Buying It: Financialization through Socialization[1]

Natascha van der Zwan

Financial markets are built around shared understandings of similarity and difference that inform who gains access and who is excluded. They are the territory of the investor, a particular subjectivity whose characteristics reflect widely held beliefs regarding the legitimacy of the financial marketplace (Preda 2005). The idea of "who gets to invest where and when" is not just embodied by particular social groups (Leyshon and Thrift 1996), but also embedded within the organizational structures of financial institutions (Ortiz 2014) and the collective imagination of financial professionals (Ho 2009). Yet, the understanding of the financial sector as a bounded field does not preclude movement across or interactions with the outside world. In fact, recent scholarship has emphasized the interactive character of the finance sector (Vargha 2011). This chapter builds on these studies by analyzing how the field of finance is constituted through its interactions with outsiders.

Distinct from scholarship that focuses on the organizations of professional finance, the study presented here hopes to "open the black boxes of global finance" (MacKenzie 2005) from the perspective of an outsider, namely organized labor. This "outside in" approach reveals the dialogical process by which financial market access was negotiated by Wall Street professionals and their interlocutors from the American labor movement. The chapter presents the attempts by the AFL-CIO's Industrial Union Department Committee on Pension and Benefit Fund Policy to establish its own employee buy-out fund to participate in the market for corporate control during the late 1980s. While developing the plans for the Employee Partnership Fund (EPF), the Committee reached out to financial professionals within its network and asked for advice on how to organize a labor-friendly investment fund. Over the course of three years, Committee members and Wall Street bankers discussed how organized labor could set up a fund that would attract the interest of professional investors.

Although a minor instance in the 1980s markets for corporate control, the case of EPF offers two broader insights on the financialization of the American political economy. First, the correspondence between organized labor and financial professionals exposes the social boundaries separating the financial sector from the industrial economy. Sociologists have used the concept of boundary work to describe the interpretive acts actors undertake to distinguish "us" from "them" (Lamont and Molnár 2002: 171). In this case, the Committee on Pension and Benefit Fund Policy performed boundary work, when it strongly rejected Wall Street's buyout practices, setting it aside from "honorable" labor union activities. In turn, Wall Street bankers who were invited to comment on organized labor's plans also engaged in boundary work. They formulated the preconditions under which an outsider like organized labor could transverse the social

[1] This is an Accepted Manuscript of a book chapter published by Routledge in Valérie Boussard (ed.), *Finance at Work,* pp. 57-70, on July 5, 2017, available online: https://www.routledge.com/Finance-at-Work/Boussard/p/book/9781138204034.

boundaries separating finance from the industrial economy and enter the "imaginary community of market actors" (Preda 2005: 148).

Second, by accommodating the bankers' suggestions for the buyout fund, financial sector norms and practices slowly diffused through organized labor's project to create its own financial intermediary in opposition to the corporate raiders of the time. When the EPF went to market, its design no longer reflected organized labor's critical project, but rather resembled a standard buyout fund. This "mimetic isomorphism" (DiMaggio and Powell 1983) was rooted in the bankers' belief that value creation was dependent on the alignment of interests between fund organizers and fund investors. Their ideas followed the central tenets of agency theory with its concern for managerial discipline and shareholder value (Jung and Dobbin 2013). The case of the EPF thus fits within the larger story of the financialization of the American political economy, characterized by the adoption of shareholder value-oriented practices by non-financial actors and organizations (Van der Zwan 2014).

The case study presented in this chapter is based on archival research conducted at the Kheel Center for Labor-Management Documentation and Archives at Cornell University. Various drafts of the project proposal, meeting notes and internal memo's, officials correspondence and other primary documents related to the EPF were drawn from the Jacob Sheinkman records from the Secretary-Treasurer's and President's Offices, 1970-1996 (hereafter: JS records) to create a historical reconstruction of the EPF project. The JS records are part of the larger collection of the American Textile and Clothing Workers Union, present at the Kheel Center archives. A site visit to the archives took place in February 2014.

The outline of the chapter is as follows. Section 1 will describe the leveraged buyout and its role within the market for corporate control. Sections 2 and 3 present the case study of the Employee Partnership Fund. Section 2 presents the early plans of the EPF, as conceived by the Industrial Union Department's Committee on Pension and Benefit Fund Policy in 1988. A rejection of mainstream buyout practices, such the maximization of return and value extraction from the firm, strongly resonated throughout these early plans. Section 3 shows how these critiques of finance largely disappeared from the proposal, after the IUD Committee adopted Wall Street's suggestions for revision. The chapter ends with a reflection on the mechanisms of financialization. The case study shows how financialization does not only proceed through the "colonization" of the industrial economy (Chiapello 2005), but may also occur through the socialization of critical outsiders into the world of finance. The brief history of the EPF therefore warrants a closer attention to the role of critique within the financialized political economy.

