UNION PENSION FUNDS, WORKER CONTROL AND SOCIAL INVESTMENT IN CANADA:

IMPLICATIONS FOR LABOUR EDUCATION.

by

Isla Carmichael

A thesis submitted in conformity with the requirements for the degree of Doctor of Philosophy Department of Adult Education, Community Development, and Counselling Psychology Ontario Institute for the Study of Education of the University of Toronto

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Abstract

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Canadian pension fund assets are estimated at just under $500 billion and are second only to the combined financial assets of the major banks in Canada. These pension funds have become a critical source of capital for national and international markets. They are controlled by an intricate web of financial and legal standards such as fiduciary responsibility and yet, as deferred wages, are largely beyond the control of workers or their unions.

This study argues that, given their tax-exempt status, pension funds can provide the long-term capital needed to build a new economy based on real productivity. To test this assumption, a participatory research methodology was applied to a real estate development company in British Columbia funded through the pooling of capital from 26 pension funds with union trustees. The study focused on investments targeted to a working class
community in Vancouver. Social accounting models were used, broadening the criteria normally used in traditional accounting practice.

It was found that the company doubled its direct, attributable hours of employment in indirect and induced hours of work in the community. Further, its contribution to community productivity was more than double its total cost over a ten year period. This net social gain was calculated based on the differing social and economic value to the community of construction of rental accommodation and market housing. Finally, for all levels of government, tax revenues from Concert and Mortgage fund One far outweigh foregone taxes through pension fund contributions and investment returns.

A social action model for union control of pension fund investment illustrates the major components that enable union trustees to invest pension funds for social, or collateral benefit. These components are leadership, social support and expertise, and education. The study recommends strong educational programs for pension trustees in social investment strategies.
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Chapter 1

Statement of Purpose and Significance of Research

Trusteed pension funds are one of the largest pools of capital in Canada with total assets estimated between $450 and $500 billion. Neither workers nor their unions have control over this money even though it represents the deferred wages of almost half the workers in this country. Instead, employers and governments have traditionally viewed pension monies as income contingent upon employer goodwill over which employers have control.

This study examines the effect of worker control over pension fund investment through the social investments in Concert Properties of the Carpentry Workers' Pension Plan in British Columbia. The Carpenters' investments are pooled with the investments of 26 other union pension funds. The study examines the impact of the Carpentry Workers' investments in Concert. Further, it develops social accounting models for Concert which are transferable to other funds. Finally, the study considers the training implications for unions that flow from the argument that unions should have greater control over their members' pension funds.
Research questions

This study uses a participatory research methodology to examine the Carpenters' investments in Concert. One such investment is targeted at a working class community in Vancouver. The study examines both from a union perspective.

The study is conducted in two phases. The first involves interviews with key players from unions and the Vancouver community in the history and development of Concert. The choice of variables has been influenced by the perspectives of these key players.

Following on a literature review, the second phase was undertaken to measure the impact of investment through Concert and develop transferable models. The following questions guide the research:

1. What is the impact of Concert for workers covered by the Carpenters' pension plan?
2. What is the impact for government and the general community?
3. What are the training implications of the findings for unions and pension trustees?
Focus of the Researcher

I am committed to this area of study for a number of reasons. First, I have been an activist and worker in the trade union movement for 20 years. The Ontario Public Service Employees’ Union (OPSEU), the union where I work, has throughout its history fought for greater control over investment of pension funds. It now has joint trusteeship of all its major pension plans.

Second, pension funds are central to the debate within trade unions about the future of the movement. In his closing speech to the Ontario Federation of Labour in November, 1997 (prior to stepping down from the presidency) Gord Wilson advocated new approaches to union organizing in the future. Industrial strikes, he said, are no longer effective; we have to use new levers, such as pension funds, to hold accountable the bankers and investment managers who increasingly have more power over the economy than the nation state. However, he said, workers need to gain control of their deferred wages in the funds (Urquhart, 1998).

The opposing view is represented by Sam Gindin of the Canadian Autoworkers’ Union, who has argued that creating pools of capital, as well as worker ownership, are ‘secondary’ in that such strategies ‘do not confront the real issue’ of changing our economic structure (Gindin, 1992). This argument is studied in greater detail in Chapter 6.
Third, since a number of public sector unions in Canada are in the process of taking greater control of occupational pension funds through joint trusteeship and control of investment decisions (Carmichael, 1998), they are in dire need of leadership training from a union perspective in pension fund investment. This study and another (Rudd and Spalding, 1997) have shown that union trustee education is critical to the informed, productive use of pension funds. Trustees need models for alternative investment strategies that will promote economic growth to benefit their communities, their jobs and their pension funds.

Fourth, there is only the beginnings of academic research attempting to build the theoretical underpinning for productive investment practice for pension funds. In Canada, Quarter (1995, p. 213) has suggested that ‘it is possible to have investment policies that take into account a broader range of criteria than the rate of return’; he notes that pension funds can be invested to provide social housing, jobs for members of the fund, and additional contributions to the fund.

In the United States, Barber and Ghilarducci (1993) have proposed the ‘whole participant’ approach, which recognises that pension funds rely on a strong economy to keep fund members at work so that they can pay their pension contributions. Also in the U.S., the Heartland Project – a group of
union pension leaders and researchers – is in the process of developing research on the collateral benefits of pension fund investment. The term ‘collateral’ is used to denote social benefits that can be accrued by investment once the financial needs of the plan are met.

In the U.K., Zadek, Pruzan and Evans (1997) have suggested approaches to monitor the evolution of social and ethical accounting, auditing and reporting. This work is broader than pension fund investment, and deals with corporate accountability and its measurement.

Fifth, while pension funds move their assets to the stock markets, new economic research documents the irrationality of the stock markets. The same research analyses the psychological as well as structural factors influencing the tripling of the Dow Jones Industrial Average between 1994 and 1997 (Shiller, 2000). This study critiques the investment practices of pension funds as a move towards more irrational, speculative investment. More productive investment practices can take into account the interests of beneficiaries, workers, government and the broader community. Underlying this direction is an assumption that pension funds through wiser investment may provide for ‘good’ rather than ‘bad’ jobs, thus increasing productivity (Barber and Ghilarducci, 1993).
Finally, this study reflects my background in the public sector in calling for a greater level of accountability for pension fund investment, given the foregone taxes ‘invested’ in pension funds. A greater accountability can be achieved through a social accounting of pension fund investment that may show fiscal returns to government and returns to the broader community in increased productivity.

**Framework: Control of Capital Accumulation**

Pension funds form one of the largest pools of capital in Canada, second only to the size of the total financial assets of all the major banks (Statistics Canada, 1997). Their assets have been growing for the last ten years by approximately 11% annually¹ and total almost half the national annual income. By any account this is a staggering amount of money.

Worldwide, the picture is similar. Pension fund assets, by the end of 1994, amounted to US$10 trillion (World Bank, 1994). As Minns (1996) points out, this figure is greater than the combined total market value of all the world’s industrial, commercial and financial corporations quoted on the three largest world stock markets (New York, Tokyo and London). Pension funds in the U.S. control 47% of all U.S. equity. In Canada, the comparable

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¹ This measure is calculated by using assets in current dollars for trusteed pension funds, and the annual change from 1987 to 1997, using Statistics Canada data (Quarterly Estimates 1997, p.5)
figure is 35%, with 40% of pension fund assets invested in equities (Patry and Poitevin, 1995).

Given the size of these funds, a greater level of worker control of investment could lead to a greater democratization of the economy through full employment, wage growth and wage redistribution. Yet workers, for the most part, have no control over the investment or accumulation of these funds. Pension funds are invested in the market primarily through fund managers employed by the major financial institutions and retained by the pension fund. In its survey of 147 fund managers, Benefits Canada (Bak, 1997) reports that pension assets under management in 1997 were $339.3 billion. This represents approximately 70% of all pension assets in Canada and is an increase of 29.5% over the previous year. The top ten money managers control almost 44% of these assets.

Sixty per cent of pension funds use external investment managers; the larger funds tend to hire their own investment staff. Professional fund managers have almost total discretion over the investment of funds (Rifkin and Barber, 1980; Deaton, 1989; Roe, 1991; Minns, 1996). This discretion infuses their investment practices. They are retained for their specialisation
in certain types of asset allocation, their ‘style’ and the prestige of their company.

For the most part, they retain the privileges of capital trusteeship through exercise of proxy votes on decisions to purchase companies, on take-overs, on corporate policies including privatisation and downsizing, on corporate behaviour such as health and safety and environmental standards, and finally on corporate structures and compensation (Carmichael, 1996).

This does not include the increasing role of pension funds in international markets, their role in foreign currencies, national debts and other economic policies (Davis, 1995; Minns, 1996). The Canadian Labour Congress (1990) has stated that:

The largely private nature of the investment process makes workers, communities and governments the hostages of those who control the investment process (p. 3).

These investment managers often have a direct financial interest in take-overs and privatisation. In 1994, in the U.K., eight out of the top ten pension fund management companies were involved as advisors in take-overs. Of eight U.K. banks involved in privatisation sales, four were among the top ten pension fund managers. Financial institutions involved in pension fund management have a ‘clear commercial interest’ in the take-
over business, privatisation of public services, and the privatisation of state pension systems (Minns, 1996, p.386).

‘State pension systems’ more often than not are those social security systems designed to provide universal benefits. These systems have come under attack from the World Bank for being inefficiently managed, that is, with too many ‘political ties’ (1994, p. 174), and implicitly unfair as later generations of contributors are paying in more than they take out (1994, p.13). This is an implicit criticism of the role of the state in social welfare systems and weakly disguised call for privatisation. These systems, such as the Canada Pension Plan and the Quebec Pension Plan in Canada, are pay-as-you-go systems where funds are not invested, but are re-distributive and inter-generational, in that income flows from those earning more to those earning less. Overall, the World Bank views this kind of system as a lost opportunity for the capital accumulation of those who are wealthier, as well as inherently inefficient since the fund is not invested in the capital markets (ibid, 1994).² Far preferable, according to the World Bank, is the Chilean system which is providing a model for several ‘emerging market’ countries,

² Richard Minns (1996) offers an extensive, detailed critique of the World Bank Report ‘Averting the Old Age Crisis’ and, in particular, its attack on publicly funded systems.
such as Brazil, Bolivia and Hong Kong. Since its funds are invested, the Chilean system has given ‘a boost’ to the fund management industry (The Economist, 1997, p. 12). The Canadian government, persuaded by the report of the World Bank, has now set up a Board of Directors to invest the CPP Reserve Fund.

Yet these systems may not provide universal coverage for people in retirement. Only 40% of Chilean workers belong to their national plan, since the unemployed, self-employed and agricultural labourers are excluded. Of those in the plan, an estimated 70% will end up with few benefits (Fazio and Riesco, 1997).

Interestingly enough, other pension systems (for example, those that public sector employers provide for their own employees) received cursory attention from the World Bank, even though there are staggering amounts of money in public sector pension funds world-wide. For example, Benefits Canada reports that the top one hundred pension funds in Canada total $480,237.7 billion in assets (Press, 2000). Of these, fifty three are public sector, occupational ‘privately managed’ pension funds, which earn much higher returns than ‘publicly managed pension funds and reserves’ (World Bank, 1994, p. 174).
Furthermore, the World Bank maintains that these occupational or workplace funds have also contributed to financial innovation by use of investment vehicles that increase liquidity, and therefore enable faster and cheaper trading on the stock markets (World Bank, 1994, p. 177).

This is particularly interesting since a study of the top pension funds in Canada shows that there is a distinct trend amongst public sector unions towards control over their pension funds (Carmichael, 1998). The argument made by these unions consistently through campaigns with their membership is that these funds constitute their deferred wages, and as such they should have some control over their use.

Pension plans in the public sector pre-date private sector pensions, as will be shown in the following chapter. They have also traditionally been used as a means of ensuring loyalty and punishing dissent. Those loyal to the government would receive their pension, those not in good favour would be fired without any stipend. While this historical inequity has been outstripped by pension laws and regulation of employers (as will be described in the following chapters), it has ensured that pension issues remain at the top of the agenda for public sector workers. Their plans are also contributory. So the lack of trust in future political regimes to act as guardians of their funds has driven their struggle for control. While deferred wages have been
viewed as a means for employers to control their workforces, many public sector workers have now taken over the language as a call for greater control over their work (Benjamin, Gunderson and Riddell, 1998).

Summary

This chapter has introduced the research questions and a framework for a participatory research study of Concert, a real estate development company funded by pooled pension fund investments. This study will argue that unions should have greater control over their members' deferred wages through joint trusteeship. Trustee training will be critical to ensure investment of pension funds in the interests of beneficiaries, workers, their broader community and government. The financial industry has a high level of discretion over pension fund investment and the subsequent control over corporate behaviour, downsizing, hostile takeovers and mergers and privatisation. The World Bank promotes this use of pension funds as highly liquid, short-term investment, enabling faster trading on the international stock markets.

In the next section, I will describe the competing interests that have shaped the development of Canada’s pension system, as part of defining the barriers to control and ultimately social investment of pension funds.
Chapter 2
The Development of Unions and Workplace Pension Plans

In the previous section, the study examined the control of investment capital by the financial industry. The World Bank, the financial industry and, increasingly, governments view national pension systems as critical sources of capital for stock markets. Further, these national systems often fail to provide adequate incomes for workers. This chapter reviews the development of workplace plans and labour unions in the last 100 years. It will highlight the interests served historically by the development of workplace plans, and begin to define the barriers to control and ultimately the barriers militating against social investment of pension funds.

Workplace pension plans have existed in Canada for 140 years, having developed largely in response to labour unrest, the rise of unionism and demands from working people for a national social security pension for the elderly (Morton, 1981; Stafford, 1987; Palmer, 1992; Heron, 1996). Pension plans were originally introduced in the late 1800s by the banks, railroad companies, the federal and later the provincial governments to provide for their large workforces, and, incidentally, as a means of workplace control. Pensions were used as a form of patronage by
government employers and paid out as a reward for ‘good service’. This could be interpreted arbitrarily. Unionizing and community organizing often would not be considered good service; nor was illness, pregnancy, or getting older and slowing down. Workers and their unions consequently inherited some suspicion of employer-sponsored pension plans, which fuelled campaigns for a national, universal pension system.

Workplace Pensions and Taxation

From 1919 to 1937, workplace pension plans proliferated across Canada in the form of employer allowances for good service (Dominion Bureau of Statistics, 1947). The introduction of income tax in 1917 to raise funds for the war effort had incidentally given employers tax exemption for pension funds. Given the voluntary nature of benefit payments, and with no proscribed system of accounting, it is likely that pension funds were an important source of additional capital for employers (Stafford, 1987). However, in the early 1930s after the onset of the Depression, employers were short of capital. Government therefore made pension contributions tax deductible and extended employers’ tax exemption retroactively by ten years. This was an astonishing boon to employers, underlying the point that
pension funds had already become an important source of investment capital (Greenough and King, 1976).

During the Second World War, taxation became the primary regulatory tool to raise funds for the war effort. In 1938, the corporate tax yield was only $85 million, but within five years it had increased to $740 million (O’Grady, 1991). Because of the government’s need for greater income to finance the cost of the war, the tax-exempt status of pension funds came under closer scrutiny. In 1942, the federal Ministry of National Revenue decreed that employer contributions to a plan would only be tax-deductible if they were supported by an actuarial statement attesting that a pension fund was in place. While this was primarily intended to prevent tax evasion, it also had the effect of making both employer and employee contributions deferred income, as opposed to an allowance for good service that could be revoked (O’Grady, 1991). By 1949, employee contributions were also tax-deductible and the Income Tax Division was considering ‘broadening its approval of plans, to include plans in which the employer’s contributions [would vary] to some extent on the basis of his profits’ (Department of Labour, 1949, p. 696).
A survey conducted in 1947 by the Department of Labour recorded that over 70% of all Canadian pension plans at the time were introduced during the period from 1938 to 1947 (Dominion Bureau of Statistics, 1947). Despite government need for extra capital during the Second World War, there were few restrictions placed on the corporate sector's accumulation of private capital through pension funds. In fact, state encouragement and support of employer accumulation of capital through pension funds continued.

Today, in most industrialised countries, pension fund capital remains tax exempt. Contributions are also exempt but benefits are taxed (Davis, 1995).

Bargaining Pension Plans

In the immediate post-war period, the Mackenzie King government introduced the *Industrial Relations and Disputes Investigation Act*. This law pulled together much of the ad hoc industrial relations regime that had been in effect during the war. This legislation provided unions with a permanent collective bargaining framework for industrial relations. Union members therefore turned to their unions to negotiate pension plans. Given the
inadequacies of the old age security, unions continued their agenda of lobbying for better universal security for the elderly, but decided reluctantly to bargain for workplace pension plans and for improvements in benefits. At this point, less than 3% of plans covering fewer than 20,000 workers were actually part of collective agreements (Department of Labour 1958).

In 1948, the Canadian Congress of Labour adopted a resolution encouraging affiliates to bargain pension benefits. This resolution was based on a grudging acceptance that many of the more obvious employer abuses were prevented through state intervention, and it was now difficult if not impossible to oppose workplace pension plans.

The new reality was that, in a collective bargaining environment, employers would push to minimise benefits and maximise productivity by pushing such issues as mandatory retirement (Mosher, 1952). Private sector unions had no choice but to go to the table. Further, the absence of a universal pension plan put pressure back on unions to beef up the benefits in private plans. Unions of the day emphasised bargaining plan improvements to the exclusion of joint administration of pension funds. The CAW has maintained this policy to the present day.

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1 The first pension plans to be bargained in Canada were in 1950 between the UAW and Ford Motor Company, and General Motors (Yates, 1993).
Until 1966, the Canadian government continued to avoid providing a mandatory, universal, publicly-funded pension plan, despite almost 100 years of organizing by workers and their unions. It preferred to continue the support of workplace, employer-sponsored pension plans. The Canada Pension Plan was enacted much later than national plans in many other industrialized countries; for example, France in 1905, Austria in 1907, the U.K. in 1908, Luxembourg in 1911, Romania in 1912, and Sweden in 1913 (Bryden, 1974).

Summary

The history and development of workplace pension systems in Canada has been about the accumulation of capital by employers and the corporate sector. The state has encouraged this access to capital given support of the elderly by employers through occupational pension plans. Large, private sector employers introduced pension plans for their employees to increase productivity and margins of profit. Public sector employers used pensions as allowances to be dispensed as a form of patronage.
The state's need to raise capital, however, during the First World War incidentally acted as an incentive to the development of workplace pension systems, since pension funds were made tax exempt. The value of pension funds as sources of capital became more widely apparent, tacitly supported by the state, and the number of workplace pension systems increased dramatically. The shortage of industrial capital after the Depression encouraged employers to make systems contributory, and thus provided them with a new source of capital, that is, workers' deferred wages. However, the state prevented employers from denying pension benefits as a method of inhibiting union activity. This prohibition by the state limited worker resistance to contributory pension plans. The development of collective bargaining after the Second World War persuaded trade unions, under pressure from their membership and in the absence of a national system, to negotiate pension plans and benefits. This provoked another surge in the growth of pension plans.

