with the new, rather modest reform regulations. On the other hand, the stock market is still sick, limping sideways for the last three years because investor distrust remains strong. Angelides likes to point out that after the crash of 1929, it took the stock market twenty-five years to regain its old peak.

Democrats have a political opportunity in this situation. They can rally around reformers and build popular support for their social-economic agenda. Or they can remain quiet so as not to offend very powerful corporate-financial interests. Their choice may tell us something about the party's future. ■

HER VOTES THRILLED SUPPORTERS AND PUT SOME BACKBONE INTO SENATE DEMOCRATS.

The Boxer Rebellion

JOHN NICHOLS

It was the night of Barbara Boxer's greatest political victory. She had been re-elected to a third term as a senator from California, beating a credible challenger by a twenty-point margin and securing a higher raw vote total—6.9 million—than any federal candidate save George W. Bush and John Kerry. But Boxer's party was in trouble. Democrats had failed to retake the White House and lost seats in Congress, and a decade after the GOP revolution of 1994 put both the House and Senate in Republican hands, the party that had for so long ruled Congress still did not seem to understand how to mount an effective opposition. "On election night," Boxer recalls, "I said that I knew there were hard and tough times coming and that if I had to stand alone, I was going to do it. I'm not going to worry about what other people are doing. I'm going to be comfortable with being the only vote."

RICHARD BECKERMAN

To anyone unfamiliar with the continuing crisis of the contemporary Democratic Party—which, for the past decade, has been exacerbated by the supine character of its Congressional caucuses—Boxer's statement might have sounded bizarre. Sure, things look bad for Democrats, but the party still has a substantial caucus in the Senate. So why would she be talking about standing alone? The answer is that Boxer, a liberal who shares the view of many grassroots Democrats that their party's fortunes will be renewed only by showing strength, was implicitly acknowledging the reality that a lot of Congressional Democrats still don't recognize: that Democrats have to become a genuine opposition party before they can ever again hope to become a majority party.

Barely two months after she made her go-it-alone pledge, the Senator would illustrate that point—perhaps unintentionally, but certainly effectively—when she lodged one of the most high-profile dissents in the history of the Senate. Inspired by electoral justice activists, who, she says, "definitely put the issue on the agenda for me," and by conversations with Representative Stephanie Tubbs Jones, a Cleveland Democrat who was concerned about the disenfranchisement of minority voters in Ohio, Boxer objected to the certification of the presidential election results from that state. Boxer's objection forced a two-hour debate that saw several Senate Democrats making pious statements about the need to count