1. Leveraged Buyouts and the Market for Corporate Control

One of the major developments associated with the financialization of the American political economy during the final quarter of the twentieth century has been the reorientation of the goals of the modern corporation from the realization of growth to the maximization of shareholder value (Van der Zwan 2014). Providing the academic justification of this new understanding of the firm were agency theorists like Michael Jensen and Eugene Fama, who in the 1970s argued that managerial capitalism had undermined the position of the shareholder within the firm: rather than serving the firm's true owners - its shareholders - by maximizing its value, corporate executives had only served their own interests by keeping firms large and salaries high (Jung and Dobbin 2013). Agency theory prescribed that the corporation be reduced to its "core competencies" by selling off divisions and cutting costs to maximize profits. It also proposed a realignment of managerial and shareholder interests by tying executive compensation to financial performance, for instance through stock options (ibid.).

Financial market actors enthusiastically adopted agency theory' core principles. Institutional investors, such as pension funds and mutual funds, embraced the notion that active ownership could remedy the negative effects of lackluster management on firm performance. Their growing influence followed the expansion of occupational pension plans during the postwar period. As more and more workers began to save for their future retirement, pension funds acquired more capital in need of investment. Traditionally, pension funds invested in fixed-income assets, such as government bonds. By the 1980s, however, increased funding needs and a liberalization of investment regulations provoked a shift in pension funds' investment practices with corporate equities becoming the dominant asset class (McCarthy, Sorsa and Van der Zwan 2016). With large ownership stakes in America's biggest corporations, institutional investors had a strong self-interest in incentivizing management to adopt pro-shareholder policies.

The new financial orientation of the firm did not only influence its internal management of the firm, but also how firms were bought and sold. Between 1981 and 1988, a wave of mergers and acquisitions, many of them hostile, took Corporate America by storm. Instead of passively owning shares in public corporations, corporate raiders would acquire entire corporations with the explicit purpose of becoming actively involved in its management. The general idea behind a buyout is that "ownership matters" (Erturk et al. 2010): firms have the potential for profitability, but the current owner is not able to extract those profits. To improve the financial performance of the firm, an ownership change is warranted. The goal of corporate raiders such as Carl Icahn or T. Boone Pickens was to extract as much value from the corporation as possible within a short period of time. To this end, they would target large industrial conglomerates, undervalued by the marketplace, and separate its divisions before selling them on. It is estimated that around a third of the 1980 Fortune 500 had disappeared by the decade's end (Davis 2009: 34).

A major impetus to the market of corporate control was a financial innovation called the leveraged buyout. A leveraged buyout is a financial technique through which a group of investors acquires a corporation by borrowing money and using the assets of the corporation as collateral. In 1981, leveraged buyouts had represented only a small share (4.6%) of the mergers and acquisitions market in the United States. They quickly gained popularity, however: by the end of 1989, 26.8% of mergers and acquisitions had been leveraged buyouts (Brancato 1989: 5). Among these was Kohlberg, Kravis and Roberts' infamous buyout of RJR Nabisco at $24.8 billion in 1988, the largest in history. The RJR Nabisco buyout, however, quickly became the symbol of an overheated buyout market: with increased competition in the takeover market that spurred prices for takeover targets, bought-out companies became burdened with massive amounts of debt which they were increasingly unable to service. This resulted in a growing number of bankruptcies by the end of the decade (ibid.).

Much of the popularity of the leveraged buyout could be attributed to new financing techniques, in particular the usage of high-yield bonds or junk bonds, and their preferential tax treatment. The typical capital structure of a leveraged buyout transaction combined debt provided by commercial banks and insurance companies with equity financing provided by institutional investors, often through a limited partnership fund. Leveraged buyouts commonly followed the "rule of 70-30," with 70% of the purchase price financed by debt and 30% by equity. Interest payments were tax deductible to both lender and borrower (Clark 2009). Commercial banks were eager to finance leveraged buyouts, as growing stock markets and rising interest rates had reduced other opportunities for corporate lending. Banks and insurers saw their role in the buyout market greatly reduced, however, after Michael Milken at investment firm Drexel Burnham Lambert began to market junk bonds to finance leveraged buyouts. These low-rated, but highly profitable bonds made megadeals such as the RJR Nabisco takeover possible. With the collapse of the junk bond market in 1989, the leveraged buyout craze also came to an end (Kaufman and Englander 1993).

In several respects, leveraged buyouts represented the dominant economic ideas of the decade. Leveraged buyouts solved the problem of the separation between ownership and control by placing the acquired firm directly under the control of the new owners. Direct ownership allowed the new owners to closely monitor management. Debt repayments imposed another form of discipline on corporate managers: because cash flows were not commonly sufficient to service outstanding debt, value would be extracted from the firm through restructuring. Firms were commonly sold again after three to five years (Clark 2009). Additionally, the relationship between the buyout fund manager and outside investors was also organized as to prevent agency problems. Most commonly, a limited partnership was established, in which liability resided with the fund manager or General Partner. The General Partner would run the daily operations of the fund and made the investment decisions. To align the interests between General Partner and limited partners, the General Partner would typically receive a 20% performance fee on top of his 2% annual management fee (Erturk et al. 2010).