With the advent of collective bargaining after the Second World War, trade unions reluctantly took pension benefits to the bargaining table under pressure from their members. This was felt to be a concession in the face of the intransigence of the state in providing a decent, universal pension system
in Canada. To the present day, it has affected the approach of some private sector unions – in particular the Canadian AutoWorkers – towards issues of pension fund control.

In fact and in law, workers and their unions were guaranteed that their pension money would be safe and secure, because their funds were ‘in trust’ for their retirement. The philosophy underlying pension investment policy and trusteeship of capital is based on ‘fiduciary responsibility’, or the so-called ‘prudent man’ rule. The next chapter analyses the history and development of this rule. It further examines the ways in which this rule has continued to enable the accumulation of capital by employers and the financial industry.
Chapter 3

The ‘Prudent Man’ Rule and Maximum Rate of Return

This chapter assesses the extent to which the prudent man rule protects workers’ deferred wages for their retirement. It also assesses the extent to which the rule has a capital accumulation function and, in fact, serves the interests of employers, government and the financial industry. This chapter provides a summary of the history, development and practice of the prudent man rule through an analysis of relevant case law.

Legal History

The prudence rule is a central concept of trust law and a legal requirement of the management of pension fund assets in Britain, the United States, Canada, and most other industrialized countries. The trust concept has its origins in the Middle Ages, and has a history of jurisprudence and litigation covering several centuries. The concept of the prudent man is central to the accumulation of private capital through the protection of family wealth. The roots of trust law are patriarchal, lying in the remnants of feudal society where wealth was passed on through the male heads of households. In the absence of the male head of the family, the prudent man...
was essential in keeping the wealth of the family secure for the benefit of the male heirs (Longstreth, 1986). The trust ensured that the trustees would act only in the interests of the family (the male heirs) and not in their own interests. Trustees, in effect, control the wealth on behalf of the family, but cannot access it for their own use. Trusteeship embraces the responsibility of ownership, without the ownership itself. Trustees must not act out of self-interest or personal bias (Scott, 1987; Longstreth, 1986; Minsky, 1988; Waitzer, 1990; Mercer Ltd. 1997).

Prudence is the antithesis of speculation; according to the prudence rule, careful investments are characterized as low risk ones. With the development of stock exchanges in the early part of the century, lists of potential investments were published for trustees as well as other cautious investors. Everything else was classified as speculation. However, the stock market crash of 1929 and the Depression of the '30s brought a re-examination of lists. Nevertheless, lists persisted as a guide for investment up until the '70s.

U.S. trust law issues from an 1830 case in Massachusetts, Harvard College v. Amory. The ruling states that the trustee's duty is to:

conduct himself faithfully and exercise a sound discretion, observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent
disposition of their funds, considering the probable income as well as the probable safety of the capital to be invested (26 Mass (9 Pick) 446, 1830) (emphasis mine).

In a similar manner, the Supreme Court of Canada more recently stated:

Where.. one party has an obligation to act for the benefit of another and that obligation carries with it a discretionary power, the party thus empowered becomes a fiduciary. Equity will then supervise the relationship by holding him to the fiduciary’s strict standard of conduct (Guerin v. The Queen, 1984).

Even more recently, the Supreme Court identified the following criteria for a fiduciary relationship:

1. The fiduciary has scope for the exercise of discretion or power.
2. The fiduciary can unilaterally exercise that power or discretion so as to affect the beneficiary’s legal or practical interests.
3. The beneficiary is peculiarly vulnerable to, or at the mercy of, the fiduciary holding the discretion or power (Frame v. Smith, 1987).

British and U.S. Case Law

U.S. case law support several points. First, union trustees cannot act as union officers in the interests of the union. They must act clearly as trustees responsible for the fund, and in the interests of the fund members. Second, the long-term interest of the fund and its members is a legitimate concern, even where the rate of return may be lower and risk to the investment may be higher. Third, the investment decision itself must be
based on independent financial advice. If the trustees are fully informed, then they are not liable for a lower rate of return (Blakenship v. Boyle [1971]; Withers v. The Teachers' Retirement System of the City of New York [1978]; Donovan v. Walton, [1985]).

These decisions leave open a broader conception of prudent investment, encompassing the job security of pension plan members and the health of their communities, as long as the union trustees are informed and responsible. There is room, therefore, for social investment criteria in the concept of fiduciary responsibility. Unfortunately, these cases have been followed by one that takes us in another direction.

U.K. case law has established the most influential case on this subject, Cowan v. Scargill (1984). The British Chancery Court had to decide whether the union trustees of the Mineworkers' Pension Scheme were in breach of their fiduciary duty in seeking to prohibit overseas investments and any investments supporting an industry in competition with the coal industry. The five trustees for the National Coal Board (the employer) successfully opposed union policy. The Judge, Sir Robert Megarry, held that the best interests of the beneficiaries were the best financial interests:

The power [of investment] must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question; and the prospects of the yield of the income
and capital appreciation both have to be considered in judging the return from the investment (p.760).

This ideology is fundamental to the characterization of the prudent man, and has been maintained in some academic and legal commentaries in spite of the progress in legal decisions and the practical realities of the law (Langbein and Posner, 1980; Hutchinson and Cole, 1980; Palmer, 1986; Manitoba Law Reform Commission, 1993; Romano, 1993; Scane, 1993). Other legal commentators disagree and argue that, within the context of prudent decision-making, there is a right to make investment decisions based on social and political criteria (Ravikoff and Curzan, 1980; Campbell and Josephson, 1983; Pearce and Samuels, 1985; Farrar and Maxton, 1986; Lane, 1987; Scott, 1987; Waitzer, 1990).

**Union and Employer Accountability**

All these cases involve questions that arise because of investment decisions made by union trustees on how to handle the deferred wages of their members. Some assumptions underlying these decisions are:

1. that unions have *unrelated* values or interests which should not be imposed on the pension fund.
2. that only in very restricted circumstances can prudence accommodate social criteria for investing.

3. that trustees are prudent only if they follow established investment practice.

The U.S. cases broaden the concept of fiduciary responsibility to take into account who makes the investment decision and in whose interests, as opposed to evaluating the decision solely by the rate of return. They also attempt to align workers' interests with the investment, so that the investment can actually support rather than undermine their livelihoods. Furthermore, the U.S. case law exhibits a cautious tolerance of union trustees, as long as the union is not directly represented at the trustee table, and as long as trustees are reliant on financial industry practices. Union trustees, however, must set aside their union agenda.

Underlying Cowan v. Scargill, however, is an outright rejection of a union's right to represent its members, as well as a denial of the relevance of workers' lives to investment practice. According to this ruling, even though the membership of the union and the union trustees may be in agreement on utilizing social criteria in investment decisions, union trustees should not represent their members' desires. Further, Megarry denies any connection between the general prosperity of the coal industry and financial benefit to
the fund, calling it ‘speculative and remote’ (p. 751). This opinion was in
spite of union arguments that members of the pension plan were dependent
on the coal industry for their own job security as well as the prosperity of
their communities. (Similar arguments were put forward successfully in the
Withers case, where the welfare of New York teachers as well as the
viability of the pension fund depended on the welfare of New York City.) In
the Megarry ruling, the general prosperity of the coal industry is
characterized as the ‘personal interests and views’ of the trustees (p. 761).
Based on these arguments, the Megarry case establishes the concept of the
maximum rate of return as the principle for investment (emphasis mine).

While trustee law has set a high level of accountability for union
trustees, standards for employer trustees are substantially weaker. It is fully
accepted that some level of (self-interested) investment of pension assets in
an employer’s enterprise must be permitted so that employers are not
discouraged from continuing to have workplace pension plans (Scane,
1993). In fact, a pension fund may be a source of economic advantage to a
sponsoring employer, in which case ‘the opportunity to earn exceptional
returns may itself be a part of the sponsor’s purpose’ (Ambachtsheer and
business have not been viewed as using personal bias, as long as they
proceed under self-imposed guidelines. Further, investments which would otherwise violate the duty of loyalty can be permitted in a trust. If an investment is made in an enterprise where a trustee is an officer of the company, or has some conflict of interest (or dual loyalties), a trustee’s ‘independent investigation’ into the basis for the investment must be ‘both intensive and scrupulous’. In Ontario, investment in an employer’s securities is lawful, where the securities are publicly traded (Scane, 1993).

While pension fund capital does not belong to the employer, many employers view it as their own, and the judiciary have tended to accept this appropriation as legitimate.

**Impact of Prudence Rule on Union Trustees**

Decisions in the U.K. subsequent to Cowan v. Scargill have tended to moderate Megarry’s decision. In Martin v. City of Edinburgh District Council, the court said that trustees may have a policy on ethical investment consistent with general standards of prudence and pursue it ‘so long as they treat the interests of the beneficiaries as paramount’ (Trades Union Congress, 1996. p. 86). This echoes the standard set by the Goode Committee, established by the U.K. government in 1992 to make recommendations on legal frameworks for pension funds, given the huge
losses suffered by pension funds under the control of Robert Maxwell. The committee said:

This means trustees are free to avoid certain kinds of prudent investment which they would regard as objectionable, so long as they make equally advantageous investments elsewhere, and that they are entitled to put funds into investments which they believe members would regard as desirable, so long as these are proper investments on other grounds. What trustees are not entitled to do is subordinate the interests of beneficiaries to ethical or social demands and thereby deprive the beneficiaries of investment income opportunities they would otherwise have enjoyed (TUC, 1996, p. 86).

Trustees therefore should be mindful of the overall investment strategy and asset allocation, rather than individual investments.

Disinvestment, essential to union boycott campaigns, remains widely condemned because of the greater potential for lower rates of return based on the untimely and therefore costly withdrawal of investments. The prevailing legal view in Canada is best reflected by Waitzer, a former Chief commissioner of the Ontario Securities Commission and lawyer practising in both Canada and the United States:

If ethical choices do not lower investment returns, the practical (and legal) reality is that trustees are unlikely to face judicial interdiction, regardless of their motivation. If investment returns are lowered, trustees are in trouble (Waitzer, 1990, pp. 10-11).
An underlying issue here is how, and over what period of time, the investment return would be measured. Asset management requires that trustees understand how asset classes behave in relation to the liabilities of pension funds. Asset management is largely about process. Interestingly, there is no industry agreement on the rate of return of a fund. In answer to this point, Tom Gunn, Chief of Investment for OMERS, comments:

> We see our first role as fiduciary for our beneficiaries. Social investment or any other form of investment or economic-directed activity must be subordinate to the long-term interest of the plan (Report of the Senate Standing Committee of Institutional Investors, p. 8).

Not all union trustees agree that the goal of a pension fund is to maximize return (Carmichael, 1996). The OPSEU Pension Trust has an investment policy to achieve 'reasonable rates of return' (OPT, 1996). In the U.K., the Trades Union Congress concedes that the ultimate responsibility of the trustee is to maximize return, and that prudence attaches to each investment (Trades Union Congress, 1996, p. 51). Nevertheless, trustees can invest ethically and still meet their legal duties. In the U.S., the AFL-CIO takes a slightly more progressive stance:

> Process prudence assumes there is a set of objective criteria against which to measure a particular investment option; the most common and effective being historical data on risk and return. . . foreign securities as a class should not be ruled out as an acceptable
investment under the Employee Retirement Income Security Act (ERISA) on the basis that fiduciaries engaging in international investing are, somehow, acting in a different manner than their peers in the community, or that there is a lack of expert independent assistance to pursue such investing (AFL-CIO, 1993 p. 4).

The AFL-CIO urges union trustees to seek out independent advice that will allow them to pursue less conventional but reliable types of investing. The Hospitals of Ontario Pension Plan (with union joint trustee representation from the Ontario Public Service Employees’ Union, the Canadian Union of Public Employees and the Service Employees International Union) has social investment strategies listed as a possibility in its guidelines (Hospitals Of Ontario Pension Plan, 1994).

There are mixed reports about the impact of the prudence rule on union trustee activity. In the U.K., one report from 1979 states that “whenever trade union representatives become [trustees] they are just as keen, if not more so, to act in a capitalist fashion” (Deaton, 1989, p. 335). In a 1985 survey conducted in the U.S., trustees reported being constrained by the rule, in that they tend not to do anything untried or unproven, nor would they make unconventional investments (Longstreth 1986).

There are relatively few union trustees in Canada, although there are many pension funds that cover union members. Nor are there data on the
numbers of union representatives or union trustees, although across the country there are loose networks of union pension activists. However, as a recent study of union representatives and trustees points out, there is a trend across Canada towards greater union representation on boards of trustees of the larger public sector funds; unions want more control over investment and more discussion of different investment strategies (Carmichael, 1998). However, the study also points to a lack of support and training for trustees, making it more difficult to deal on an equal footing with fund managers and investment professionals. Another recent study of Canadian pension trustees by the Canadian Labour and Business Centre (formerly the Canadian Labour Market and Productivity Centre) and the Pension Investment Association of Canada indicates that small funds in particular are adversely impacted by fiduciary concerns in certain types of investment (Falconer, 1998).

Undermining union trustees is not unusual in the financial industry, where fund managers stress their own professionalism and objectivity in contrast to the lack of expertise and supposed bias of most ‘lay’ or union trustees. This view is represented by Robert Bertram, Vice President of Investment of Teachers’ Pension Plan:

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4 This is also in response to government appropriation of public sector pension funds in the '70s and '80s (Deaton, 1989). For U.S. pension plans, Romano (1993) points to government vulnerability to political
In the end, you have to make a subjective judgement call. This is not easy to do, unless your views on investment are driven by ideology. Decisions based on ideology undermine the primary purpose of pension plans – to optimize investment returns to provide retirement income (Bertram, 1992, p. 2).

William Dimma, Chairperson of several Canadian companies, in a report presented to the Standing Committee on the Governance Practices of Institutional Investors, said that:

While many plans are managed professionally, their boards are sometimes stocked with persons whose principal merit is that they are members ....[who] have been elected by their fellow employees. While this is laudably democratic, it does not always produce the quality of direction and oversight which is necessary in today’s bewildering world (Report of the Senate Standing Committee on Banking, trade and Commerce, p. 6).

Summary

The prudence rule and fiduciary responsibility have enabled the corporate sector to maintain its control over pension funds, originally through individual employers and subsequently through the financial industry. This rule supposedly protects workers’ pensions by keeping assets safe and secure against speculation through prudent trusteeship. However, the high level of accountability to which union trustees are held in contrast pressure on investment. In Canada, the cause of government mismanagement was over-investment in government debt regardless of fund liabilities.
to the lack of accountability for employer trustees disguises the capital
accumulation function of this rule:

Safety is a pseudo policy. Preservation of revenue and profitability are the genuine ones. In practice, the goal of safety ... has served as a protection and ... mystification for the status quo (Orren, 1974, in Deaton, 1989, p. 302).

This rule further has blocked union trustees from alternative investment strategies on the grounds that these decisions would represent subjective or ideological viewpoints and that they would lower the rate of return. Although the prudent man rule does not prevent trustees from taking social criteria into account, it assumes that these criteria are likely to reduce the rate of return and therefore violate the trustee's responsibility. Objectivity of investment, and therefore prudence, is supposedly ensured when trustees followed prescribed investment procedures.

American and British case law has become less stringent on the issue of non-financial criteria for investment. There is also a trend amongst public sector unions in Canada to seek more control over their pension funds. Yet the prudent man ideology still retains its power with many trustees. Social or political investment strategies remain cast as moral views, or views lacking in an objectivity, that would otherwise be obtained through a purely financial strategy or process. If objective, financially sound procedures are
followed for investment, it is assumed that the rate of return will be maximised.

However, as the new economy and globalization factors play a growing role, the behaviour of markets appears less predictable and more irrational. Faith in 'financially sound procedures' is beginning to be shaken and trustees may be willing to look for longer-term investment that is less irrational and speculative.
Chapter 4

The expansion of capital markets

This chapter examines the development of the capital markets from the 1960s to the present day in relation to the growing importance of pension fund capital. It illustrates how portfolio management practices have been introduced to eclipse the need for the prudent man rule. It analyses the formal reliance of the capital markets on the concepts of risk and rate of return, in spite of evidence that, informally, other criteria are taken into account in evaluating investments, and in spite of evidence that in the long-run stocks yield lower returns than bonds. Further, it points to the inadequacy of the efficient market theory in its emphasis on shareholder rate of return. Finally, this chapter examines the asset allocation of pension funds, their performance, and attempts to explain why pension funds are used for speculative rather than economically productive purposes.

Modern Portfolio Theory and the Capital Assets Pricing Model

During the 1960s and 1970s, as the courts attempted to come to grips with the impact of the prudence rule and trust law on pension fund investment decisions, pension fund assets continued to expand. In 1980,
pension fund assets in Canada were $65.5 billion, having grown from $4.8 billion in 1960. Their growth exceeded that of any other financial institution (Deaton, 1989, p. 234). By 1985, they had outstripped most other financial institutions to become second only to the chartered banks in Canada (Deaton, 1989, p. 237). Pension funds had also become a major source of capital in financing government expansion through the purchase of government debt. Between 1970 and 1982, Canadian pension funds purchased 20% of all net, new, marketable government bonds placed in Canada (Deaton, 1989).

There was no doubt that pension funds were eyed as an invaluable source of wealth for the private capital markets. Given the downturn in the economy, Canadian companies were increasingly dependent on sources of capital and, in particular, pension funds. Deaton reports that:

As one study [in 1976] concluded, “pension funds are now so important as a source of funds that any marked diminution...would have very serious consequences for the future financing patterns and growth....of Canadian industry” (J. Grant, in Deaton, (1989), p. 213).

In 1972, almost 28% of pension fund assets were invested in equities compared to almost 50% in bonds. In the U.S., by way of comparison, by 1980 pension fund investment accounted for 38% of the value of corporate shares (Deaton, 1989, p.217). In 1975, as a stimulus to greater equity investment, brokers’ fees and commissions had been fully deregulated, with
average fees falling from 26 cents to 7.5 cents per trade (Lorie et al., 1985; Ghilarducci, 1994).

However, the financial markets were adjusting to a major downturn in the economy and a loss of faith by investors in the equity markets. The loss of faith could not be attributed to the economy alone. Vertin, a financial management academic, commented:

The business badly needs to replace its cottage industry operating methods – and the rationale underlying these methods – by the development of a better understanding of the workings of the marketplace, by the application of new technology, and by the introduction of new forms of management conduct (Vertin, 1974).