To organized labor, the market for corporate control posed a major threat. Union federation AFL-CIO estimated that in the course of just a few years leveraged buyouts had resulted in more than 90.000 lost jobs. The retail sector had been a particularly popular target for corporate raiders. "The largest employer of the United Food and Commercial Workers Union is now KKR – Kohlberg, Kravis and Roberts, an investment firm specializing in leveraged buyout deals," AFL-CIO President Lane Kirkland testified before the U.S. Senate Finance Committee. He urged the Senators to take legislative action (Kirkland 1989). Meanwhile, initiatives within the labor movement were developed to use pension funds' ownership stakes in American corporations to workers' advantage. In addition to shareholder engagement and other types of financial activism, labor leaders wanted to expand their own investment activities in the corporate economy (Van der Zwan 2011). Among these was the Industrial Union Department's initiative for a worker-friendly leveraged buy-out fund.

2. Imagining the Employee Partnership Fund

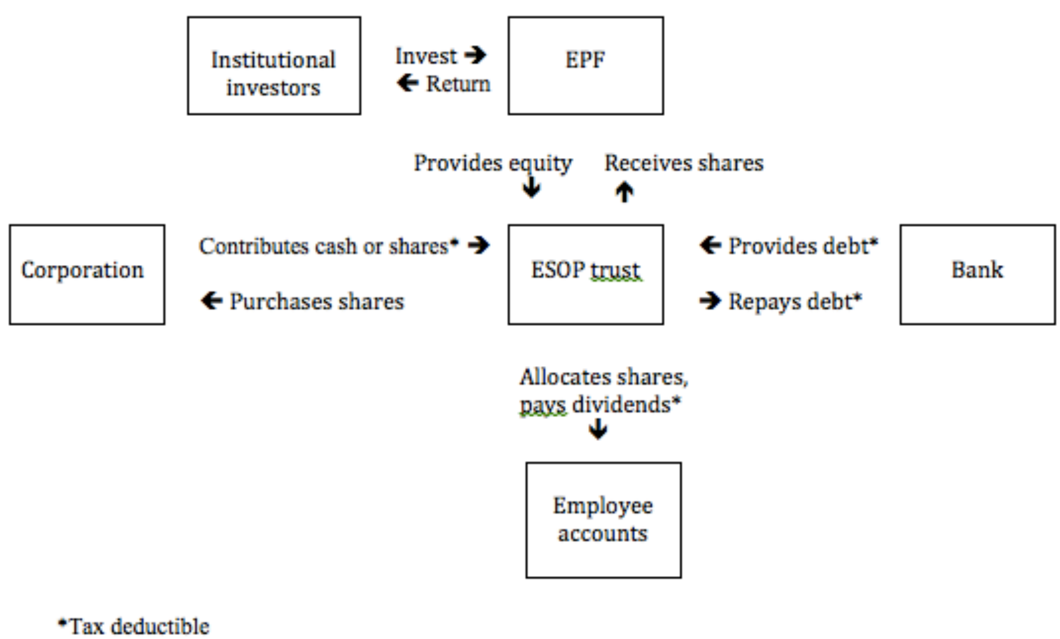
Already in the 1970s, Peter Drucker had argued that workers indirectly owned large shares in American corporations through their pension funds, which they could leverage to their own political advantage (Drucker 1976). Taking this idea to heart, the Industrial Union Department of labor federation AFL-CIO created a Committee on Pension and Benefit Fund Policy. Throughout the 1980s, the committee met periodically to discuss how pension savings could be invested in workers' interests. Besides the creation of an union-initiated investment vehicle, the committee also considered, among other things, strategies of proxy voting and shareholder activism. Jacob Sheinkman, secretary-treasurer (1975-1987) and later president (1987-1995) of the Amalgamated Clothing and Textile Workers Union, stood at the helm of the Committee. Additional members included other union presidents, such as Lynn Williams of the United Steelworkers of America and Sigurd Lucassen of the United Brotherhood of Carpenters. Future AFL-CIO President John Sweeney (1995-2009) was also a member of the committee in his capacity as the president of the Service Employees Industrial Union.

Sheinkman's chairmanship was not coincidental: the founder of two labor banks in the 1920s, his union had previously employed financial activism in its organizing campaign against textile firm J.P. Stevens. Sheinkman himself had developed a personal interest in the question how unions could "use their rights as stockholders" (Sheinkman 1979: 15). By January 1988, Sheinkman et al. had produced a draft proposal for "a trade union investment" vehicle together with William (Bill) Patterson, ACTWU's Director of Corporate Affairs. The authors explicitly positioned the fund as an alternative investment vehicle to regular buyouts funds. According to the authors, the investment fund would serve companies that combined long-term economic stability with "honorable trade-union-based labor relations policies." It explicitly rejected the short-term profit maximization celebrated by corporate raiders: the fund would not be "burdened with the multimillion dollar salary and bonus requirements of the conventional investment banking world" and would promise investors "something less than rate of return maximization." It would invest in the industrial economy, in unionized firms constituting the "economic base on which those depositors rest." The fund would support a wide range of business activities, such as the purchase of plant and equipment for modernization, the purchase of business assets to increase market share, or to assist in the creation of employee stock ownership plans or management buyouts to avoid takeovers by external parties ("A trade union investment vehicle", January 31, 1988).

The proposal for the union investment vehicle reflected a broader understanding among American union officials that traditional labor politics – organizing, collective bargaining, lobbying – was no longer sufficient to represent their members' interests. Increasingly, union officials began to see that the workplace and the financial system were not at opposite ends of the political economy, but were closely intertwined domains: in the financialized economy, jobs and wage had become highly dependent on investor behavior. As the authors noted: "Unions now recognize that they must address questions of investment and finance in order to be able to address their traditional concerns for job security and terms and conditions of work" (ibid.). They hoped that if organized labor would adopt financial techniques, they could use them to workers' advantage. The proposed trade union investment vehicle was therefore part of a "capital strategy for organizing". If organized labor could help restore profitability at a bought-out firm, they could prove to other employers that unionization made financial sense. Firms had to compete "on the cost of capital, not labor", or so the proposal read (ibid.).

Within a year, the plans for the investment fund had developed further. Now called the Equity Partnership Fund (EPF), the fund would assist employees in buying out their own corporations through the use of employee stock ownership plans. Employee stock ownership plans are a type of retirement plan that allows employees to purchase shares in their corporation on a tax-deferred basis. Employee stock ownership plans are very similar to leveraged buyouts: shares are purchased through a fund, which borrows money from a bank to make the acquisition possible (see figure 1). Every time an employee contributes to the fund, the fund pays back part of the debt. The moment the loan is repaid, employees become owners of the stock and receive dividend payments. According to the proposal authors, labor unions were much better suited than corporate raiders to establish successful employee stock ownership plans. After all, unions could count on employees' loyalty to help improve the firm's financial performance ("Draft for Equity Partnership Fund", February 1989).

Figure 1: Financial Flows in the Employee Partnership Fund



Although in existence since the 1920s, employee stock ownership plans gained new momentum with the passage of the Employment Retirement Income Security Act in 1974. Under the Employee Retirement Income Security Act, both the principal loan and the interest payments tax had become deductible. What's more, lenders providing capital for the employee buyout were only taxed on half of the income that the employee stock ownership plans generated. Lenders could therefore offer lower interest rates for employee buyouts than for other loans, making them attractive to corporations in need of capital for large investments. Employee stock ownership plans also became a new line of defense against corporate raiders, after the Polaroid Corporation staved off a hostile takeover bid by raising its employees' shares in the corporation. Between 1980 and 1989, large corporations like Avis ($1.750 million) and Proctor and Gamble ($ 1.000 million) initiated employee stock ownership plans, while investment banks such as Drexel Burnham Lambert and Goldman Sachs set up teams to explore these new opportunities for profit (Bernstein 1987, Farell and Hoerr 1989).

Through the EPF, Sheinkman and co-authors hoped to solve two common problems associated with employee buy-outs: 1) employees' lack of capital, forcing them to take substantial wage and benefit cuts to finance the employee stock ownership plan; and 2) their lack of control over the corporation. Taken together, both problems often resulted in a situation whereby the new employee-owners would carry the financial risk for the corporation's performance without having a strong say in business matters. The EPF would provide financing for a small part of the buyout sum, the rest of which was to be borrowed. In exchange for the equity, the Fund would receive an ownership stake that would be several times larger than its actual investment, preferably in preferred stock "paying very generous dividends" ("Draft for Equity Partnership Fund", February 1989). At the same time, the authors wrote, the fund would serve as a "friendly partner with labor" and help workers gain a say in the selection of CEO and seats on the board of directors. If all went well, the authors noted, the EPF could be bought out after five to ten years, "leaving the Fund with a very good return and employees in control of the company" (ibid.).

To govern the fund, participating unions would share responsibilities with a professional banker. Union officials would take seats on the fund's board, but the daily management of the fund was to be subcontracted to an independent banker. Although the participating unions would alert the fund manager of possible buyouts, ultimate investment decisions relied solely with the fund manager. Independence was necessary, according to the authors, because "the fund manager will have to have the authority to take or leave a deal based purely on its economic merits" (although the proposal added that "obviously, the fund should never do a deal which would put it at odds with organized labor, or open it to charges of bad faith"). An advisory board of investors would set the investment policy in broad terms, but the EPF would limit itself to long-term investments of around five to ten years. Potential investors should therefore expect high returns, the authors wrote, but had to be "willing to wait a number of years to realize those returns" (ibid.) Long-term investors, such as pension funds and foundations, were therefore among the likely target group for the fund.

Furthermore, the EPF was to be structured as a so-called blind pool. In a blind pool, the limited partners are passive investors: they don't decide on which deals are made, but only commit capital to the fund. Investment decisions lie solely with the General Partner. To attract limited partners for the EPF, it was imperative that the General Partner had the kind of professional reputation in the financial community that organized labor lacked. After all, unions were "not parties with whom typical investors are used to doing business at all" ("Draft Proposal Employee Partnership Fund", November 4, 1988). Lazard Frères, Drexel Burnham Lambert and American Capital Strategies were considered good candidates for General Partner due to the firms' prior involvement with employee buyouts (ibid.). In personal correspondence, both Sheinkman and Patterson expressed a strong preference for Lazard Frères.[2] The bank had a close relationship with the American labor movement, having assisted unions with large employee buyouts at – among others – Weirton Steel and LTV Steel. "I think the Lazard name and the fact that we and other unions trust them makes them a natural choice to run the fund", Bill Patterson wrote to Jacob Sheinkman (Patterson 1989).