Crucial to modernization of the financial industry was the management of institutional portfolios such as pension funds. Modern portfolio theory became the major influence in stock market practice in the '60s and '70s and provided the vehicle for equity investment by pension funds. Rather than a listing of securities in order of their individual expected returns, investments now were to be evaluated as a group according to their average risks and returns (Lorie, 1985). Risk, rather than being the possibility of loss, was defined as the likelihood of deviance from an expected norm (Sharpe, 1964; Vertin, 1974; LeBaron, 1974; Elton, 1981; Lorie, 1985; Harrington, 1987). Risk and return were to be the only variables in assessing investment. The role of the financial industry would be to assemble portfolios, manage
ongoing assessments of risk and return, and practise 'market timing' through
the purchase and sale of stock to maximize the rate of return (Woolverton,
1998). The role of the corporation was to yield the maximum rate of return
to its shareholders. Modern portfolio theory built modern financial
management practice and effectively supplanted the need for the prudent
man rule as a control mechanism over pension capital by the capital markets
(Gordon, 1986). Through the theory's promise of technical assessment of
asset allocation and rates of return, the entry of pension funds into the capital
markets was ensured.

Pioneered by Markowitz (1952), the theory identified the two critical
variables as risk and expected return. An efficient portfolio offers the
maximum return for a given average level of risk. This is expressed in the
capital asset pricing model, where the portfolio return is calculated as the
average expected return for all the assets. The risk is the variance of an
asset's expected return around a norm in comparison to a low-risk
benchmark like cash or treasury bills (Sharpe, 1964; Vertin, 1974; LeBaron,
and return for the portfolio results in a line, the security market line, where
the return rises with the risk. The key to the pricing of stock is therefore its
riskiness.
The security market line – the expression of the capital asset pricing model – is thus the prime tool used by portfolio managers to restrict evaluation of investments to the two variables of risk and return. It provides the technical enforcement process for fiduciary responsibility and, therefore, is critical in preventing other criteria from being used in investment such as options that:

- have strong social yields such as the creation of good jobs or housing, or

- support innovative industry with no demonstrated history of rates of return and – therefore – the possibility of higher risks.

The assumptions of modern portfolio theory, therefore, prevent social investment and economic innovation (Blair, 1995, O’Sullivan, 1999). Conversely, investments with serious social risks cannot be opposed on social grounds.

**Portfolio Management and the Efficient Market Theory**

Modern portfolio theory makes assumptions about the market in general that are summarised in efficient market theory. The purpose of this theory is to prove that markets are fair in that investment decisions are made only on the basis of readily available information and speculators cannot
make unreasonable profits. This theory is designed to re-assure shareholders that they should be the central group to generate wealth, since their wealth is not guaranteed through compensation, unlike corporate managers or employees. Fama, a leading financial market theorist, posits that:

Market efficiency requires that in setting the price of securities at any time, the market correctly uses all available information (Fama, 1976). Investors operate on the basis of the same (publicly available) advice and the market price reflects the fundamental value of the company. The implication is that the market is inherently efficient, when the underlying worth of a company is correctly assessed and investors have decided on the right mix of risk and return. If a company receives a low evaluation, it is characterised as a poor investment because of its risk/return profile (Lorie, 1985; Ghilarducci, 1994).

There are three hypotheses, ranging from weak to strong, that follow from this theory:

1. (weak). Rates of return cannot be predicted; past stock behaviour cannot indicate future prices.
2. (medium). Stock prices adjust immediately to significant news or events.

\* In spite of my criticisms, I rely on Henwood’s (1997, pp.137-186) admirable account of market models.
3. (strong). There should be no privileged access to information. Therefore, the price reflects all available information.\footnote{These categories are taken from Fama (1991).}

Each version of the theory, if correct, has practical implications for pension trustees in relation to the maximum rate of return.

If the weak version of the efficient market theory holds true, then presumably fund managers cannot 'beat' the market and may further have a poorer investment performance than the market average (Zeikel, 1974; Barber, 1982). Called the Random Walk Theory, the assumption is that:

\begin{quote}
    a random guess will enable you to predict the next market move with the same (or higher) degree of accuracy than the estimate provided through either technical or fundamental analysis (Zeikel, 1974).
\end{quote}

The random walk theory was also confirmed in the Canadian equity markets, on the basis of a sampling of the monthly returns of 133 stocks listed on the Toronto and Montreal Stock Exchanges over a ten-year period (Rorke et al., 1976).

This thinking led to the development of indexed funds, which are lists of stocks benchmarked against the local market. The first indexed portfolio was pioneered in the United States by the Samsonite Pension fund in 1971. Canada's first commercial TSE 300 index fund was introduced in 1978 by the National Trust (Ilkiw, 1997). Indexed funds were developed as a
reaction to the poor investment performance of managers in relation to the market averages:

Since it has been shown that throwing darts at the stock quotations is as effective as spending millions of dollars for in-depth research in terms of investment performance, pension funds are increasingly opting for these much less expensive vehicles which are designed to perform as well, or as poorly, as the market (Barber, 1982, p. 36)

However, in spite of this evidence, active investment has continued where fund managers are given money to – essentially – beat the market with their own choice of investment. Therefore, all equity investment, as well as the performance of fund managers, has come to be measured against the benchmark of the markets such as the TSE 300 (Woolverton, 1998).

Fund managers may continue to sell active investment because it is good for business. But there is also a large body of research pointing to evidence of the predictability of stock prices and future market performance (Fama and French, 1988; French, Schwert and Stambaugh, 1987; Campbell, 1987; Fama, 1981; Fama and Schwert, 1977; Bodie, 1976; Jaffe and Mandelker, 1976; Nelson, 1976). This research poses a serious challenge to the capital asset pricing model, since it is this model which has enabled the massive investment of pension funds into the capital markets. While most of these studies show a small level of predictability on the variation of returns over a shorter period of time, Fama and French (1988) in their study of stock
prices from 1926-1985 estimated that 25-45% of the variation is predictable from past returns. On the same set of data, Fama and French (1989) also showed that the variation in stock and bond prices is related to economic cycles. Furthermore, Fama and French (1992, in Henwood, 1997) showed that firm size and market value are better predictors of return than level of risk, thus calling into question the capital asset pricing model, and the supposed efficiency of the markets. This debate, characterised as a 'battle' by The Economist (1992, p. 87), has spawned many studies, with financial economists rushing to the defence of the capital asset pricing model (Amihud, Christensen and Mendelson 1992; Breen and Korajczyk, 1993; Jagannathan and Wang, 1993; Kothari, Shanken and Sloan, 1995).

However, the results of these studies are highly dependent on the data and evidence used (Jagannathan and McGrattan, 1995). Clearly there are advantages to using the same set of data over a consistently long period of time, as Fama and French were able to do. Henwood (1997) comments:

the message seems to be that, yes, the more volatile an asset, the higher its likely return over the very long term, but the relation escapes precise quantification of the sort most conventional economists crave. Since CAPM is not only used to analyse financial markets, but is also used by corporate managers, to decide on real investments, the model’s fate is of more than technical interest (pp. 168) (emphasis mine).
One can only imagine the scrambling to pin together the capital asset pricing model, since it has enabled the massive investment of pension funds in the capital markets, supplanting the ‘prudent man’ rule and putting into practice the principle of diversification of assets. It has given portfolio managers the tool to evaluate assets by risk and return. In short, it has propped up the financial industry since the ‘70s. However, it is more surprising that Henwood, (a marxist commentator and founding contributor to Monthly Review), cannot let go of efficient market theory at this point. While on the face of it, rates of return appear to be random over time, there is increasing evidence that stock market returns are influenced by up-turns and down-turns in the economy, by corporate mergers, acquisitions and take-overs, by size of corporation, by government monetary policies, as well as the unbridled behaviour of fund managers (Johnson and Jensen, 1998). Recent research points to an unprecedented confluence of events which has driven stock prices upwards. These include an explosion in day-trading enabled by an increase in access to the internet, the aging of the baby-boomers, the size of pension funds on international stock markets and herd behaviour (Shiller, 2000). This research reflects a broader, less insular perspective on the financial world, and – dare it be said – common sense.
Maximum Rate of Return and Fund Manager Performance

However, Henwood (1997) allows efficient market theory to stand based on the inability of most traders (or the corporations they work for) to exercise more responsibility, insight and sober second thought in their work:

things that seem “predictable” in retrospect aren’t easy to see in real time. Mortal traders who have to worry about commissions, taxes, and other worldly complications, can’t easily translate an anomaly announced in the Journal of Finance into a profitable trading system....once discovered, anomalies can be self-unfulfilling prophesies (Henwood, 1997, p.170).

The weak version of market efficiency, then, is often agreed to hold, in the sense that abnormal returns are not made by investors on the basis of prediction of market movements. The exceptions are corporate insiders and stock exchange specialists who have access to privileged information (which should not happen according to the strong version of the efficient market theory). For example, in a study of large industrial companies listed on the Toronto Stock Exchange, it was found that bank directors and other insiders achieved consistently high, abnormal rates of return on their investments over a four-year period (Baesel and Stein, 1979). Similar results have been found over a ten-year period (Fowler and Rorke, 1988; Suret and Cormier, 1990). Therefore, the ‘fairness’ or efficiency of the Canadian markets doesn’t extend to the financial industry insiders themselves.
However, fund managers (who advise pension funds) appear not to be on the ‘inside track’. The view that rates of return are no higher when stocks are actively managed by fund managers is confirmed by Schmitz, in a synthesis of 45 studies dating from 1962 to 1995. He summarises:

In fact, the average gross performance of the average active manager at best equals the performance of standard passive benchmarks, and is most likely marginally below these benchmarks. In achieving this relatively poor performance, the average active manager possesses marginally positive stock selection ability, but also perverse market timing ability (Schmitz, 1995, in Ilkiw, 1997).

This is matched by research in the U.S. that, ‘on balance’, indicates that professional investment managers do not have access to private information (Brinson, Hood and Beebower, 1986; Elton, Gruber, Das and Hklarka, 1991; in Fama, 1991, p. 1603).

Complementary evidence shows that pension fund equity returns, on average, fall below market indices (and incidentally below mutual funds). In an analysis of 769 corporate pension funds in the United States, representative funds under-performed the Standard and Poor 500 Index by 1.3% per year before accounting for management fees. Over an average three-year period (the typical evaluation period for fund managers), the
under-performance was 1% (Lakonishok, Schleifer and Vishny, 1991).\(^8\) Patry and Poitevin (1995) point out that these findings are consistent with those of other major studies – for example, Beebower and Bergstrom (1977) for 1966-1975; Brinson, Hood and Beebower (1986) for 1974-1983; and with Malkiel (1990) for 1975-1989. They further point out that, in Canada, Taylor (1995) concludes that ‘for periods ranging from one to eight years, the annualized return of the index has outperformed the median manager by between 0.10% and 3.10%, before management fees’ (p. 25). Furthermore, Lakonishok, Schleifer, Thaler and Vishny (1991) found that the average pension fund in the U.S. tends to buy more stock that has performed poorly and sell a disproportionate amount that have performed well. Most damaging perhaps, the same authors ‘froze’ pension portfolios to see the impact of trading by fund managers. Trading proved to be counter-productive, not working to increase value (1992).

The final irony is evidence that over the long-term, bonds perform better than stocks (Hodges, Taylor and Yoder, 1997). Pension funds, which by their nature should be invested for long periods of time and which were primarily invested in bonds until the ‘80s (as described at the beginning of

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\(^8\) Bruyn points out (1987, p. 113) that the pension trustees could have done better by investing in union-built housing for the poor at low interest rates.
this chapter) are now predominantly invested short-term and, unfortunately, at their own expense.

Damaging criticism, however, of the fallaciousness of efficient market theory is emerging. Of note are its dependence on a narrow view of rate of return based on financial criteria only, the centrality of a disembodied (or supposedly objective) view of 'information', its insistence on the corporation as an isolated entity accountable only to its own shareholders, and its dependence on shareholder (or a corporation’s) value based again on narrow, financial criteria to the exclusion of more dynamic assets of a corporation such as its research and development capabilities and its human resources (Glickman, 1994; O’Sullivan, 1999; Low, 1999). Efficient market theory depends on a view of the economy as an essentially unregulated arena operating under natural, rather than state-imposed laws, which, as we have seen, suits the self-interest of the financial industry.

Peter Drucker, financial ‘guru’, should have the final say, as reported recently in the *Globe and Mail*:

Global bankers ... have introduced not “a single major innovation in 30 years”, he said. Rather, the financial industry has turned inward to perfecting “supposedly ‘scientific’ derivatives” in a shortsighted hope of wringing the risk out of financial speculation, like Las Vegas gamblers futilely trying to devise “systems” to beat the house (cited in Andrews, 1999).
**Pension Funds and Asset Allocation**

Pension funds, while ideally suited to long-term investment, measure rates of return on a quarterly and yearly basis. Fund managers, selected for their different ‘styles’ or approaches, are required to provide both quarterly and annual reports to investors on portfolio rates of return. Research shows that fund managers may ‘dress-up’ their portfolios either at the end of the quarter or at the end of the year to persuade pension trustees of the acceptability of their investments:

Nobody wants to be caught showing last quarter’s disasters.... You throw out the duds because you don’t want to have to apologize for and defend a stock’s presence to clients even though your investment judgement may be to hold (Jansson, 1983, in Lakonishok, Schleifer, Thaler and Vishny, 1991).

These patterns are also found in Canada (Athanassakos, 1997). Further, in the fourth quarter of the year, pension funds accelerate their sales of ‘losers’, buying into more acceptable stocks even if the rate of return is lowered as a result (Lakonishok, Schleifer, Thaler and Vishny, 1991).

This is evidence, then, that investments are evaluated by reasons other than the rate of return, and that fund managers are evaluated for reasons other than performance. However, this practice also involves more trading than necessary, indicating an extremely short-term approach to investment,
fund management performance and rate of return on the part of pension funds. The Financial Post (1997) reported in its editorial:

Pension funds suffer from earnings shortsightedness, but they are more victims than perpetrators......money managers hired by pension funds want to maximize the fund’s short term gain; there are dozens of candidates for every manager’s job and the incumbent tries to stay in place by showing the best performance.

Larger funds, in particular, diversify asset allocation across styles of active managers as a supposedly more sophisticated strategy, drawing attention away from the benchmark rate of return. The evidence suggests that time spent in lengthy interviews with fund managers on the details of the portfolio selection process fails to produce better results:

Money managers who can provide a good story about their strategy have a comparative advantage. In fact, the product sold by the professional money managers is not just good performance but schmoozing, frequent discussions of investment strategies, and other forms of hand holding (Lakonishok, Schleifer and Vishny, 1992, p. 375).

The financial industry, to keep pension fund business, has also developed new indices to persuade pension trustees that they can outperform their portfolio style, while under-performing the market. To appear to be ahead of the market, another trick is to ‘lock-in’ to an index when close to reporting back to the pension fund, (Lakonishok, Schleifer and Vishny, 1992).
Based on the evidence, the performance of fund managers leaves a lot to be desired. The question is whether there are alternative options for pension fund trustees.

**Canadian Capital Markets Structure**

The top 100 pension funds in Canada continue to have over $78 billion invested in active management where fund managers attempt to ‘beat the market’, in spite of evidence questioning this approach, (Bak, 1998). However, there is a trend towards indexed funds or passive fund management. Bak (1997) identifies passive investment management companies as the fastest-growing, with lower fees, reduced risk and good rates of return as the key factors in their growth. Citing the same reasons, the Financial Post (1998) reports that indexed mutual funds are the fastest-growing funds:

> Once derided as the ‘no-brainers’ of the mutual fund business, index funds are attracting a torrent of new money – and embarrassing a lot of hands-on money managers with their superior returns.

To explain this continued adherence to active investment strategies by pension funds, we need to examine more closely some additional features of the Canadian capital markets.
First, Canadian corporations are more tightly controlled than American corporations. In 1994, 60% of the Financial Post 500 largest Canadian non-financial corporations were wholly owned or effectively controlled by a single shareholder and only 16% were widely held. This is in stark contrast to the U.S. where 63% of Fortune 500 firms are, by the same standard, widely held (Patry and Poitevin, 1995; Daniels and MacIntosh, 1991). Secondly, in Canada, there is a strong network of cross-ownership and shared directorships (Clement, 1975; Deaton, 1989). Again, this interconnectedness occurs to a lesser extent in the U.S. Third, again, in comparison to the U.S., there is very little liquidity in the Canadian markets, partly as a result of the interconnectedness of corporations (Patry and Poitevin, 1995). Only 5.3% of Canadian stocks are widely traded, and it is done predominantly by institutional investors. Further, these stocks are those of the larger companies, as opposed to those of the smaller companies which tend not to be traded to any great extent (Fowler and Rorke, 1988).

Canadian pension funds therefore trade in small, thin equity markets, where ‘an excessive amount of capital chases too few investment opportunities’ in a limited number of large corporations (Daniels and MacIntosh, 1991). The cost of exit is high, since the withdrawal of large investments can lower stock value. Corporate and fund managers tend to be
well-entrenched. The control of companies by a few major players can be repressive, leading to a context where fund managers and pension fund officials are careful ‘not to rock the boat’:

The extensive control and power yielded by a few large groups or families increases the severity of the penalty that a disgruntled management could impose on an unsettling institutional investor (Patry and Poitevin, 1991).

As a result, these larger, publicly-traded companies are over-capitalised. Moreover, an investment strategy that concentrates on passive investment in equity markets merely compounds the problem of over-investment in a small market. Canada is an example of a country with high capital accumulation but lower productivity because of the failure of fund managers to invest in new and small companies (Canadian Labour and Business Centre, 1993).

Summary

Pension funds, given the size of their investments and the critical part they play in the markets, appear to have little control over their level of influence in the corporate sector and hence their rates of return. Can these investment strategies continue, and yet allow pension funds to be more influential in the capital markets? Several points can be made:
1. The structure of Canadian capital markets is inefficient in that investment often fails to provide support to new, developing business.

2. Canadian capital markets are also inefficient in that they are heavily controlled by a few corporate players who keep a tight rein on publicly available information.

3. Increased concentration has caused the ownership of larger blocks of shares by institutional investors. Less liquidity is the result since the buying and selling of shares disrupts the market.

4. However, pension fund officials and fund managers are reluctant to rock the boat. Exit is costly. Therefore, shareholder activism is limited and difficult if the issues raised challenge the corporate structure and prevailing ideology.

5. Despite protestations to the contrary, equity investment decisions are made by criteria other than rate of return.

6. Pension funds tend not to be economically productive. They often do not create value in the market place, and may provide far less support for their members’ livelihoods or their communities than would otherwise be the case.

7. The markets, by their own standards, are in need of overhaul, so they too can be productive with their more than adequate resources. Less
investment under active management and more in passive indices is not the answer. It compounds the problem of over-saturated markets.

8. There are alternatives. Real estate, mortgages, and pooled vehicles are all means of investment that may be shaped in such a way as to have collateral benefits such as creating jobs. Venture capital is a way of investing in new, emerging, developing and restructuring industries to save and create jobs, and provide regional development. All require a longer term commitment of funds, similar costs to active equity investment, and expertise which is available but not so familiar to many pension fund officials.