3: Selling the Employee Partnership Fund

Coming up with the idea for an employee buyout fund was one thing. However, selling it to unions and other potential investors was quite something else. Earlier labor-oriented investment vehicles had not always been able to gain the necessary financial support and, at times, had become the target of aggressive anti-union organizers. The EPF initiators therefore had to walk a tight rope, making sure that support from Wall Street professionals was not gained at the expense of the unions whose investments they sought. The Committee on Pension and Benefit Fund Policy proved to be an ideal vehicle to bring both sides together. The Committee could reach out to Wall Street professionals via Sheinkman's contacts, while using its membership to gauge interest within the labor movement. In February 1989, the EPF proposal was sent for commentary to the "most disposed" unions represented on the Committee, such as the UMWA and the USW. Several Wall Street firms – including Drexel Burnham Lambert, Kohlberg Kravis Roberts and Shearson Lehman Hutton – were also asked for their response (Sheinkman 1989).

Only the responses from Drexel Burnham Lambert and Shearson Lehman Hutton, the two big rivals in the leveraged buyout market, were included in the archives. The documents reveal that both firms were critical of the initiative, questioning the fund's ability to attract investors and banks' willingness to provide the debt required for the transactions. Both the blind pool and the employee stock ownership plan were unpopular investment tools, the documents read; the former because investors had no say in how their money was spent, the latter because investors regarded these plans as strategies of last resort for failing firms (Acosta 1989; Drexel Burnham Lambert 1989). Because successful employee stock ownership plans were still few and far between, they first needed "to educate the marketplace" on the desirability of this tool before raising capital. The presence of some success stories, Drexel staff noted, might reduce the "natural skepticism that investors might have toward an organized labor-sponsored fund" (Drexel Burnham Lambert 1989).

Suspicion towards the unions also informed the commenters' suggestions for the fund's organizational structure. Because managers might fear political interference from the unions, it was important that the board was completely independent from the labor movement and not – as was the case in the earlier proposal drafts – composed of labor officials, both Drexel and Shearson emphasized. "If political pressure is allowed to influence the investment decisions", the Drexel staff wrote, "no reputable fund manager will be retained and the EPF will have no credibility" (Drexel Burnham Lambert 1989). According to the representative from Shearson Lehman Hutton, the unions needed to think carefully about how much capital they were willing to commit: at least 25% of the

[2] ACTWU's affiliate, the Amalgamated Bank, was also considered as a General Partner. But, so the authors noted, it lacked experience with employee buyouts and was therefore less qualified than other candidates for General Partner (ibid.).

pool to show they were serious, but less than 50% to avoid conflicts of interest (Acosta 1989). The Drexel staff suggested a commitment fund. In a commitment fund, investors would put up a small amount of capital to pay for the daily operations of the fund, but would only contribute to the investments on a deal-by-deal basis: "If an investment opportunity is good, the necessary funds will be plentiful and available quickly" (Drexel Burnham Lambert 1989).

Sheinkman and Patterson rewrote the proposal once more. The board of union officials disappeared from the proposal and was replaced by an advisory committee. The reference to union ownership of the investment company was also removed; instead, it stated that the company would be "supported, but not owned" by organized labor ("Request for Proposal: Employee Partnership Fund," 1989). In addition, investments would be based on "sound economic criteria, insulated from any pressures to act otherwise." The authors explicitly acknowledged possible skepticism towards labor movement, expressing the hope that collaborating with a "well-known, large firm" might overcome "any investor skepticism as to the fund's purpose" (ibid). Other aspects of the EPF, such as the structure of the fund or the choice of fund manager, they deliberately left vague to avoid alienating the unions whose seed money they sought. After all, an internal memorandum stated, "for unions to provide the up front [sic] money creates heightened labor expectations and invites intervention in the operation of the fund" ("Issues of EPF working their way towards resolution," 1989).

Still, the Committee's ultimate goal of establishing worker-friendly buyouts did not completely disappear from the proposal. In June 1989, the Committee sent out its formal request for proposals to sixteen investment banks and other financial firms. "[We] solicit your interest," the letter read, "[in a fund] to help workers and their unions compete in capital markets" ("Request for Proposal: Employee Partnership Fund," 1989). The authors expressed the hope that the fund would appeal to investors "interested in transactions which produce long-term returns through growth and increased productivity, rather than transactions designed to maximize short-term returns using break-up strategies" (ibid: 1). The authors listed five criteria for future investments: 1) strong labor-management partnership in the restructured company; 2) sensitivity to jobs; 3) respect for existing collective bargaining structures; 4) promoting worker ownership and 5) providing the necessary return for the fund (ibid). Majority employee ownership, mentioned in an earlier draft, no longer appeared on the list ("Issues of EPF working their way towards resolution", May 19, 1989).