Pension funds across the country have substantial resources and experience to bring a broader perspective to investment, and at the same time deal with some of the inefficiencies of the Canadian markets. They need not be restricted to liquid investment, since pension funds take in more than they have to pay out in expenses and benefits. They can therefore be invested long term and drive a new industrial policy through more strategic investment. This is possible, since there is room in the larger funds for experimentation (or research and development), as the Caisse de Depot et Placement du Quebec has done in supporting regional and industrial development, by using 'non-material' – or financially insignificant - amounts.
of money which, by policy, do not need to be accounted for. All can pursue new directions to set a pattern of Canadian market productivity, corporate accountability and innovative industrial development.
Chapter 5

Shareholder Action

This chapter examines the feasibility of pension funds becoming more active as shareholders, given the barriers (cited in the previous chapter) of capital concentration and a lack of market liquidity, and the centrality of shareholder theory in corporate law. Since, in Canada, the cost of pulling out shares can be high, is it possible for a pension fund to be active in improving the value of its shares or even the behaviour of the company, without the effective threat of withdrawing funds?

This chapter is included in this study for two reasons:

1. It addresses the issue of pension fund power in the capital markets.

   If pension funds have power, can they affect change? If so, what kind of change?

2. Shareholder activism, or corporate governance, is often viewed as a form of social investment. It is therefore important to address what value there is in being a shareholder activist, and, in particular, whether shareholder action reduces the rate of return.
Definition and Description

Some would argue that shareholder activism is impossible when shares cannot be withdrawn from the company by pension funds without loss to the fund, as is the case in Canada. The AFL-CIO, for example, has a company boycott program whereby it notifies all affiliated unions of companies that either are operating in bad faith or are struck. Affiliated unions who have pension investments in the company are encouraged to write to the company, threatening withdrawal of funds unless the company mends its relationship with the in-house union. Is this kind of campaign possible in Canada?

I use ‘shareholder activism’ to describe a whole range of actions up to and including the pulling out of shares to force corporate accountability. This term may have more resonance with trade union and community activists. Actions that have been taken, to be described later, include meeting with corporate players, writing letters and stacking annual meetings. These actions are directed at bringing about social change in the corporation’s relationship with its shareholders, employees or community (local or global).

On the other hand, ‘corporate governance’ is a term coined by the corporate sector itself and is defined by the Toronto Stock Exchange as:

The process and structure used to direct and manage the business and affairs of the corporation with the objective of enhancing shareholder
value, which includes ensuring the financial viability of the business...(The Toronto Stock Exchange Committee on Corporate Governance in Canada, 1994).

In line with this definition, pension funds in Canada universally use ‘corporate governance’ to mean the exercise of their rights as responsible shareholders and fiduciaries to engage in the affairs of the corporation. When I wish to refer to shareholder behaviour in general, I use the term ‘shareholder action’.

Corporate governance is a relatively recent phenomenon for pension funds in Canada, but has a somewhat stronger tradition in the U.S. It makes sense to some pension funds that if pulling out shares is to be avoided because of the high cost, then perhaps they can make their presence felt and ‘bring value’ to their investments through becoming active shareholders. It is argued that the effect of liquidity on corporate governance is profound; active governance is the more essential, the higher the cost of exit (Coffee, 1991). An alternative position, however, is that institutional investors must have liquidity to back up ‘voice’ (Black, 1992). Given the size of their investments and the limited range of their alternatives, Canadian pension funds have little choice but to maintain and improve their corporate investment.
Influencing corporate policy can cover a variety of variables such as CEO compensation, representation and rotation of board members, management pay, as well as take-overs and mergers. It is less likely that it may also cover issues of corporate performance such as human rights, employee working conditions and environmental impact. However, taking action as shareholder activists on this latter set of issues could re-fashion the link between ownership and control and provides a way of monitoring corporate conduct (Waitzer, 1992). As can be seen, the critical difference in these terms is the dependence of corporate governance on shareholder theory.

Shareholder Theory

The theory of corporate governance asserts that shareholders are the central principals of the corporation. Figure 1 illustrates the basic model of the corporation. Called the ‘Black Box’ model, this figure shows all the stakeholders in a corporation and their relationship to each other and the corporation itself. If the business makes money after employees, lenders and creditors have been paid, shareholders can claim the residual. For this reason, it is argued that they take the greatest risk (through their investment in the company) and therefore they should reap the best reward when the
BASIC BLACK BOX MODEL OF THE CORPORATION

Source: Margaret Blair, (1995), p. 21

Figure 1
company is profitable. For this reason also, it is argued, they have the right to elect the board of directors (Roe, 1991; Blair, 1995).

Is, however, this control of shareholders real, when shares are as widely dispersed as they are in the U.S.? It has been argued (Manne, 1965), that shareholder control is real, since management who work against shareholders’ interests will discourage new investment in their company, and will lose existing shareholder investment. They will then be vulnerable to a management take-over (Manne, 1965). The argument is therefore made that shareholder theory is, in fact, a theory of the market in that when shareholders’ interests are primary and central to the running of the corporation, the economy is functioning as it should with the least level of regulation. Furthermore, taking into account other criteria of corporate performance such as environmental or community standards, social productivity or innovation would detract from the maximisation of shareholder value and should be avoided.

The parallels to pension plan governance can not be avoided where, as we have seen, the maximum return on the investment is seen as automatically excluding any other criteria than financial. Bertram, the vice-president of the Teachers’ pension plan in Ontario, says:

When we buy shares in a company, we treat it as though we’re the owners of the company. We believe the board of directors is
representing us as owners and they have a duty to maximize the share value for us. If it’s not going to be looking after our interests first and foremost, then we will invest elsewhere (Ip, 1996, p. B1).

He continues by saying that ‘companies aren’t put together to create jobs.

The number one priority is creating shareholder wealth’ (ibid. p. B1).

However in contrast, John Manley, Industry Minister in the Federal Government of Canada at the time, expressed concern that ‘business .... reinvest a good portion of its earnings into expansion, growth and the creation of jobs’ (ibid. p. B4). Surprisingly, Peter Godsoe, Chairman of the Bank of Nova Scotia, said:

*Scratch me deeply and I believe the mandate of business to only maximize shareholder value is wrong. It ignores too many other realities (ibid. p.B4).*

In the U.S., both shareholder activism and corporate governance have flourished more easily because of larger capital markets and more widely held corporations. In such a context, smaller shareholders can have a greater influence on some decisions affecting the corporation. However, as Daniels and Waitzer (1994) point out each structure brings with it a different set of governance problems. Accountability of management is an issue where shares are broadly held, a problem that tends not to be encountered in Canada where, as they say, a phone call from the majority shareholder will suffice. The problem encountered in Canadian corporations is accountability
between majority and minority shareholders to prevent 'bloated compensation arrangements, unfair self-dealing transactions or unanticipated changes in shareholder risk-taking' (ibid, p. 27). Regardless, the prevailing model for pension funds in the U.S. and Canada is based on increasing the financial value of the corporation and, as such, the return to investors.

However, it has been more recently argued that corporations from a market perspective have a social function and responsibility in providing leadership in new ventures (O’Sullivan, 1999), and from a societal perspective in creating wealth and resources for society (Blair, 1995). Following are some examples of corporate governance and shareholder activism that expect a broader accountability from corporations.

California Public Employees' Retirement System (CalPERS)

California Public Employees' Retirement System (CalPERS) is the founding leader in the field of shareholder activism, and the largest pension plan in the United States with $80 billion in assets. It is the third largest pension fund in the world. It serves more than one million members and beneficiaries, and its membership includes state, local government and school district employees. Organised as an 'entity of state government', it has a central office and eight field offices; its system includes health
coverage, a variety of retirement-related programs, and health retirement plans for state judges, legislators and other state officials. Its 13-member board represents public employee and employer interests, in 'careful balance'; its composition is set in statute and protected from political influence by the state constitution. Six of the board members are elected by various employee groups (active and retired), two serve by virtue of office, and five are appointed by the governor or the legislature (CalPERS, 1995).

CalPERS, prior to 1986, had a commitment to a passive investment strategy; it did not vote its proxies. Further, its investment approach tended towards a long-term commitment of funds, with a high level of diversification. In 1986, alarmed at a downturn in stock that seemed to be caused by inept corporate management, CalPERS demanded corporate accountability but was routinely ignored by corporate management. The combination of a long-term investment horizon and a passive investment approach began to look like a recipe for disaster. As a result, CalPERS launched its first corporate governance campaign by targeting ten of the poorest-performing companies in its domestic stock portfolio for improvement.

The issues raised by CalPERS include effective shareholder involvement in the election of corporate directors, shareholder
communication on votes, eliminating staggered boards, and working towards
the independence of directors, and confidentiality of voting. Despite pressure
from its union representatives, CalPERS, however, is cautious about
incorporating social values into its corporate governance approach on the
grounds of compromising the fiduciary responsibility of its trustees. But it
has incorporated a workplace practices screen in its program since 1994, on
the grounds that it will add value to its investments (McCritchie, 1996).

The Interfaith Center on Corporate Responsibility

Counterposed to CalPERS is the Interfaith Center on Corporate
Responsibility, a twenty-seven year old international coalition of 275
institutional investors from a variety of religious communities, pension
funds, healthcare corporations, foundations and dioceses with combined
portfolios worth an estimated $U.S. 90 billion. The Interfaith Center is the
leading organization in the U.S. in the shareholder resolution process, and is
instrumental in co-ordinating resolutions co-filed by different investors.
Members of the Center hold corporations accountable using arguments
backed by economic pressure from consumers and investors. They sponsor
resolutions, meet with management, screen their investments, divest stock
conduct public hearings and investigations, publish special reports and
sponsor actions such as prayer vigils, letter-writing campaigns and consumer boycotts (the Interfaith Center on Corporate Responsibility, 1998). The Center has contributed research to the Domini Social Index (which will be described in Chapter 6), which publishes a newsletter, The Corporate Examiner, and publishes an annual tracking of all social issue shareholder resolutions. It has worked with sister organizations in Great Britain and Canada to publish principles spelling out a new business philosophy to govern a corporation's behaviour in a global economy. It has said:

Economic decisions have profound human and moral consequences. Faith communities measure corporate performance not only by what a corporation produces and its profitability, but also by how it impacts the environment, touches human life and whether it protects or undermines the dignity of the human person. Protection of human rights – civil, political, social and economic – are minimum standards for corporations seeking to act responsibly (the Interfaith Center on Corporate Responsibility, 1995, p. 1).

Taskforce on the Churches and Corporate Responsibility

Canada's history of shareholder activism has been led by the Taskforce on the Churches and Corporate Responsibility, an organization similar in focus to the Interfaith Center. Issues raised by the churches go beyond corporate governance to concerns related to the environment, labour relations, and human rights. The churches collectively funnel their strategies through the Taskforce, as it is set up to research and implement shareholder
social investment strategies. It has the advantage of being able to build expertise and work exclusively on social policy relating to investment:

Shareholders have responsibilities and opportunities to help reshape corporate priorities so that the way our money is used reflects our priorities (Hutchinson, ibid, p.69).

The separate structure of the Taskforce has provided the resources to allow the churches to both safeguard their investments and to have them reflect their organisational values.

In 1984, the churches submitted a shareholder proposal to the Canadian Imperial Bank of Commerce asking for a secret ballot policy for voting shareholder proposals. The issue had arisen the year before when the churches had forwarded in advance a proposal for a disclosure on foreign loans above a certain level. After the proposal had been submitted, the bank contacted shareholders in support of the proposal to ensure that they knew that this was in fact a vote for the churches and against management. The churches therefore brought the secret ballot proposal forward again the following year, and it was promptly opposed by management. Only 7% voted in favour. Nevertheless, the bank then agreed to support the churches' proposal and instituted a secret ballot:

What must be clear… is that we've never actually won a vote on a shareholder proposal. But even 10-15% . . given the ownership structure of modern corporations is often taken by the company as
indication that an issue is one it can't ignore (Hutchinson, 1990, p. 67).

To attempt to effect a change in corporate behaviour without raising the issue at an annual meeting, the churches use an incremental approach in raising issues with corporations, starting with a letter and then moving to meetings. But the threat of a proposal to the Annual General Meeting is always in the background, with accompanying publicity.

**Pension Funds and Shareholder Action**

For several years, Yves Michaud, a former Quebec politician, Canadian diplomat, and a small shareholder, has raised shareholder proposals at annual meetings of Canadian banks and has brought considerable public attention to shareholder action. He has also lobbied pension funds to support his proposals. While he met with limited success in his lobbying, he brought attention to the potential for pension fund shareholder action.

Yve Michaud’s proposals have met with some success, including an acknowledgement by the Royal Bank of Canada that it would ‘give serious consideration to a new way of electing directors that would hand more clout to ordinary shareholders’ (Whittington, 1998). This came after a very close
vote on Michaud's proposal to discard the bank's system of voting for a slate of directors.

Shareholder experience on the part of union trustees of pension funds is mixed. In a recent study of union trustees in the top 24 Canadian pension funds, unionists were 'unclear about what proxy voting entailed, whether their fund had a policy and who, if anyone, would exercise votes' (Carmichael, 1998, p. 20). Another study of institutional investors (Montgomery, 1995) reported an increased interest in corporate governance matters because of abuse of power by management. Further, the Globe and Mail has reported that issues of institutional investor governance will gain 'much more attention':

Institutional shareholders were once called the sleeping giants of capitalism because of their size and traditional docility. In truth, the real sleeping giants are the plan members and beneficiaries: teachers and municipal employees and the employees of companies like Canadian National Railways and Bell Canada, whose pension funds hold billions of dollars in corporate investment (Finlay, 1997, p. B2).

However, a significant barrier is the control of funds by the financial industry. As has been noted in previous chapters, fund managers have considerable control over pension fund investment, particularly where assets are pooled into larger funds. For example, the Carpenter Workers’ Pension Plan of B.C. was unable to join in the shareholder action on child labour,
organized by the B.C. Federation of Labour, since its equity is in pooled funds and hence under the control of fund management (Interview with Wayne Stone, 1999). Fund managers actively seek to influence the behaviour of corporations in which they invest pension funds. Douglas Grant, the Chairman of Sceptre Investments, the fifth largest pension fund manager in Canada, reported that:

[We] have private meetings with companies. These meetings are valuable to us, in part, because we control the agenda and, in part, because it is important to us to know the character of the people managing the companies that we invest in. It is important to the companies, and they agreed to do it because they need to keep in touch with their shareholders and we are, typically, a big shareholder (Report of the Standing Committee on Banking, Trade and Commerce, 1998, p. 8).

The OPSEU Pension Trust has taken an unequivocal position on using its proxy votes where possible. Colleen Parrish, Plan Manager, describes the process for instructing fund managers on how to vote proxies:

We instruct all our investment managers and our custodian to bring forward issues that we then screen for those that should receive the attention of the Board of Trustees. . . Well, when a lot of pension plans do that, then there's a real sense out there that corporate governance matters. Slowly you start to have an impact because it changes the way the capital markets work (Parrish, in Carmichael, 1996, p. 108).

Following the model of the California Public Employees Retirement System (CalPERS), the Ontario Municipal Employees’ Retirement System
OMERS has registered its interest in actually pursuing active corporate governance strategies beyond proxy voting:

OMERS approach is to work with companies privately to resolve concerns. If that doesn’t work, the fund will introduce a resolution at a shareholders’ meeting. That has never happened, [OMERS] said because the fund has been successful in resolving issues privately (Waldie, 1998, p. B7).

The Ontario Teachers’ Pension Plan Board also has face-to-face meetings with management, and consider these meetings as ‘an integral part of our due diligence in selecting companies for major investment and managing those investments in the long-term’ (Report of the Standing Senate Committee on Banking, Trade and Commerce, 1998, p. 9).

William Dimma, a director of several public companies, believes that the preferred way is the ‘quiet and private’ way. In fact, he maintains that this is the ‘Canadian way … the way to get things done’ (ibid., 1998, p. 9).

However, CalPERS picks ten companies yearly and publishes the list, ranking the companies by relative and absolute performance and identifying shareholder returns over five and ten year averages; it is therefore monitoring its index on a regular basis by means of mechanical screens and analysis. The cost of corporate governance is the cost of regular screening of its index. Since 1992, CalPERS has included international security markets, arguing that these strategies should be effective in any country. It
has also developed the corporate governance strategy to pick issues that have industry-wide significance, in the hopes that improved performance will be initiated throughout the industry, and not restricted to one corporation.

OMERS is considering publishing an annual ranking of companies, based on their corporate governance (and, presumably, their poor financial performance). In other words, OMERS would comment on changes that would be needed to improve their financial performance.

Barriers to Shareholder Action

Corporate governance assumes that taking a more proactive role in a corporation by exercising proxy votes will raise the financial value of the shares of a corporation, and, hence, the rate of return. American law, through the Department of Labor, has confirmed that voting rights are, in fact, pension plan assets; therefore, it is the duty of fiduciaries to ensure that such assets are voted solely in the interests of the plan members (McCritchie, 1996). Canadian law, it can be argued, also supports trustees as active shareholders. Trustees must, under the standard of prudence, be informed in making investment decisions and seeking out information that allows them to assess the financial performance of the company in which they have
invested; further they should oppose mismanagement or other inefficiencies (Waitzer, 1990).

This legal perspective has been extended to decisions based on social concerns about corporate performance. A company may be inefficient, less productive and therefore less profitable because of its labour relations, its hiring practices, its poor environmental standards, or its negative relationship to community. One legal view suggests that trustees are forced to pursue change in these areas where it is likely that such policies would not harm the investment, or may lead to increased economic return (Waitzer, 1990). In a study of institutional shareholders, fiduciary responsibility to clients ranked as the second most important incentive in becoming active (Montgomery, 1996).

However, it is difficult for a shareholder to put forward proposals relating to corporate social performance in Canada. The Canada Business Corporations Act was reformed in 1975 to enshrine shareholders’ information on votes and the right to communicate with other shareholders. This reform however provided little substance to shareholder rights. (More effective shareholder rights were introduced in the United States in 1942.) Management, prior to 1975, was able to control sparsely-attended
shareholder meetings by holding enough proxy votes to outvote any challenges.

This Canadian reform was intended to enable shareholders to have similar rights whether or not they attended meetings, to receive basic information through the management proxy circular, and the right to include resolutions for circulation in the circular (Iler, 1990). However, the right to circulate resolutions is hedged with qualifications, including paragraph 137 (5)(b) of the Act. This clause permits corporations with the right to exclude a proposal from the proxy management circular if it was submitted purely to promote 'general economic, political, racial, religious, social or similar causes'. Further, if 'substantially the same' proposal was submitted and defeated within the last two years, management can refuse to circulate the proposal. The law, while intended to uphold the right to participate in a shareholder meeting through the proxy solicitation process, in fact severely restricts shareholder activism.