Despite its initial criticism, Drexel Burnham Lambert made a formal bid for the EPF in August 1989. The investment bankers proposed a $100 million commitment fund, with a Drexel subsidiary responsible for its management. Limited partners would need to commit at least $2.5 million, of which twenty percent had to be fulfilled at the start of the fund. The manager would raise 5% of the capital. In return, he would receive a 2% fee and 20% of the net gains, but only after the limited partners earned a 10% return on their capital. An investment committee of five members (three from investors, two from Drexel) would determine the investment policy. In addition, an advisory council of seven labor officials served the manager. The authors also suggested a union task force, which would assist local unions after the buyouts were completed. Citing the $5 billion of transactions in employee-owned firms DBL had been involved in in the past five years, the authors expressed their hope that it could continue working with the union leaders on this project (Cogut and Flanagan 1989).

Six months later, Drexel Burnham Lambert declared bankruptcy. The infamous Wall Street firm became the subject of a large-scale U.S. government investigation into securities violations. Michael Milken, the dethroned king of the junk bond, was indicted for 97 counts of securities fraud and insider trading. Amidst these scandals, a growing number of defaults caused a sudden drop in the value of junk bonds. Many critics, including growing number of investors, wondered out loud if leveraged buyouts had not saddled America's corporations with too much debt. In 1989, a record number of corporations defaulted on its debt, at a total amount of $8.1 billion. A year later, the defaults further increased to $18 billion. Meanwhile, Wall Street firms were faced with big losses and began to let go thousands of employees. As one journalist wrote: "… debt is becoming a dirty word and raiders have lost their prestige" (Greenwald et al. 1992).

In this new economic context, Sheinkman and Patterson selected Eugene Keilin and Ron Bloom as the EPF's General Partners. The two men had been involved in the development of the EPF as employees of Lazard Frères, but had left the company to start their own firm. By the time they joined the EPF, Keilin and Bloom had already amassed considerable experience with employee buyouts at Weirton Steel (Keilin) and LTV Steel (both). With the aim set on employee buy-outs at companies valued between $100 and $500 million, the men hoped to make between 10 and 20 deals within five years (*Wall Street Journal* 1989; Swoboda 1990; Bernstein 1990). They approached public and private pension fund managers to gauge their interest in joining the EPF. "We believe the Fund offers an attractive investment opportunity", Bloom wrote the New York State Comptroller's office: "As well as an opportunity to enhance productivity, protect domestic employment and encourage employee participation by facilitating transactions involving employee ownership" (Bloom 1991). Similar letters were sent to local and national unions as well as several public employee retirement systems.

Despite the declining popularity of leveraged buyouts, Keilin and Bloom remained optimistic that the fund would garner enough interest from investors: "The EPF proposal is currently under intensive review in New York and California," Bloom reported back to the Committee on Pension and Benefit Fund Policy in February 1991: "And we are hopeful that these major state funds will agree to participate in the EPF." Still, Bloom admitted, "this project has not moved to completion as quickly as we hoped, but it came on the market when the economy was in decline and buyout funds were in disfavor" (Industrial Union Department Executive Committee on Pension and Benefit Fund Policy 1991). His words were prescient: CalPERS and other pension funds declined to participate in the EPF. The archival documents do not reveal what happened to the EPF in the following two years, but in August 1993 the fund was again on the agenda of the Industrial Union Department Committee. In the meeting notes, we read the following diagnosis of why the EPF failed to launch:

> A few years ago, our committee developed a model for a pool of capital that would be invested in employee owned [sic] firms. The model flowed from an intensive staff investigation of how the leveraged buyout craze could be turned to our members' benefit. Unfortunately, the EPF hit the "market" just as the buyout era peaked and investors active in such undertakings were retrenching. Another factor

that made it hard to complete the fund was the lack of a substantial number of successful employee-led buyouts at unionized firms (Industrial Union Department Executive Committee on Pension and Benefit Fund Policy 1993).

The historical records do not offer further insights in what happened to the EPF after 1993. In 1996, Bill Patterson became the director of the AFL-CIO's newly created Office of Investments, which would coordinate the labor's activities in the area of corporate governance. Eugene Keilin and Ron Bloom continued their partnership for another year, after which both moved on to other projects, while Jacob Sheinkman continued as ACTWU's president until 1995. What the records do show is that the Committee's effort to make American finance more labor-friendly was made in close cooperation with professionals from the very industry it hoped to reform. In order to set up the fund, labor officials had to rely on the expertise that these professionals could provide. The historical records show how much emphasis labor's financial advisors placed on the need for credibility and political independence. To launch the EPF, organized labor had to conform to the professional standards of the financial industry in order to prove that labor's financial activities had to be taken seriously. As a result, the proposal for the EPF lost its critical edge, as it tried to appeal to investors' sensibilities for risk aversion and competitive returns.