This clause has been upheld most recently in 1987 in Varity Corporation v. the Jesuit Fathers of Upper Canada et al., when the Ontario Court of Appeal upheld Varity's refusal to circulate a proposal on disinvestments in South Africa. Subsequently, Varity was obliged to circulate the proposal because the corporation was covered by U.S. rules,
where circulation of shareholder proposals on social issues were routinely allowed. The Social Investment Organisation of Canada is lobbying for a deletion of this clause, and amendments allowing for a corporation to apply for permission to a regulating agency to exclude a proposal if, in the company’s view, it includes untrue or misleading statements (Social Investment Organisation, 2000).

An exciting shareholder proposal⁹, recently submitted by Working Enterprises Limited, a company owned by seven unions in B.C., has asked Placer Dome:

- to provide independent public assessments of environmental risk at each of its operations and to disclose detailed information to shareholders about insurers and levels of insurance that the company has in place to protect shareholders from liability (Miningwatch Canada, 2000).

This proposal reflects concern arising from the increased costs of a spill at Placer Dome’s Marcopper operations. Shareholder concern arises because Placer Dome did not have enough insurance to cover the disaster. This proposal is exciting in that, while addressing the social and economic behaviour of a corporation, the proposal is grounded in financial concerns legitimate under the Canada Business Corporations Act. In effect, this

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⁹ I thank Heather Gavin for bringing this to my attention.
proposa1 calls for a social accounting by Placer Dome. This, and other cases, will be discussed in Chapter 7.

Corporate governance is on the rise in Canada with respect to management proposals. Fairvest Securities notes that, in their survey, a ‘significant minority’ of shareholders voted against management proposals at 27 out of 405 companies. In one case, shareholders defeated a management proposal. They also note that their survey is believed to be the first of its kind in Canada, and state further that ‘the outcome of proxy votes must be disclosed in public filings in the U.S., but aside from a short verbal report at annual meetings, in Canada, voting results are rarely disclosed’ (Westell, 1997b). American law is far more lenient to shareholders, in that a proposal may only be excluded if the subject matter is not sufficiently related to the affairs of the corporation. Needless to say, this has offered more encouragement to the shareholder movement.

Canadian institutional shareholder action, while on the rise, remains largely uncoordinated, with little communication between institutional investors. It is also largely reactive to proposals generating from management. Pension funds in Canada do not put resources into research or analysis of proposals, nor into negotiating activity with investee
corporations. Some have viewed this uncoordinated approach to shareholder action as economically wasteful activity, which if changed can lead to greater control over corporate performance and add to shareholder value (Daniels and Waitzer, 1994).

**Shareholder Action and Rate of Return**

CalPERS reports that corporate governance strategies improve share values dramatically. A study it commissioned (published by Wilshire and Associates of Santa Monica in 1994) examined the performance of companies targeted by CalPERS between 1987 and 1992. The stock price of these companies trailed the Standard and Poor 500 index by 66% for the five years prior to the campaign, and out-performed the index by 41% in the following five years.

Another study of CalPERS, (Smith, 1996), finds that when shareholder action is successful in changing governance structure, it also results in added shareholder value. However, when the shareholder action is directed at improved operating performance, there is no statistically significant change in value. Overall, during the 1987-93 period, shareholder action resulted in a net increase of US$19 million.
This finding is not corroborated by either Romano (1993) or Wahal (1996), who in a study of the activism of six funds (including CalPERS) for the same period (from 1987-1993) find that while pension funds are successful in changing the governance structure of targeted firms, their activism does not change the rate of return on investment.

Although the evidence is inconclusive as to whether shareholder activism actually increases the rate of return, there is no evidence of declining returns. Therefore, as a social investment practice, pension funds can engage in shareholder action and maintain fiduciary responsibility.

In spite of the barriers posed by corporate law, pension funds could decide to base their shareholder action on a broader view of corporate performance beyond governance issues, encompassing social economic performance indicators. This would involve submitting, not just responding to, shareholder resolutions. Unions in B.C. have been successful in circulating shareholder resolutions on child labour, in that the corporate sector has agreed to fund and participate in an agency to research child labour issues. Collaborative work between union pension funds and unions themselves can clearly overcome the barriers of corporate law, since the accompanying publicity forces the corporate sector to respond.
Pension fund activism could also take a more proactive approach to corporate governance by representing the pension fund on the board of directors of the company, and thereby working with a company on a long-term basis. This could take the form of "schmoozing" or it could be productive in providing expertise to a new company or renovating an older one. As we have seen, rarely do pension funds engage in this sort of enterprise. However, labour-sponsored investment funds do. The Crocus Fund in Manitoba, for example, invests in regional, new and older private placements with a view to providing support to an investment through board representation (Kreiner, oral presentation, November 15, 1998).

Summary

Through traditional proxy voting mechanisms, as well as through more proactive corporate governance campaigns, it has been shown that pension funds may be successful in changing corporate behaviour without reducing their rates of return. However, in the event that rates of return fall, pension funds tend not to withdraw. In Canada this is even more likely because the high cost of exit is caused by an over-saturated market. Both active and passive investment suffers from the same problem. Pension funds can be more effective shareholders if they apply more resources to become
more informed and less reactive, and if they work collectively with other pension funds. But shareholder action is not a substitute for finding alternative forms of investment. However, it can complement alternative forms of investment, and shareholder involvement in the daily life of the corporation can be used to target economic investment to social objectives (i.e., economically targeted investment). Shareholder action, or corporate governance, is often viewed as one form of social investment, because it goes beyond the ‘hands-off’ measurement of corporate behaviour by risk and return only. The next chapter examines definitions and approaches to social investment and ways of measuring corporate accountability through social accounting methods.
Chapter 6

Unions, Social Investment, and Corporate Accountability

This chapter offers a definition and framework for examining several types of social investment. This framework has two key elements; the first is that the framework itself is a model for social change, the second is that it calls for corporate accountability in terms of the corporation’s social and economic benefit to the community. The debate within trade unions on involvement in investment and social investment in particular is illuminated. This chapter also reviews the literature on corporate social performance, including the measures that have been used to measure corporate behaviour. A further question is whether investment returns can be measured and thus evaluated on broader criteria than financial.

Definition and Framework for Social Investment

Social investment is usually defined as the inclusion of various social standards in investment decision-making to accompany financial standards (Kinder, Lydenberg, Domini 1998; Ellmen, 1996; Bruyn, 1987). This definition allows for the inclusion of right-wing criteria. An example of this are anti-gay criteria for investing in companies. Such funds exist in the U.S.
and could easily develop in Canada. Therefore, in this thesis, ‘social investment’ is further defined to include its purpose as a tool to challenge conventional corporate behaviour (Bruyn, 1987; Lowry, 1991; Zadek, Pruza, and Evans, 1997) often because such a challenge arises in an arena of contested control (CUPE, 1992; Lane, 1991; Carmichael, 1998).

Corporations are therefore put under scrutiny to assess their impact on their communities. These are all necessary conditions for pension funds to undertake social investment.

This thesis also proposes that the collective action of pension funds is necessary for effective social investment, yielding value for beneficiaries. It has been shown in the previous chapter that shareholder action may be less reactive and more informed through collaboration with other institutional investors, in particular pension funds.

Control over investment for unions is only a reality once trusteeship of pension plans is won. Out of the top twenty-three funds in Canada, eighteen funds (amounting to approximately $250 billion) are in the process of winning, or have won joint trusteeship (Carmichael, 1998). All of these unions are in the public sector. There are also unions in the private sector which are active in various forms of social investment. Most of these appear to have sole trusteeship of their pension funds (in other words, in the past, in
the absence of employer support, have had to set up their own pension funds). However, one major union, the Canadian AutoWorkers, remains vehement in its opposition to the social investment of pension funds, and, further, to union involvement in pension fund administration (Stanford, 1999a).

Unions and Social Investment

Pontusson (1992) identifies two forms of social democracy. In the first, efficient market theory maintains that the pursuit of profit by the private sector produces the most efficient allocation of resources. State intervention is restricted to providing welfare support for those suffering the negative consequences of economic growth. In the second, state intervention is sought to redress the balance of power between business and labour through a greater voice for unions in decisions about production (Pontusson, 1992, p. 3). He concludes that:

Investment control... is the critical link between labor’s pursuit of full employment, real wage growth, and income redistribution within the framework of capitalism and any system-transforming political project. (p. 4)

However, the Canadian AutoWorkers argues against social investment on the grounds that the workings of the market dictate losses in the rate of return of investments. Pension funds therefore are obliged to make trade-offs
between the interests of their members and the broader interests of a social investment (Stanford, 1999a).

However, this thesis is directed to showing that unions can and should get more directly involved in fund administration and, further, that different forms of social investment are in the interests of workers and communities. Not all forms of social investment, on their own, can redress the power imbalance in the capital markets. Shareholder action may be less effective unless pension funds work together and resource their active shareholder involvement, notwithstanding the cost of exit. Similarly, ethical screens used alone (as discussed later in this chapter) are simply a first step in gaining some control over pension fund investment. However, the previous chapter has shown that shareholder action does not reduce the rate of return. This chapter will show that ethical screens also do not lower rates of return. The CAW position that social investment damages the interests of beneficiaries through lower rates of return is therefore incorrect.

More fundamentally, CAW has advanced two further arguments. The first is that involvement in the market through pension fund investment or labour-sponsored investment funds ‘muddies’ the ‘traditional understanding’ (Stanford, 1999a, p. 372) between unions and employers, and undermines the role of unions in representing their members through collective
bargaining. As has been described in Chapter 2, unions and workers have
not, historically, played a significant role in shaping the practices of pension
fund investment or the capital markets, and thus have not had a legitimate
role in shaping national industrial and economic policy. In fact, such a role
has been resisted by CAW since the end of the Second World War.
Historically, the focus of pension activism was on lobbying for a universal
pension system, rather than on bargaining for workplace plans, which were
largely viewed as a way for employers to control workers (see chapter 2).

However, traditional forms of collective bargaining based on
adversarial relationships may be of limited benefit to workers. Among
industrialized countries, Canada is noted for its rigid model of labour
relations that no longer effectively serves the interests of unions or
employers (Adams, 1995). In spite of being in decline since the '60s,
collective bargaining has remained the prevailing arena for union activity,
influence or struggle. All residual rights, including control of capital have
remained with the employer (Drache and Glasbeek, 1992).

One assumption that has enabled this cloistered approach to the
capital markets is the supposed bifurcation of the economy into a public and
private sector. It is assumed that investment is a private sector concern of
the capital markets and has no social foundation. Social-value concerns, it
follows, are relegated to the public sector where a non-profit, rather than a profit orientation, is paramount. Since it is assumed that social value is a cost, it follows that the public sector is a permanent financial liability. This question is dealt with more fully in Chapter 7.

Pension funds, therefore, have been treated as private entities in relation to their investment practice, notwithstanding their tax-exempt status. This is misleading for several reasons. First, pension fund administration is a matter of public policy. Apart from the deferred wages, which are tax deductible, the investment of investment returns is also tax-exempt. This study argues that for these reasons pension funds should be held accountable. Accountability, in particular, should be directed at their investment practices. This question is also dealt with in Chapter 8.

Second, public sector union pension activists (most of whom are associated with the largest pension funds) are driven to gain control over investment decisions, because, in many cases they have seen the potential for investment in the public interest (through public infrastructure projects like hospitals, highways and educational institutions), but also the abuse of their funds through poor accounting and reporting methods.

Social investment and corporate social performance measures (which will be described later in this chapter) again confuse the artificial distinction
between public and private sectors, replacing this assumption with an expectation that corporations, as an interdependent part of the economy, are accountable to their employees, shareholders, local communities and broader society. This means that they are accountable to all levels of government.

Social investment thus can hold the corporation accountable on an operational level. Recognizing the social and economic nature of investment can enable better information on equity value and thus a more efficient market (Sethi, 1995; Bruyn, 1987). It can also provide for a ‘real’ return on investment through benefits to those beyond the direct investors. Further, as Adams (1995) points out, it is not just labour that benefits. Countries where unions are more engaged in shaping economic policy are more productive than those that depend exclusively on the adversarial model of collective bargaining.

The second argument from the CAW is that in the struggle to democratize the economy, there are strategic imperatives to be addressed by the labour movement. These strategies need to ‘carry a dynamic with a potential to build and politicize the movement’ (Gindin, 1997). Some strategies are primary and some secondary. Secondary strategies are distant and often global (Ibid.). For example, lobbying international institutions
such as the World Bank or the International Monetary Fund are secondary, and as such, he argues, these institutions cannot be influenced.

History has outstripped this argument as labour and community groups from across the world gathered in Seattle to protest World Trade Organization policies, and Washington to challenge the International Monetary Fund. Nevertheless, can organizing for joint trusteeship by unions be considered secondary or distant? The evidence is to the contrary. In a study of union pension funds across the country, activists attested to the opportunity to challenge the unilateral decision-making of the employer, train other union members in pension fund administration, and challenge the power of financial institutions through mechanisms set up through collective bargaining. Rather than weaken the union, it appears that pension fund activism could strengthen the role of the union (Carmichael, 1998).

Union involvement on an equal basis, therefore, is critical. New forums for union activism are needed. Legal rules, theoretical frameworks and financial industry practice have not only limited the role of workers and unions in the social investment in pension funds, but also have prevented both from playing a more meaningful role in the economy. Redressing the balance of power, however, calls for a shifting in balance between unions and the corporate sector and accountability measures for corporate
behaviour. Corporate social performance measures can be used to hold companies to account.

**Corporate Social Performance**

There has been ongoing research and debate about the measurement of corporate social performance, and hence the nature of corporate accountability, in the United States, Canada, and the U.K., as well as in international development circles. The first question is how other values have been measured in relation to financial value. A second question is whether other values relating to performance of necessity detract from profits and thus reduce the rate of return to an investor (i.e., the pension fund). A third question is the extent to which corporate social performance indicators contribute to productivity.

In the U.S., 25 years of research in the management literature was sparked by the free-market economist, Milton Friedman. He said:

> Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as possible (Friedman, 1962).

Implicit in Friedman’s argument is a conflict between profit maximization and social objectives. A number of studies have found a negative relationship between corporate social performance and corporate financial
However, these studies investigated corporate illegalities and product recalls and situations incurring immediate and often unforeseen costs, and were done prior to any significant development of corporate social performance research. At the same time, some studies have shown that the additional costs of being socially responsible can be offset by the added efficiency resulting in a neutral effect on profit maximization (Parker and Eibert, 1975; Canty, Perry, and Woodland, 1973; Moskowitz, 1972). Griffin and Mahon (1997) conclude that the largest number of researchers found a positive relationship between corporate social performance and corporate financial performance, although the studies vary substantially in their definitions and methodologies. These studies depend on many variables of financial performance (profitability, growth, asset utilization and market measures) in contrast to fewer measures of social accountability.

The theoretical basis for selection of social indicators as a measure of corporate performance has been unclear. This has led to confusion over which standards ‘should’ be used as measures for social responsibility, and therefore the relationship of social to financial performance. The lack of clarity further serves to maintain the notion that these standards are a matter
of ethical choice, or even of benevolence on the part of the corporation, rather than a matter of normal business operation. Early efforts at a definition of corporate social performance produced a methodology based on corporate social response and involvement in social issues. While the interdependence of social institutions was stressed, theoretically there was no reason why a corporation would get involved in a social issue beyond a vague prescription (Preston, 1975). This approach shaped the first empirical study of corporate social performance in Canada (The Royal Commission on Corporate Concentration in Canada, 1977, in Clarkson, 1995). Carroll (1979) attempted to provide a theoretical and operational link between social and economic objectives, using the social responsiveness concept as the basis for the model; however, this attempt ultimately failed for the same reasons. What needed to be measured was corporate social performance (CSP) rather than the level of social response of a corporation (Clarkson, 1995). Wartick and Cochran (1985) built on Carroll’s model, incorporating the notion of ‘economic responsibility’ in an attempt to bridge the gap between social and economic expectations. Wood (1991) has commented:

The entire CSP concept has taken on subtle “good” and binary connotations, as though corporate social performance is something that responsible companies do, but irresponsible companies do not do. Even though such connotations are common in the literature, they are misrepresentations of CSP. Every firm can be evaluated on its social
performance, and a firm's social performance can be negatively or positively evaluated (p.693).

Wood identifies the notion that corporate social performance should measure the extent to which business is accountable to society through its responsiveness to its stakeholders, and relies on Freeman's definition of 'stakeholders' as "those groups who can affect or are affected by the achievement of an organization’s purpose" (Freeman, 1984, in Wood, 1991, p.697). The outcomes of corporate behaviour – social impacts, programs and policies – become the measure of understanding the relationship between the organization in all its parts and society. This framework allows for measures of accountability between managers, employees, shareholders and community (Clarkson, 1995; Wood, 1991). It also breaks down the separation of economic and social value, and incorporates the two evaluations into the daily operations of an organization. Finally, this approach to corporate social performance also breaks down the bifurcation between the private and public sector, so that corporate social performance measures can also theoretically apply to public as well as private sector organizations.

This redefinition has enabled significant new directions in research, which Wood predicted (1991). For example, in the U.S., in a study of large
manufacturing companies during the period 1982-87, it was found that a
good reputation for corporate social responsibility and higher reported
profitability are strongly related, as is corporate social responsibility and
lower total firm risk. Further, that investors in industries with social conflict
tend to be aware of differences in reputation and invest accordingly
(Herremans, Akathaporn and McInnes, 1993). Waddock and Graves (1996)
have found that the quality of management, treatment of shareholders,
employee relations and customer relations are strongly and consistently
related.

Social Performance Measures

Social performance has been measured in many studies primarily by
use of either the yearly Fortune survey of ‘The Most Admired Corporations’
or the KLD Index, developed by Kinder, Lydenberg, Domini and Company
Limited. The Fortune survey has been criticized for being simply a tool to
assess the perceptions of CEOs about the ethics of their own industry
(Fryxell and Wang, 1994; Brown and Perry, 1995; Wood, 1995; Baucus,
1995). The Report on Business Magazine has a similar survey report on
Canada’s ‘Best and Brightest’. This has been challenged more substantially
by the Social Investment Organization on the ‘reputational’ basis of the data,
the 'unspecified biases of the CEOs and the lack of comprehensive and systematically-collected data available to them' (Walker, 1998, p.1). Further, these survey reports have been criticized for being, in fact, disguised measures of corporate, financial performance (Graves and Waddock, 1994).

Kinder, Lydenberg, Domini and Company Limited (KLD) assesses companies on seven indicators of corporate social performance – community relations, employee relations, environment, product, treatment of women and minorities, military contracts and nuclear power. A five-point scale is used to rate a company from “major strength” to “major weakness” (KLD, 1997). The advantages of the KLD indicators are that all Standard and Poor 500 companies are rated consistently and independently (Graves and Waddock, 1994).

Typical measures of corporate social performance are shown in Table 1. Data such as job category earnings, health and safety violations, numbers of union certifications and de-certifications, grievances and strikes, collective agreements, employee benefits, records of layoffs, product safety and environmental violations tend to be available through government departments (Bruyn, 1987; Clarkson, 1995).
TABLE 1
Typical Corporate and Stakeholder Issues

| 1. Company                  | 1.1 Company history              |
|                            | 1.2 Industry background          |
|                            | 1.3 Organization structure      |
|                            | 1.4 Economic performance        |
|                            | 1.5 Competitive performance     |
|                            | 1.6 Mission or purpose           |
|                            | 1.7 Corporate codes             |
|                            | 1.8 Stakeholder and social issues management systems |
| 2. Employees               | 2.1 General policy              |
|                            | 2.2 Benefits                    |
|                            | 2.3 Compensation and rewards    |
|                            | 2.4 Training and development    |
|                            | 2.5 Career planning             |
|                            | 2.6 Employee assistance program |
|                            | 2.7 Health promotion            |
|                            | 2.8 Absenteeism and turnover    |
|                            | 2.9 Leaves of absence           |
|                            | 2.10 Relationships with unions  |
|                            | 2.11 Dismissal and appeal       |
|                            | 2.12 Termination, layoff and redundancy |
|                            | 2.13 Retirement and termination counselling |
|                            | 2.14 Employment equity and discrimination |
|                            | 2.15 Women in management and on the board |
|                            | 2.16 Day care and family accomodation |
|                            | 2.17 Employee communication     |
|                            | 2.18 Occupational health and safety |
|                            | 2.19 Part-time, temporary or contract employees |
|                            | 2.20 Other employee or human resource issues |
| 3. Shareholders            | 3.1 General policy              |
|                            | 3.2 Shareholder communications and complaints |
|                            | 3.3 Shareholder advocacy        |
|                            | 3.4 Shareholder rights          |
|                            | 3.5 Other shareholder issues    |
| 4. Customers               | 4.1 General policy              |
|                            | 4.2 Customer communications     |
|                            | 4.3 Product safety              |
|                            | 4.4 Customer complaints         |
|                            | 4.5 Special customer services   |
|                            | 4.6 Other customer issues       |
| 5. Suppliers               | 5.1 General policy              |
|                            | 5.2 Relative power              |
|                            | 5.3 Other supplier issues       |
| 6. Public Stakeholders     | 6.1 Public health, safety and protection |
|                            | 6.2 Conservation of energy and materials |
|                            | 6.3 Environmental assessment of capital projects |
|                            | 6.4 Other environmental issues  |
|                            | 6.5 Public policy involvement   |
|                            | 6.6 Community relations         |
|                            | 6.7 Social investment and donations |

Source: Clarkson (1995, p.101)

Table 2
Further data on performance such as employee involvement, internal rates of pay by job category, and gender and race breakdown by job classification can be obtained through the corporations themselves. These data, or ‘bellwethers’ (Kinder, Domini, 1997), are indicators of corporate behaviour. They establish ‘best practice’ standards within an industry, and on a national level may form the basis for industrial policy. These measures, then, are far from ‘subjective’.

In Canada, the work of assembling corporate data has been led by the Social Investment Organization and by one of its Board Members, Michael Jantzi of Michael Jantzi Research Associates. The firm’s social performance and accountability indicators are:

1. Community indicators of charitable donations and donations policy.
2. Corporate governance indicators such as reasonable compensation and severance policies for senior management and directors as well as proxy voting procedures.
3. Diversity indicators such as the number of women and visible minorities in senior positions, employment equity programs and policies.
4. Labour relations indicators such as good relations with in-house unions, (no) layoff policies, worker participation policies, and favorable employee benefits.
5. Environmental indicators such as exceptional commitment to environmental management, use of recycling materials, superior preventative maintenance of property and equipment, and development of products with environmental advantages.

6. International indicators such as good treatment of employees and good environmental practices in developing countries (this would now include the absence of child labour).

7. Product and practice indicators of high quality relative to others in the industry, superior research and development, and written codes of conduct.

8. Military and nuclear power indicators.

(Social Investment Organization, 1996)

These measures can be used voluntarily by an organization to measure its own performance through a ‘social audit’. They may also be used in ethical screens by pension funds, either to screen out a corporation from an investment portfolio or to screen it in. They can also have various uses in economically-targeted investment vehicles. Pension funds and other investors need publicly available information on companies. However, establishing social performance indicators is an emerging field in its application, and caution is therefore warranted. Standards, for example, of
legal infractions of environmental or health and safety laws are still fairly crude measures of unhealthy work environments. Standards also may not be very rigorous. In the absence of pressure from constituencies or labour negotiation of standards, standards will remain low.

Social Audits

While there are some examples of social auditing in Canada, there is a stronger academic history in the United States and Britain. There are two distinct trends of thinking. The first recorded uses of social audit were in the U.S. In 1940, Kreps, an economist, called for a greater socially accountability on the part of corporations. He defined a social audit as a mechanism to provide greater transparency of corporations. Subsequently, in the 1950s, Bowen, an adult educator and evaluator, argued that corporations should hire social auditors to better understand their social impact. His view of a social audit was essentially an internal management tool (Bowen, 1953). Goyder, a British academic, presented social auditing and reporting as an alternative form of accountability to nationalizing industry (in Zadek, 1997). Customers, suppliers and community are stakeholders and have a right to know how companies operate. He established a broad base of stakeholder

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10 I have drawn on Zadek et al's account of the history of social audits (1997).
accountability, through a voluntary management tool (Zadek, Pruzan and Evans, 1997). Both Bowen and Goyder emphasize the importance of corporate social reporting in acknowledgement of a broader social responsibility.

In Canada, there are a number of examples organizations using social auditing - the Metro Credit Union and VanCity Credit Union amongst others (Metro Credit Union, 1996; Brisbois, 1997). The Financial Post reports that 'within ten years, some companies will give shareholders an “ethics audit” at annual meetings, ... an independently prepared assessment of a company’s ethical performance, [to] join the financial audit (Westell, 1997). All appear to follow the stakeholder accountability model, viewing social auditing as a public reporting or transparency mechanism. However, VanCity signals its intention to ‘have discussions with the Society of Management Accountants of Canada regarding quantifiable social information’ (Brisbois, 1997, p.199). Models for quantifying the social value of the company through an accounting procedure alongside the financial value have been proposed for labour-sponsored investment funds (Quarter, 1995), for and non-profit agencies (Richmond, 1998).
Ethical Screens

Ethical screens are used primarily in mutual funds whose investors are institutions or individuals, or both. However, pension funds may develop ethical screens as well. Ethical screens may be negative or positive. A negative screen (for example, directed at nuclear power corporations or tobacco and alcohol manufacturers) prohibits a fund from particular investments. A positive screen (for example, directed at labour-friendly corporations) encourages particular investments. One pension fund that has implemented ethical screens over a period of time in Canada is the Ontario Public Service Employees’ Union pension plan, a small pension fund for approximately 250 union staff. The barriers to social investment are real and apprehensions by trustees have been exacerbated by the highly-publicized Cowan vs Scargill ruling of the British High Court. Carmichael reports (1996) the comments of a trustee:

We read Cowan v. Scargill and were so alarmed that we knew that we had to do this right. First of all, we went to the membership at an AGM; we wanted their consent and we got a vote on screening out investments to South African and anti-union companies with 95% of members in favour. Then, under our duty to be prudent, we asked for an ongoing tracking of our screen to measure the economic impact on our plan. It was usually favourable, in the range of 46% rate of return. We were actually doing really well. Social investment seemed to make good financial sense (Interview with Terry Moore, trustee of the OPSEU Staff Union Pension Plan, November 1996).
The other variables in the screen were downsizing beyond the sectoral average, poor labour relations, ongoing employment equity programs and the proportion of women in upper management.

The advantages of ethical screens for pension funds are that such screens can be applied to all investments, so that there is a minimum acceptable social standard. Screens are usually established around one issue such as child labour, but also can involve a range of issues on labour relations, environmental concerns, national policies such as apartheid, mass genocide or murderous oppression. They can be introduced and monitored carefully to track rates of return over the long term. Screens can be responsive to the concerns of pension plan members. Again, Carmichael reports (1996) an interview with a union trustee:

Do we want to invest in companies that exploit child labour? Is it in our members' interests to invest in companies that make their business bidding on public sector work? Why would it be in our members' interests to invest in an area that erodes their interest? We need to screen these companies out; but we need members participating in these decisions. We need their informed consent; it can't be the interests of the trustees; we need members' opinions, their wishes (Interview with Heather Gavin, 1996, in Carmichael, 1996).

The disadvantage of ethical screens are that the 'power of the purse' is not necessarily felt by the companies who are screened out. Screens are not boycotts unless done collectively. However, screens have been used as part
of a successful boycott strategy to bring apartheid to an end in South Africa, for example, prior to the ANC taking power. One pension plan alone rarely has enough clout to make its lack of investment felt; moreover, pension laws prevent investments in one company of over 10% of the value of the company.

However, boycott strategies are not out of the question; given the concentration of workers' pension assets in a small number of plans, it is conceivable that pension plans could coalesce around ethical investment strategies. Ethical investment, therefore, may be a first step in a social investment program, but, in the absence of collective pension power muscle, it is not sufficient to ensure that workers are making full use of their investment power.

Further, trustees and others are critical of the seemingly minimal standards set through the screens. Ethical investment portfolios can include, for example, banks and less-than-perfect representatives of the mining industry. For these reasons, ethical investment has attracted controversy in the U.S. and Canada, on the grounds that claims of principled investment are a 'hoax' (Stanford, 1999a; Entine, 1995; Hayden, 1998). Furthermore, the summation of negative and positive factors necessarily leads to negatives being cancelled out by positives. A company that has points against it for
serious environmental violations can neutralise its score for numbers of
women on its Board of Directors. Also rigorous trade union or
environmental values incorporated into an ethical screen tend to leave little
room to invest in the smaller Canadian markets. Finally, screens cannot
accommodate portfolio diversification.

The Social Investment Organisation, therefore, has developed a ‘best-
of-sector’ approach so that investment portfolios remain diversified, and
corporations get compared only within their sector. So, for example, an
environmental screen grades within the mining industry or the financial
sector for the best company within its respective sector. In summary, Ellmen
has commented:

Once you have screened your investment portfolio, you will still have
investments in companies that will not and cannot be expected to be
forever perfect. You have a responsibility to monitor how these
companies are using your investments and try to persuade them to
change practices which don’t meet your criteria for responsible
behaviour (Ellmen, 1997, p. 3).

Impact on Rate of Return

Ethical screens have borne the brunt of the debate on the impact of
social investment on the rate of return. In particular, attention has been
focused on the development and investment returns of ethical mutual funds.
While ethical funds have been in existence in the U.S. since the 1970s, it
was only in 1986 that Canada’s first ethical mutual fund was started by Vancouver City Savings Credit Union. The Globe and Mail reports that this fund attracted attention for weathering the 1987 stock market crash, having 40% of its funds in cash and ending the year with an 8% return (Won, 1997). Canada now has 12 ethical (including green) funds. Eight are managed by Ethical Funds Incorporated from Vancouver, Investors Group’s Summa Fund from Winnipeg and the Desjardins Environment fund. The other four are managed by Clean Environment Mutual Funds Limited from Toronto (Press, 1997). The Social Investment Organization reports that, as of April 1998, $2.1 billion is invested in ethical funds in Canada, and the amount is growing rapidly (Walker and Hylton, 1998). However, this figure is very small in comparison to the approximately $300 billion invested in mutual funds in Canada.

The situation is very different in the U.S. Social investment funds (including screened investments, funds protected by shareholder advocacy, and money invested in community development banks, loan funds and economically targeted investments) are estimated at $1.185 trillion (Walker and Hylton, 1998). Walker and Hylton also report that social investment has a much broader connotation in the U.S., such that funds implement their own belief systems through their investment practice. ‘Sin” screens, such as
tobacco, gambling and alcohol, are more widely used than in Canada at the present time. Thus a progressive social and political agenda is far less focused in the U.S. where funds are established and ethical screens are used to support right-wing as well as left-wing values.

However, the creation of the Domini Social Index (DSI) in 1990 by Kinder, Lydenberg and Domini provided a standard for performance of socially responsible investment portfolios. KLD now releases regular statistical reviews of their index, and reports that the DSI has outperformed the Standard and Poor’s 500 on a total return basis and on a risk-adjusted basis since its inception in 1990 (KLD, 1998). This database plays a critical role in research on social investment and in case law.

Given the prevalence of ethical investing in the U.S., the issue of the ethical funds’ rate of return has attracted more systematic studies than in Canada. While these studies do not provide strong evidence that ethical funds outperform unscreened funds, they present no evidence that screened investments hamper performance. For example, one of the earliest studies (Grossman, Blake and Sharpe, 1986) compares the returns of an unscreened New York Stock Exchange portfolio (including South African stocks) to the returns of a portfolio with South African investments screened out. The study found that the unscreened portfolio did not outperform investments
free of South African holdings. Doing business in South Africa was found not to pay. For the 1986-1990 period, Hamilton, Jo and Statman (1993) found that 17 socially responsible mutual funds, established prior to 1985, marginally outperformed traditional mutual funds of similar risk, but the outperformance was not statistically significant. In that study, mutual fund data (ethical and otherwise) are unidentified as are the social criteria for the ethical mutual funds. Luck and Pilotte (1993), using Domini Social Index performance measures, found that the social index out-performed the Standard & Poors 500 index during the period of May 1990 to September 1992. However, as they point out, this period was characterized by the outperformance generally in the market of smaller stocks over larger stocks, and the DSI has a larger proportion of smaller stocks. Still, active returns of 9 basis points per month over and above the S&P 500 remained unexplained. This was the first study to show an unexplained benefit. Kurtz and DiBartolomeo (1996), for the period of May 1990 to September 1993, found that the DSI out-performed the S&P 500 by 19 points per month, which they attributed to the higher price of the DSI stock and their higher price-to-book ratios. In his review of 159 securities, using social data from the Council on Economic Priorities, Diltz (1995) finds no statistically significant difference, during the 1989-1991 period, between the returns of two sets of 14 screened
and unscreened portfolios, with the exception of the environmental and military business screens which had a positive impact on portfolio returns. Finally, Guerard (1997), for the period 1987-1994, finds no statistically significant difference between screened and unscreened portfolios, and further finds that during some sub-periods screened portfolios may have yielded higher returns.

Summary

Productive investment of pension funds depends on a view of the economy that goes beyond a practical interest in alternative ways of investing in the markets. It relies on a concept of the economy which is socially constructed, composed of peopled institutions, and governed by a mixture of social regulation and human values. This conception of the economy presupposes a complex mix of values and regulation in both private and public sector (Bruyn, 1987). In this view, there is no fundamental distinction between the public and private sector with respect to the inclusion of social and financial values in investment. It is simply that the social values of exclusion practised by the financial industry are usually unacknowledged.
Corporate social performance measures may provide a useful tool to account for social value of investments. These measures, while still fairly crude, can provide the beginnings of a social accounting system. As a framework they can set up a system of accountability between an organization, its shareholders, employees, and broader community. Corporate social performance measures are used in social audits and ethical screens for investment.

While ethical screens are new for pension funds, they have been used more in mutual funds, and have proven that they do not damage the rate of return. However, their implementation in investment portfolios is problematic. Diversification tends to require that all sectors be represented in portfolios. Therefore, a ‘best of sector’ approach requires different standards for different industries. On the other hand, using the same indicators for all sectors means that some sectors may slip completely through the screen, because of poor standards throughout the sector.

Nevertheless, as a first step in screening investment, ethical screens are important in exercising some control over investment. While there are few examples of pension funds with ethical screens, there are indications that pension trustees view ethical screens as one of several strategies in social investment (Carmichael, 1998).
Chapter 7

Value, Capital Accumulation and Social Accounting

Previous chapters have shown that the financial industry and the corporate sector, in general, do not acknowledge the social values implicit in their policies and practices. This approach promotes profit at the expense of social concerns. Further, there appear to be few social economic assessment tools in the social investment and corporate performance literature that assess social value in financial terms. This chapter surveys the literature of radical accounting for a framework of value, and assesses studies from various disciplines that can assist in building social accounting models for pension fund investment.

Accounting and Capital Accumulation

Accounting is taught as the process of ‘recording, measuring, classifying, summarizing, communicating, and interpreting economic activity’ (Meigs et al., 1988, p. 4). It is represented as a neutral technical representation of fact. Accounts are prepared in accordance with generally accepted accounting principles (GAAP), which in Canada are the recommendations of the Canadian Institute of Chartered Accountants in its
handbook. This is often reinforced through statute. For example, the Canada

Business Corporations Act regulations state that:

The financial statements referred to ... in this Act shall ... be prepared in accordance with the standards, as they exist from time to time, of the Canadian Institute of Chartered Accountants, set out in the CICA Handbook (Business Corporations Regulation 402/81, in Beechy, 1990).

Resting on a bedrock of positivist theory, financial decisions must satisfy a series of criteria or ‘qualitative characteristics’ (CICA, 1999). These characteristics are supposed to ensure the objectivity, neutrality and accuracy of accounting.

However, there is a growing literature asserting that accounting not only describes or reflects but also affects institutions in the social, corporate, financial and global arenas through its interpretative role in re-creating reality (Tinker, 1985; Hopwood, 1985; Lehman and Tinker, 1987; Hines, 1988; Lehman, 1992). Tinker, an accounting theorist, further defines accounting practice as:

A means for resolving social conflict, a device for appraising the terms of exchange between social constituencies, and an institutional mechanism for arbitrating, evaluating and adjudicating social choices. (1985, p. 81)

Rather than being an objective, technical exercise reporting financials, accounting is infused with politics. Managers, owners, the financial industry and government interests have used accounting practices and procedures to
control investment in their own interests (Tinker and Lowe, 1980; Cooper and Sherer, 1984; Tinker, 1985; Neimark and Tinker, 1986; Hopwood and Miller, 1994). This approach to accounting implicitly challenges the claim that any social concern necessarily reduces profit maximization. Further, it exposes the narrow self-interest of the corporate sector which has used accounting for its own ends. Claims of technically objective approaches to investment have disguised a system that works against the broader interests of pension fund members and society.