4. Conclusion: Beyond Financialization as Colonization?

The Employee Partnership Fund never came into existence as the labor-friendly financial intermediary that would transform the market for corporate control from within. Still, its brief history offers a glimpse of the processes that transformed the American political economy during the 1980s. Unlike actual hostile takeovers by corporate raiders, the case of the EPF is not a typical narrative of financialization, involving "the capture of resources by finance in the broadest sense" (Chiapello 2015: 15). Instead of financialization as a "colonization" of the corporate economy (ibid.), the term socialization might be more accurate to describe the gradual process through which organized labor adopted the norms and attitudes of the finance sector in its EPF proposal. The finance sector is a social system with its own cultural norms, behavioral attitudes and knowledge base. Sharing a commitment to these norms, attitudes and knowledge creates the trust necessary for financial transactions with a high degree of uncertainty

The years-long correspondence between the Committee on Pension and Benefit Fund Policy and Wall Street bankers also reveals the latter's strong suspicion of the EPF as a union-initiated enterprise. The bankers' advice on how to organize the fund suggests that credibility and trust are preconditions for the pursuit of value. The bankers' suggestions centered on two elements of the fund: 1) a removal of organized labor from the investment decision-making within the fund, and 2) a greater financial commitment from organized. If put in practice, the suggestions would have led to a paradoxical situation: to show the unions were serious partners, they had to increase their investment, yet without gaining a say in the decision-making process. Here, the bankers followed agency theory's prescription to create a common financial interest between organized labor and other investors. At the same time, their suggestions enlarged their own possibilities for enrichment. After all the General Partner of the fund, one of their own, would be paid an annual management fee in addition to his performance-related fee. The

General Partner therefore stood to gain financially, even if the fund itself performed poorly (Erturk et al. 2010).

The Committee's adoption of the bankers' suggestions complicated its relationship with its members. The unions had a very different view of value than bankers, centering on workers' contributions to the financial performance of the firm. They justified labor's involvement in the market of corporate control by claiming that unions were better equipped to gain the workers' loyalty necessary to realize a return on investment. This worker-oriented notion of value stands in stark contrast to investment bankers' own workplace culture with its high insecurity, but also high rewards. As Karen Ho (2006) has shown, investment bankers projected their own experiences of being expendable in the pursuit of value onto the workforce of the corporations they acquired. The legal retrenchment of shareholder value maximization in the Employee Retirement Income Security Act, the lack of control over single-employer pension funds, and the absence of broad political support from union members have been mentioned as additional obstacles preventing the realization of 'pension fund socialism' in the United States (cf. McCarthy 2014).

Still, the question of how to make the finance sector more responsive to the needs of citizens has not lost its relevance since the takeover wave of the 1980s. On the contrary, mass ownership of pensions, home mortgages and other financial products has resulted in ever more complicated webs of interdependence between workers, firms and the finance sector. Yet, following Davis (2009: 32) this democratization of finance is a representative democracy only, channeled through intermediaries over which citizen-owners lack control. Some authors (Engelen 2006; Block 2014) have therefore argued for the development of social investment funds outside of the financial mainstream. The case of the EPF, however, shows that the lack of attention to investment goals besides the maximization of return is not just a function of the structure of the finance sector. A true socialization of finance, therefore, starts with a more fluid understanding of who constitute legitimate and credible investors rather than upholding the social boundaries that separate the finance sector from labor and other segments of the political economy.

Bibliography

Acosta, T. 1989, comments on Employee Partnership Fund, June 9, 1989, JS records, Box 10, Folder 1.

"A trade union investment vehicle", January 31, 1988, JS records, Box 10, folder 5.

Berk, G. and D. Galvan 2009, "How People Experience and Change Institutions: A Field Guide to Creative Syncretism," Theory and Society Vol. 38, No. 6: 543-580.

Bernstein, A. 1987, "Move Over, Boone, Carl, Irv – Here Comes Labor", *Business Week*, December 14, 124.

Bernstein, A. 1990, "Soon, LBO's might be union-made," *Business Week*, February 26, 1990.

Block, F. 2014, “Democratizing Finance,” *Politics & Society* Vol. 42, No. 3: 3-28.

Bloom, R. 1991, letter to T.S. Lader, February 11, 1991, JS records, Box 128, Folder 3.

Brancato, C.K. 1989, *Leveraged Buyouts and the Pot of Gold: 1989 Update*, report prepared for the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, U.S. House of Representatives.

Chiapello, E. 2015, “Financialisation of Valuation,” *Human Studies*, Vol. 38, No. 1: 13-35.

Clark, I. 2009, “The private equity business model and associated strategies for HRM: Evidence and implications?”, *The International Journal of Human Resource Management,* Vol. 20, No. 10: 2030-2048.

Cogut, C.A. and P.A. Flanagan 1989, letter to J. Sheinkman, August 7, 1989, JS records, Box 102, Folder 8.

Davis, G.F. 2009, “The Rise and Fall of Finance and the End of the Society of Organizations,” *Academy of Management Perspectives*: 27-44.

DiMaggio, P.J. and W.W. Powell 1983, “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields,” *American Sociological Review* Vol. 48, No. 2: 147-160.

“Draft Proposal Employee Partnership Fund”, November 4, 1988, JS records, Box 10, Folder 1.

“Draft for an Equity Partnership Fund,” February 1989, JS records, Box 10, Folder 1.

Drexel Burnham Lambert 1989, Report on Employee Partnership Fund, no date, JS records, Box 10, Folder 1.

Drucker, P. 1976, *The Unseen Revolution. How Pension Fund Socialism Came to America,* New York: Harper and Row.

“Employee ownership through an “equity partnership”,” February 1989, JS records, Box 10, Folder 1.

Engelen, E. 2006, “Resocializing Caital: Putting Pension Savings in the Service of “Financial Pluralism”?” *Politics and Society* Vol. 34, No. 2: 187-218.

Erturk, I., Froud, J., Johal, S., Leaver, A. and Williams, K. (2010), “Ownership matters: private equity and the political division of ownership,” *Organization* Vol. 17, No. 5: 543-561.

Farell, C. and J. Hoerr 1989, “ESOPs: Are They Good for You?”, *Business Week*, May 15, 116-124.

Greenwald, J. et al. 1990, “Predator’s Fall,” *Time*, February 26, 46-52.

Harrington, J.C. 2005, *The Challenge to Power: Money, Investing and Democracy*, White River Junction (VT): Chelsea Green Publishing.

Ho, K. 2009, *Liquidated. An Ethnography of Wall Street*, Durham (NC): Duke University Press.

“Issues of EPF working their way towards resolution”, May 19, 1989, JS records, Box 10, Folder 1.

Industrial Union Department Executive Committee on Pension and Benefit Fund Policy 1991, internal report, February 16, 1991, JS records, Box 139, Folder 4.

Industrial Union Department Executive Committee on Pension and Benefit Fund Policy 1993, internal report, August 2, 1993, JS records, Box 139, Folder 4.

Jung, J. and F. Dobbin 2013, “Finance and Institutional Investors,” pp. 52-74 In K. Knorr-Cetina and A. Preda (eds.), *The Oxford Handbook of the Sociology of Finance,* Oxford: Oxford University Press.

Kaufman, A. and E. Englander 1993, “Kohlberg, Kravits Roberts & Co and the Restructuring of American Capitalism,” *Business History Review* Vol. 67, No. 1: 52-97.

Kirkland, L. 1989, testimony before the U.S. Senate Finance Committee, hearing on Leveraged Buyouts and Corporate Debt, January 26.

Lamont, M. and V. Molnár 2002, “The Study of Boundaries in the Social Sciences,” *Annual Review of Sociology* Vol. 28: 167-195.

Leyshon, A. and N. Thrift 1996, “Financial Exclusion and the Shifting Boundaries of the Financial System,” *Environment and Planning A* Vol. 28, No. 7: 1150-1156.

MacKenzie, D. 2005, “Opening the Black Boxes of Global Finance,” Review of International Political Economy Vol. 12, No. 4: 555-576.

McCarthy, M. 2014, “Turning Labor into Capital: Pension Funds and the Corporate Control of Finance,” *Politics & Society* Vol. 42, No. 2: 455-487.

McCarthy, M., V.-P. Sorsa and N. van der Zwan 2016, “Investment Preferences and Patient Capital: Financing, Governance, and Regulation in Pension Fund Capitalism,” *Socio-Economic Review* Vol. 14, No. 4, advance online publication.

Ortiz, H. 2014, “The Limits of Financial Imagination: Free Investors, Efficient Markets, and Crisis,” *American Anthropologist* Vol. 116, No. 1: 38-50.

Patterson, B. 1989, letter to J. Sheinkman, December 19, 1989, JS records, Box 10, Folder 5.

Preda, A. 2005, “The Investor as a Cultural Figure of Global Capitalism,” pp. 141-162 in K. Knorr-Cetina and A. Preda (eds.), *The Sociology of Financial Markets*, Oxford: Oxford University Press.

“Request for Proposal: Employee Partnership Fund”, June 16, 1989, JS records, Box 10, Folder 4.

Sheinkman, J. 1979, “The Union Role in the Boardroom,” *The Employee Relations Law Journal* Vol. 5, No. 1: 14-20.

Sheinkman, J. 1989, letter to I. Millstein, February 6, JS records, Box 10, Folder 1.

Swoboda, F. 1990, “AFL-CIO unveals fund for employee buyout,” *The Washington Post*, February 20, 1990.

Van der Zwan, N. 2011, *Contentious Capital. The Politics of Pension Investment in the United States and Germany, 1974-2003*, dissertation, New York: New School for Social Research.

Van der Zwan, N. 2014, “Making Sense of Financialization,” *Socio-Economic Review* Vol. 12, No. 1: 99-129.

Vargha, Z. 2011, “From long-term savings to instant mortgages: financial demonstration and the role of interaction in markets,” *Organization* Vol. 18, No. 2: 215-235.

Wall Street Journal, “Buy-out fund planned to help workers finance takeovers of their employers,” February 16, 1990.