Traditional accounting therefore has been used as a mechanism for appropriating surplus value, legitimating the social control of one group over another, and finally enabling the accumulation of wealth (Tinker, 1985; Hopper and Armstrong, 1991). It has been the mechanism by means of which efficient markets have been supposed to work perfectly through equal access to information, if in fact market forces require accounting (Fama and Laffer, 1971). Further, it has bolstered the power of the corporation through financial reporting by reinforcing hierarchical control, controlling workers and acquiescing to shareholder interest (Hopper and Armstrong, 1991; Cooper and Sherer, 1984; Neimark and Tinker, 1986).
**Transformative Accounting**

However, accounting can be transformative. According to Tinker:

Accounting rules supply one of the most fundamental ingredients of economic and social choices: the valuation of alternatives. Unions, hospitals, banks, taxpayers, investors .... All share one thing in common: the problem of deciding, of economizing, of discovering needs and ways to fulfill them....accounting rules may distribute widespread benefit and damage between different members of the community. Alternative rules may, for the individual citizen, mean the difference between employment and unemployment, reliable products and dangerous ones, enriching experiences and oppressive ones, stimulating work environments and dehumanizing ones, care and compassion for the old and the sick versus toleration and resentment (1985, p. xx).

Miller (1994) comments that through quantification, accounting can make activities and processes visible. This in turn allows us to think in different ways, unveils new perspectives and creates knowledge. Quantification sets up a new reference point for action. Accounting therefore can be used to describe the social benefits of investments so that what was previously separate from the financial returns and incidental to the investment can now be examined from a comparative and more central point of view.

Accounting can recognize a broader social interest in corporate reporting both within and outside the organization. First, it can illuminate internal, lateral processes, involving workers in planning and budgetary programs. Second, recognizing the interdependence of organizations,
accounting can provide information links between organizations and their communities (Hopwood, 1996). In so doing, organizations can move from being agents of control to being agents of change. Accounting then becomes an instrument of social change.

Some arguments against social accounting put forward by pension fund trustees are concerned with the measurement of 'externalities' or factors external to companies and 'intangibles' like research and development capabilities. These arguments say that such measurement is irrelevant to shareholders (and pension fund trustees) except on purely altruistic grounds; furthermore, these measurements can be confusing when compared with the rate of return which is directly linked to the financial benefit of the investment to the shareholder.

There are several responses. First, there is considerable debate about the valuing of corporations themselves. Intangibles, for example, such as research and development (or workers and training) are valued. However in traditional accounting methods they are expensed against current earnings, unlike 'tangibles', such as equipment and buildings, which are recognized as investments in the future and depreciated over years. Consequently, intangibles bring down the reported earnings of companies that otherwise may be doing extremely well through the rising value of their stocks (Low,
Intangibles therefore are viewed as a present expense that
damages shareholder return. Similarly, in mainstream economics, human
capital theory regards investment in human capital as a present expense, or
cost, for expected future benefits (McDonald, 1997). Any investment in
workers’ future value to the company is essentially viewed as a liability.

The profession controls, through its regulatory framework and its
practices, the structure of the balance sheet and what counts as an asset or a
liability, a cost or a benefit. Further, some research suggests that the present
structure of double entry accounting generated historically in mediaeval
Europe from a rhetorical device designed to justify accounting, since the
practice was viewed with considerable suspicion as a tool of usurers (Aho,
1985). Accounting can be designed to provide more relevant information,
depending on one’s perspective.

It has been shown that understanding the social context for an
investment provides a better perspective on the value of the investment
(Sethi, 1995; Bruyn, 1987). Several studies have pointed to the competing
uses of accounting. The lack of ‘accessibility, translatability and
acceptability’ of accounts of a governmental waste management department
allowed a community movement to challenge and win an environmental
campaign to close down an incinerator (Hanninen, 1995). A transformation
by government of its own accounting procedures to reflect costs and profits enabled the privatization of water services in Britain (Ogden, 1995). Better reporting methods on risk-management plans and their associated costs, could lead to actual prevention of oil spills (Rubenstein, 1989).

The shareholder proposal submitted in B.C by Working Enterprises Limited to Placer Dome essentially calls for stronger accountability to shareholders in the event of disasters through better reporting. First, Placer Dome has already been engaged in clean-up of a spill that happened four years ago, with costs steadily accumulating. Second, it became clear soon after the spill occurred that there was inadequate insurance to cover the damage. Third, MiningWatch Canada reports that studies suggest that the disaster could have been avoided had proper risk management plans been in place (MiningWatch Canada, 2000).

Nevertheless, accounting tends to serve dominant, corporate interests in ideological conflict rather than those of social movements. This is found in a study of the South African divestment debates in the ‘70s in the U.S. (Arnold and Hammond, 1994).

Daly (1996) asserts that a denial of the interdependence of the corporation and its environment leads to short-sighted investment. He refers to this interdependence as ‘throughput’, or locating the economic subsystem
within its own ecosystem. Rather than a mechanistic and reversible flow of exchange, production is 'entropic' or evolutionary. Qualitative change feeds the economic interdependence of a company and its community. The company therefore cannot grow more than its ecosystem – or community – can sustain (Daly, 1996). In Daly’s view, the limits of sustainability occur when the physical 'barriers' of pollution, resource depletion and environmental degradation have been reached. However, there are also human resources involved in production. Far from being inefficient, as traditional economists have maintained, decent wages and worker involvement in decisions improves productivity (Gregg, Machin and Manning, 1994). Sustainability, in this case, could depend on decent wages and the right to unionization. The limits of sustainability would be reached when wages are lowered, training is cut back or workers laid off (or 'downsized') to allow for continued production.

Sustainability can be maintained in the long-run. When companies value all their stakeholders in the long run, when they value their workers as well as their shareholders, and communities as well as consumers, there are short-term payoffs reflected in improved company behaviour, and long term increases in share value (Hebb, 1998, p. 42).
Value-Added Accounting

Value-added accounting was used fairly widely in the U.K. in the late sixties and seventies, in the annual reports of many major U.K. companies (Morley, 1979). The intent of this accounting practice met several requirements of the time. In contrast to a profit and loss statement (or 'statement of income'), the value-added statement represented the wealth used and created by a company, as an expression of a 'collective effort of capital, management and employees' (Accounting Standards Steering Committee, 1975, in Hopwood, Burchell and Clubb, 1994, p. 212). This form of accounting practice was instituted in response to a broader view of the organization where employees joined shareholders as stakeholders and, as such, had a right to receive company information. It was also, under a Labour government, in response to trade union demands for better financial information for bargaining purposes. Co-operation in increased productivity was to be expected through increased information disclosure. Further, the value-added statement provided government and the public with a productivity and efficiency statement of the company, a statement of performance which included capital support set off against such items as corporate taxes as 'returns' to society (Meek and Gray, 1988). The practice suddenly declined in the early '80s with the onset of
the Thatcher government, and a fundamentally different era of economic management and industrial relations. In the U.S. there has been a call for instituting a value-added statement as a supplement to the income statement ‘consistent with calls for increased co-operation between management and labor’ (Meek and Gray, 1988, p. 75).11

The value-added statement (see Table 2) is a balanced statement setting off sources of income against disposal of ‘total value added’. The assumption is that income generated should equal income disposed of. The intent of the statement is to define income in a broader way to include rewards to all stakeholders, not just shareholders (Morley, 1979). The interest of all stakeholders is held presumably because creating wealth will sustain and improve payments of wages, taxes and dividends. The measure of sustainability of the value-added statement is its third column, a percentage gain or loss accounting. This column, in particular, flags the interdependence of all the stakeholders, and will highlight greater co-operation or worse antagonism (Meek and Gray, 1988, p. 78).

The value-added statement is compared to an income statement (see Table 3) whose descriptive ability is limited to profits and losses. Dividends to shareholders are described as a loss to the gross profit, as is

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11 I am indebted to Laurie Schugurensky for drawing this significant article to my attention.
### SOURCES AND DISPOSAL OF VALUE-ADDED

<table>
<thead>
<tr>
<th>Notes</th>
<th>1985 £m</th>
<th>1984 £m</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOURCES OF INCOME</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales turnover</td>
<td>10,725</td>
<td>9,909</td>
<td>+8%</td>
</tr>
<tr>
<td>Royalties and other trading income</td>
<td>142</td>
<td>116</td>
<td>+22%</td>
</tr>
<tr>
<td>Less: materials and services used</td>
<td>(7,560)</td>
<td>(6,845)</td>
<td>+10%</td>
</tr>
<tr>
<td><strong>VALUE-ADDED BY MANUFACTURING AND TRADING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of profits less losses of related companies and amounts written off investments</td>
<td>56</td>
<td>71</td>
<td>-21%</td>
</tr>
<tr>
<td><strong>TOTAL VALUE ADDED</strong></td>
<td>3,363</td>
<td>3,251</td>
<td>+3%</td>
</tr>
</tbody>
</table>

### DISPOSAL OF TOTAL VALUE ADDED

<table>
<thead>
<tr>
<th></th>
<th>1885</th>
<th>1984</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EMPLOYEES</strong></td>
<td></td>
<td></td>
<td>+10%</td>
</tr>
<tr>
<td>Pay, plus pension and national insurance contributions, and severance costs</td>
<td>1,835</td>
<td>1,647</td>
<td></td>
</tr>
<tr>
<td>Profit-sharing bonus</td>
<td>48</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL EMPLOYEES</strong></td>
<td>1,883</td>
<td>1,705</td>
<td></td>
</tr>
<tr>
<td><strong>GOVERNMENTS</strong></td>
<td></td>
<td></td>
<td>-19%</td>
</tr>
<tr>
<td>Corporate taxes</td>
<td>308</td>
<td>373</td>
<td></td>
</tr>
<tr>
<td>Less: grants</td>
<td>(28)</td>
<td>(28)</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL GOVERNMENTS</strong></td>
<td>280</td>
<td>345</td>
<td></td>
</tr>
<tr>
<td><strong>PROVIDERS OF CAPITAL</strong></td>
<td></td>
<td></td>
<td>+13%</td>
</tr>
<tr>
<td>Interest cost of net borrowings</td>
<td>122</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Dividends to stockholders</td>
<td>214</td>
<td>186</td>
<td></td>
</tr>
<tr>
<td>Minority shareholders in subsidiaries</td>
<td>52</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL PROVIDERS OF CAPITAL</strong></td>
<td>388</td>
<td>342</td>
<td></td>
</tr>
<tr>
<td><strong>RE-INVESTMENT IN BUSINESS</strong></td>
<td></td>
<td></td>
<td>-5%</td>
</tr>
<tr>
<td>Depreciation and provisions in respect of extraordinary items</td>
<td>514</td>
<td>460</td>
<td></td>
</tr>
<tr>
<td>Profit retained</td>
<td>298</td>
<td>399</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL RE-INVESTMENT IN BUSINESS</strong></td>
<td>812</td>
<td>859</td>
<td></td>
</tr>
</tbody>
</table>
| **TOTAL DISPOSAL** | 3,363 | 3,251 | -

### NOTES
1. The average number of employees in the Group world-wide increased by 3%. The number employed in the U.K. decreased by 2%.
3. Does not include tax deducted from the pay of employees. Income tax deducted from the pay of U.K. employees under PAYE amounted to £157m in 1985 (1984 £148m).

This table which is used for calculating the bonus under the Employees Profit-Sharing Scheme, is based on the audited historical accounts; it shows the total value added to the cost of materials and services purchased from outside the Group and indicates how the increase in value has been disposed of.

Source: Meek and Gray, 1988, p.76.

Table 3
### 1985 Income Statement

**Imperial Chemical Industries**

**Group Profit and Loss Statement**

*For the year ended 31 December 1985*

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover</strong></td>
<td>£10,725</td>
<td>£9,909</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(£9,917)</td>
<td>(£8,990)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>£170</td>
<td>£144</td>
</tr>
<tr>
<td><strong>Trading Profit (after providing for depreciation)</strong></td>
<td>1985 £474m, 1984 £440m</td>
<td>978</td>
</tr>
<tr>
<td>Share of profits less losses of related companies and amounts written off investments</td>
<td>56</td>
<td>71</td>
</tr>
<tr>
<td>Net interest payable</td>
<td>(£122)</td>
<td>(100)</td>
</tr>
<tr>
<td><strong>Profit on Ordinary Activities Before Taxation</strong></td>
<td>912</td>
<td>1,034</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>(308)</td>
<td>(373)</td>
</tr>
<tr>
<td><strong>Profit on Ordinary Activities After Taxation</strong></td>
<td>604</td>
<td>661</td>
</tr>
<tr>
<td>Attributable to minorities</td>
<td>(52)</td>
<td>(56)</td>
</tr>
<tr>
<td><strong>Net Profit Attributable to Parent Company</strong></td>
<td>552</td>
<td>605</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td>(40)</td>
<td>(20)</td>
</tr>
<tr>
<td><strong>Net Profit for the Financial Year</strong></td>
<td>512</td>
<td>585</td>
</tr>
<tr>
<td>Dividends</td>
<td>(214)</td>
<td>(186)</td>
</tr>
<tr>
<td><strong>Profit Retained for Year</strong></td>
<td>298</td>
<td>399</td>
</tr>
</tbody>
</table>

**Earnings Before Extraordinary Items per £1 Ordinary Stock**

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>86.4p</td>
<td>98.2p</td>
</tr>
</tbody>
</table>

Source: Meek and Gray, 1988, p.77.
taxation (or government gains). Workers’ pay is invisible in ‘operating costs’. The value-added statement not only provides more information, but also is a much more effective measure of wealth than the income statement. The value added statement recognizes the concept of sustainability in relation to the long-term health of a company through a broader concept of company wealth that includes government gains in taxation and workers’ pay.

This study proposes that the statement could also accommodate:

- risk management plan expenses to prevent or pay for pollution damage in the section for ‘re-investment in the business’;
- research and development investment in the same section; and
- worker training, in the same section (since an investment in workers is a re-investment in the business). Alternatively, worker training could be in the ‘employee’ section, indicating that it is viewed quite differently as an employee benefit.

This last point illustrates the values inherent in financial statements. All these investments could be spread or ‘appreciated’ over several years. The value added statement can, therefore, accommodate ‘intangibles’ very well because it recognizes stakeholder interests in corporate growth.
The value-added statement is a useful tool in assessing the real stakeholders in an organization, its productivity and the beneficiaries of its productivity. Some of the following studies illustrate different ways in which the productivity of an organization can be accounted for. They may be able to yield guidelines for reporting on and evaluating the value of an investment to pension funds.

**Studies Accounting for Social Criteria**

Four studies are considered. The first is *The Benefits and Costs of Good Child Care* (Cleveland and Krashinsky, 1998). This study is remarkable in that it attempts to account for the benefits of a social program, as well as its costs, and thus enables the public debate to shift from the costs of child care programs to a more balanced discussion of public investment in child care. The study depends on mainstream economic concepts to locate child care as a ‘mixed good’. This means that the market has failed to produce enough child care services and therefore the state has had to step in and provide these services in the public interest.

The study assesses the cost of a national child care system of centres, 20 percent of which would be paid for by parents in fees. An accounting framework is used to set these costs against the financial benefits of such a
system. One value to parents of such a system is through access to employment by mothers of children in child care. This is measured in increased incomes, increased taxes, decreased poverty and social assistance and reduced likelihood of poverty in old age or after divorce. In effect, this is a measure of increased productivity and revenues for the government.

The results of their estimates are that the net benefit of a child care program is twice the net cost. The authors comment that:

‘the fundamental bias in benefit-cost calculations against hard-to-measure outcomes can only be resisted by providing our best current estimate of the benefits, and leaving to others the job of criticizing these estimates and providing better ones’ (Cleveland and Krashinsky, 1998, p.60).

The value of this study on child care is in accounting for productivity and increased revenues to government. The same standards can be set for pension fund investment on the grounds that the investment of government in pension funds (or the costs to government), as described in the previous and following chapters, can be offset against the benefits of investment.

The child care study was set in a narrow economic framework on the assumption that this was the only framework that could assess the profitability, productivity and efficiency of a national child care system. Filling gaps in the market, however, does not on its own constitute an argument for public funding of child care. For example, a government
response to the study might be to increase regulation of the market so that more private sector child care centres are set up. This would have been an unfortunate result of the study, and clearly unintended by the authors.

This study of pension fund investment, hopefully, builds a broader framework on the assumption that some of the traditional approaches of market analysis, for example, are themselves barriers to change.

The second study is an Analysis of Fiscal and Economic Benefits of the British Columbia Working Opportunity Fund, (RDC Regional Data Corporation and Perrin, Thorau and Associates, 1998). The purpose of this study is to examine the extent to which the Working Opportunity Fund has achieved government objectives as a labour-sponsored investment fund.

While labour-sponsored funds will be considered more extensively in chapter 8 for the purposes of accounting for social criteria in financial terms, this study deserves consideration in this chapter on social accounting.

The study assesses the public, fiscal costs assumed by both the federal and provincial governments through tax credits to purchasers of the investment funds, taking into account that purchasers may have invested in other RRSPs had it not been for the Working Opportunity Fund. It also assesses the fiscal benefits of 80% of the activity of investee firms, which
are the taxes paid by new employees and suppliers of the investee firms. This assumption was supported by the evidence of a telephone survey of investee firms showing that without venture capital from the Working Opportunity Fund only 21.6% of respondents, representing 33.5% of the fund’s investments, felt that they would have been able to proceed with their business as planned. Others felt that there would have been delays, or they would not have been able to proceed. The study concludes that each dollar of fund financing results in 3.7 dollars of capital for the companies invested in. As significant is the balance between fiscal costs and benefits of the labour-sponsored fund. In the early years of the fund, it took three years for the federal government to cover its costs. By 1997, the payback was almost instantaneous. For the provincial government (of British Columbia), payback was slightly slower, because of the lower share of income tax revenues.

This study provides a useful accountability model for pension fund investment since there are also fiscal costs and benefits, more fully described in Chapter 8. I have argued in the previous chapter that pension fund administration is a matter of public policy since contributions are tax-deductible and returns on investment is tax-exempt. Accountability should
be directed at investment practices. This also benefits pension funds, in my view, since it will challenge trustees to invest productively.

The study of the Working Opportunity Fund raises some other issues relating to the evaluation of economic development initiatives:

1. A cost-benefit analysis tends to have a built-in assumption that if the benefits outweigh the costs, the economic development is effective. This is not necessarily the case. The benefits may also be produced through other means (Bartik & Bingham, 1997).

2. Conversely, if the costs outweigh the benefits, we should not assume that the project is ineffective. It may be that socially necessary benefits cannot be produced any other way (Bartik & Bingham, 1997).

3. Estimating what would have happened in the absence of a program is imprecise. Surveys asking people's views of 'what-if' can produce different and sometimes conflicting results (Giloth, 1997). Nevertheless, analysis of each situation can yield more information on the options open to the company and the likelihood of expansion, downsizing or collapse without the venture capital (Persky, Felsenstein, Wiewel, 1997).

Inevitably, this last question takes on added significance when the economic development is directly and wholly government-funded, as many
such projects are in the U.S. However, given the tax exempt nature of pension fund investment, this question will be considered in relation to the case study in this thesis.

The same question has been raised by critics of labour-sponsored funds in Canada, who argue that given the benefit of tax credits, the funds should be able to point clearly and incontrovertibly to net job creation. This study, then, is an exercise in accountability.

The third study is *Counting On Each Other: A Social Audit Model To Assess the Impact of Nonprofits* (Richmond, 1998). This study uses a marxist analysis of value to produce a social audit framework to assess the impact of a government-funded computer training program for disabled adults. In a cost-benefit analysis, it sets off incoming resources (federal government funding) against the 'outgoing resources' of previously unemployed trainees who have obtained jobs, as well as the savings to government from income benefits of those who find work. The result is that for every dollar of government funding, $1.81 is produced by the program in social return. What can we assume from this?

1. The benefits outweigh the costs. However, a large proportion of the benefit is the undefined 'expenditure' of workers who provide the
training. In what sense are the workers a benefit, contributing to the social rate of return?

2. Program volunteers are included as both an incoming and outgoing resource. If they were treated as a benefit or as a social product of the program and included only as an outgoing resource, the social rate of return would rise to 1.95. Interestingly, though, they are in fact included in the financial statement.

3. To what extent is it necessary to justify whether trainees would have received jobs anyway, regardless of the program? It is difficult to avoid the issue that it depends on a comparison with other programs, if program efficacy is the issue. This may be the case where programs compete for continued government funding. However, if community impact is important in an economic development situation, because of local unemployment or group under-employment, net job creation may be more significant. It is important therefore to be clear about the reason for the analysis.

The fourth study to be considered is Assessing The Local Economic Impact of the Arts: A Handbook (Ontario Arts Council, prepared by Informetrica Limited, November, 1997). This study provides a tool to assess the economic impact of theatre on a local community through the impact of
job creation and taxes. It is an impressive educational tool that can be used by arts activists in any size of community to provide an economic assessment of its local theatre. It provides an often neglected perspective on the economic role of the arts. Nevertheless, it issues the important cautionary note that assessing the economic impact of a theatre on a community is only one way, and a narrow way at that, of assessing the arts:

"...government officials, business leaders and consumers should be made to recognize that economic impacts are only some of the benefits provided by the arts (Ontario Arts Council, 1997, p.44)."

While an economic analysis is a narrow perspective from which to view the benefits of the arts, this kind of perspective would be viewed as substantially broader than the norm, as we have seen, in depicting pension fund investments. Its use of basic economic concepts, such as types of economic effects, is useful for this study in untangling the impact of an investment on a community:

- ‘Direct’ effects – answers the question: “What new income can be attributed directly to the organization being assessed for impact?” For the theatre, this includes new revenues brought into the community from outside such as public funding, private donations, and program revenues. Because income must be new to the community, it does not include revenues from within the community previous to the theatre
(Ontario Arts Council, 1997). Economic development specialists have pointed out that assessing this, as previously mentioned, may be problematic (Giloth, 1997).

- ‘Indirect’ effects – are those economic effects resulting from the economic activity of the organization. For example, local businesses used by the theatre may make purchases of supplies or services from other businesses to support their activity, using their revenues from the theatre.
- ‘Leakage’ – where money leaves the local community in goods or services purchased by local business.
- ‘Induced’ effects – is the spending of income earned by people employed by the local theatre, or by the owners and employees of local businesses who have provided services to the theatre. Workers spend what they get and, in so doing, ‘multiply’ the effect of their original earnings on the economy.

**Summary**

For these reasons, this study proposes that accounting methods be used to assess a social return on pension fund investment to a broader group of stakeholders than beneficiaries. This group may include the plan
itself, workers, **government and the broader community**. This position is similar to that of Bruyn, who argues that there are several groups who have a stake in pension funds and the allocation of capital. He says that ‘allocation of capital has a social framework: social factors enter into every economic decision’ (1987, p.14). Further, ‘social accounting’ can be taken to mean the assessment or accounting for the collateral benefits (or benefits other than financial) of investment decisions. (Collateral benefits will be discussed more fully in the following chapter). This form of accounting provides information on benefits to stakeholders that hitherto have remained hidden, unaccounted for and thus devalued.

While there is no one specific, calculative method used for such an accounting, a number of issues, already raised in some studies considered in this chapter, will be addressed in this study:

1. Pension funds have the ability and opportunity to contribute to the economy positively. Social accounting models provide them with the tools to evaluate the impact of their own investments and guide future investment.

2. Since governments ‘invest’ foregone taxes in pension funds, foregone taxes and taxes ‘repaid’ can be accounted for.
3. However, pension funds are not accountable to any funder. Economic development using pension funds is unlike the situation of many economic development projects in the U.S. and the U.K., where accountability to funders for net job creation is often a necessary condition of future funding.

4. Investment in workers is an investment in the future. This includes training, pension, welfare and benefit payments, and taxes.

5. Sustainability can be characterized by a balance in the interests of, or a tension (in the literal sense) between stakeholders. An imbalance will result in the dominant power of one group over another and harm to one or more groups. Social accounting models may indicate the long-term health of a company through its ability to sustain a balance between the interests of all its stakeholders. Conversely, they may indicate a trend of long-term damage to the company through lack of re-investment of earnings, because of negative returns, to the shareholders, through a lack of training, low pay or downsizing for workers and through abandonment, pollution or other long-term damage to the community. The model then can be a tool for change.
Chapter 8

Venture Capital, Economically Targeted Investment

and Economic Development

This chapter considers the following issues raised in Chapter 4. The existing investment practices of pension funds mimic the prevailing practices of the capital markets, and hence are for the most part socially unproductive and even speculative. Furthermore, pension funds have little control over their investment and hence their rate of return. Finally, pension fund investment is primarily short-term, influenced by fund management quarterly reporting. Chapters 5 and 6 describe some forms of social investment that, on their own, are of limited use to pension funds, but can complement a strategy of productive and socially useful investment. This chapter describes investment practices in emerging markets as well as those companies that are in need of restructuring. It also gives brief descriptions of economically targeted investment, a form of social investment where investors pool their funds to fill gaps in the market. Two Canadian models of note are described, the Caisse de Dépôt et Placement du Québec and labour-sponsored investment funds. These forms of investment are productive,
socially useful and far less speculative than much pension fund investment practice to date.

**Venture Capital**

Tessa Hebb, capital market policy consultant, has said that we are engaged in telling a new economic story, where investment in the real economy:

> creates long-run value for shareholders through increased productivity. As a by-product, this investment creates jobs which in turn create healthy communities. As a result, productive investment in firms that are not able to easily access capital generates additional collateral benefits (Hebb, 1998, p. 43).

Hebb continues by saying that this is almost instinctive to unionists who already invest in their members’ own interests and in the long term interests of their communities.

Pension funds in Canada need new vehicles of investment. Goldberg (1998), a Herbert R. Fullerton Professor of urban land policy at the University of British Columbia, has said:

An ironic situation exists in Canadian markets: an excess supply of funds chasing an insufficient supply of suitable investments, particularly Canadian equities, and an inadequate supply of innovative financial instruments. [We need] to direct serious efforts to the supply side of the capital markets and to the ways in which new securities
can be created to provide additional investment vehicles for the growing number of huge capital pools (Goldberg in VSE, 1998).

He goes on to say that a 1% allocation of CPP funds to venture capital would bring $1.5 billion to fund new and restructuring businesses.

Another more critical reason for more productive investment of pension funds - and rarely mentioned - is that pension funds are subsidised by government. For the fiscal year 1997, the Government of Canada reported ‘foregone revenue’ for pension funds of just over $12 billion. For RRSPs, registered pension plans and deferred profit-sharing plans, exemptions amounted to over $23 billion (Canada, 1997). In the U.S., tax exemptions for pension funds are the largest expenditure on the federal budget, at $51 billion in 1992 (Barber and Ghilarducci, 1993). This money could be returned to communities through investment that provides wealth by job creation and spill-over effects, rather than being used for the largely private gains of individual and institutional shareholders. This is probably the most compelling single argument for the social investment of pension funds.

One of the few pieces of research on pension investment in Canada has recently been produced by the Canadian Labour and Business Centre, formerly the Canadian Labour Market and Productivity Centre (1999). The author, Kirk Falconer, reports that publicly traded, smaller companies are not supported by pension funds, since investment is limited to companies
that have well-established risk/return profiles and are already well-known to
the financial industry. Nor is the private market supported to any great
extent by pension fund investment. These are the middle markets where
companies may be small, medium or large, and may be in new, emerging or
restructuring industries. The venture capital industry in Canada is growing,
but still constitutes a very small sector of the market. For example, in 1998,
there was $8.4 billion invested in venture capital, up 18% from the $7.1
billion at the end of 1996 (Vancouver Stock Exchange, 1998). It is
important to note that labour-sponsored investment funds constitute 47% of
this amount. Further, Statistics Canada (First Quarter, 1998) reports that only
3.5% of pension assets are invested in real estate, 2% in mortgages and 9%
in pooled vehicles.

The trend in ownership of real estate is up since the early '80s, in spite
of the near collapse of the real estate industry. While the temptation is still to
invest in the more liquid stocks of real estate companies, pension funds are
slowly being persuaded that "it's really an issue of diversification...buy real
estate and hold it for the long term" (Helik, 1998).

Pooled funds are used by investment managers to provide an
economy of scale in transaction and administration costs, custodial and

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12 In comparison to US$250 billion invested in venture capital in the U.S., a ratio of 50:1 (VSE, 1998).
legal costs. Investment by Canadian pension plans in pooled vehicles has increased by 137% since 1992, and has accounted for 39% of the increase in assets of plans (Statistics Canada, 1998). Investors tend to use pooled funds for investing smaller amounts of money in the international markets.

But pension funds are still dependent on fund managers, equity markets and liquidity. As one venture capital expert said, 'in Canada...we still rely on the investment bankers and their analysts to give recommendations on buy and sell' (Vancouver Stock Exchange, 1998). In another critical piece of research, the Canadian Labour and Business Centre concludes that pension fund officials cite the barriers to investing in alternative markets: the administrative costs are too high, there are not enough specialists or information, and the risks are too high (Falconer, 1998). None of this is borne out by the facts. However, as we have seen, pension funds tend to be transfixed by a short-term investment practice, overly influenced by equity fund managers and short-term rates of return.

Yet, these are the markets and the asset categories where social investment is possible, and where there could be regional and industrial development and job creation. For example, putting venture capital into larger private market enterprises may finance mergers and layoffs, or it may support new companies, innovative technologies and regional development.
Pooled funds may give investors no control over investment decisions, and therefore be another useful tool for the consolidation of money under the control of fund managers. Or, pension funds can pool funds into limited partnerships where they may have full control over shaping a new vehicle for investment, as is the case with Concert Properties and Accès Capital of the Caisse de Dépôt et Placement du Québec.

**Economically Targeted Investment**

Economically targeted investment (ETI) is carefully defined in a report sponsored by the Ford Foundation as:

> an investment designed to produce a competitive rate of return commensurate with risk as well as create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy (Bruyn, p. 67).

‘Economically targeted investment’ is a very broad term in the U.S. Barber (1997, p. 2) identifies seven broad areas of ETI, or job creation initiatives:

- “bricks and mortar” investing (the AFL-CIO Housing Investment Trust);
  - the Union Labor Life Insurance Company; Multi-Employer Property Trust;
- Responsible Contractor requirements (public fund service contractor compliance;
• Regional development funds;
• Socially responsible investment funds;
• Union-friendly investment vehicles;
• Worker buy-outs; and
• Privatisation alternatives.

A new addition to this list is "clicks and mortar" – businesses in the new economy that tend to be technology-driven.

There are a number of regulatory conditions to bear in mind about ETIs in the U.S. First, in 1995, the Department of Labour issued an interpretative bulletin allowing pensions to invest in ETIs with their collateral benefits, as long as the investment ‘has been carefully screened and selected to meet the prevailing rate of return’. Further, if after careful selection of investments, the actual returns are low, this is not a failure of fiduciary responsibility, as long as the overall portfolio of the fund is prudent (Watson, 1995, p. 4).

Second, ETIs are typically held in securities which are underwritten by the Federal government. Departments of the federal government provide guarantees for investments in housing and other real estate. This lowers the risk of the investment while maintaining a good rate of return. The Institute
for Fiduciary Education estimates that almost 64% of ETI funds are in real estate (Ambrose, 1993, in Levine, 1997).

Third, ETIs are generally funds pooled by a group of investors and managed by an intermediary which provides the knowledge, expertise and legal background to invest the funds. Pension fund staff rarely handle ETI investments themselves (removing a major barrier of lack of expertise, cited by pension trustees). The trade union movement, through the AFL-CIO, has been a key player in providing the vehicles for investment in housing, mortgage and job creation projects.

The term ‘ETI’ has been ‘adopted’ in Canada by pension fund and capital market activists to indicate:

Pooled or syndication vehicles which permit pension funds – taking on moderate risk and the expectation of moderate return – to channel a small portion of their assets into community development, affordable housing and small business’ (Jackson, 1997).

Eugene Ellmen, a Canadian leader in the social investment field and now Executive Director of the Social Investment Organisation, uses the term 'alternative investing' to describe 'the desire to create an enterprise which is outside the traditional, for-profit, free market, private sector economy' (Ellmen, 1990, p. 60). He distinguishes it from 'social investment' in that new forms of business are created to provide direct benefit to members, consumers, workers and community, who are associated with the business.
Here, interests of plan members and community can coincide; for example, construction trades that have jointly-controlled pension plans have invested in building projects that use members of the plan to build moderate-income apartment units, and offer mortgage loans for those wishing to live in the apartments. The resulting job creation increases the contributions to the pension fund (Barber, 1982; Quarter, 1995).

**ETIs and Efficient Market Theory**

ETIs have been criticised on the grounds that they violate the prudence and the loyalty standards. Described as “socially dictated investment policies”, they are:

Those investment practices and policies which either (1) permit the sacrifice of safety, return, diversification or marketability; or, (2) are undertaken to serve some objective that cannot be related to the interests of the plan participants and beneficiaries *in their capacity as such* (Hutchinson and Cole, 1980, p. 1346)(italics mine).

This definition is in contrast to “totally neutral investment policies” which focus on the financial aspects of investment alternatives’ (ibid., p. 1344).

These definitions also assume a continuum from the purely financial to the purely social. In fact, contrary to the expectations of Efficient Market Theory, investigation of social factors in an investment can lead to more
effective knowledge about company behaviour and therefore about possible returns (Bruyn, 1987, p.12).

A related argument levelled against ETIs is that they are a result of too much 'political' involvement in investment:

Public fund managers must navigate carefully around the shoals of considerable political pressure to temper investment policies with local considerations, such as fostering in-state employment, which are not aimed at maximising the value of the portfolio's assets (Romano, 1993, p. 796).

The assumption is that social or targeted investment will automatically damage rates of return. Passive investment is regarded as 'neutral'. In other words, the abrogation of decisions to fund managers and investment practice status quo is the only effective way to maximise the rate of return.

Nevertheless, public sector unionists might sympathise with the view that governments have used the funds for their own purposes (often to pay off government debt through low-interest bonds). Romano (1993) does suggest more representation of beneficiaries on pension boards. Joint trusteeship by unions and employers is now recognised as a critical developmental step in ensuring more social investment strategies (Ghilarducci and Barber, 1993; Carmichael, 1998).
Collateral Benefits

'Collateral benefits' is a technical term taken from the language of investment, now in use by pension activists. It denotes the social benefits of investment aside from benefit to beneficiaries. In other words, it accepts as a given the fiduciary obligation of trustees to members and beneficiaries of the plan. However, its use is also tactical in more accurately denoting alternative practices that can add value to investment.

Underlying this term is the question of whether the pension fund is for the benefit of beneficiaries only, or whether collateral benefit can be extended to other stakeholders. Ghilarducci (1994) argues, in response to attacks on economically targeted investing, that a new pension regulatory framework should recognise the realities of the capital markets. She proposes that, to maximise the returns to beneficiaries, pension funds should rely on ‘employment growth’ of beneficiaries’ jobs as well as direct investment returns. She calls this the ‘whole participant’ approach, which goes beyond Modern Portfolio Theory, taking into account the feedback effects of investment on employment continuity and growth of pension fund contributions. The ‘whole participant’ approach targets investment and sets up specific expectations with regard to the returns and collateral benefits, as opposed to speculating for the best possible returns in a supposedly free
market (Ghilarducci, 1994, p. 4). Quarter (1995) proposes a similar approach in interpreting the investments of the Carpenters' Fund in B.C.

Deaton (1989) has argued that social investment strategies where the collateral benefits are restricted to plan members further exacerbate the historic, economic inequalities between those who are covered by occupational pension plans and those who are not. He points out that the taxable benefits for those covered by pension plans already creates an inequitable distribution of wealth. Therefore, further social investment policies that benefit members only increase these inequities (Deaton, 1989). Ghilarducci and Barber (1993) argue that, given the tax-exempt status of pension funds and their long-term horizons, there should be strong public policy on pension fund investment practice and its function in the capital markets.

This study has already argued in previous chapters that this public policy should be based in a view of a social return on investment or collateral benefit that extends to contributors, beneficiaries, the broader community and government.
Economic Development

The link between union pension plans, their members and the broader community is economic development practice. The AFL-CIO (1998), in an innovative educational publication, distinguishes the high road from the low road of economic development. The table below shows the distinction between the two approaches. The AFL-CIO (1998) critiques Grant Thornton’s Annual Study of General Manufacturing Climates of the Forty-eight Contiguous States of America (see the Low Road column in Table 5).

In contrast, the AFL-CIO suggests the high road for each of Thornton’s proposals. People who live in a community affected by economic development are encouraged to ask the following questions:

- What are the jobs?
- What will it cost us?
- What are the benefits?
- What are the environmental impacts?
- What are the tax implications?
### Two Roads for State and Local Economic Development

<table>
<thead>
<tr>
<th></th>
<th>Low Road</th>
<th>High Road</th>
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<tbody>
<tr>
<td><strong>Goals</strong></td>
<td>1. Create New Jobs</td>
<td>1. Retain good jobs</td>
</tr>
<tr>
<td></td>
<td>2. Retain existing jobs</td>
<td>2. Create good new jobs</td>
</tr>
<tr>
<td><strong>Process</strong></td>
<td>Closed</td>
<td>Open, democratic</td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td>1. Recruit large employers</td>
<td>1. Renew large and small employers</td>
</tr>
<tr>
<td></td>
<td>2. Improve “business climate”</td>
<td>2. Improve quality of life in the community</td>
</tr>
<tr>
<td><strong>Elements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Wages</strong></td>
<td>“Competitive” (i.e. low) wages</td>
<td>High Minimum Wage</td>
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<tr>
<td></td>
<td></td>
<td>Davis-Bacon</td>
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<tr>
<td></td>
<td></td>
<td>Living Wages</td>
</tr>
<tr>
<td><strong>Unions</strong></td>
<td>Support right-to-work laws</td>
<td>Partner with unions to move toward high road</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>Under-funded, low quality</td>
<td>High standards; adequate S</td>
</tr>
<tr>
<td><strong>Employment and</strong></td>
<td>Customised training for recruitment;</td>
<td>Broad training accessible to all workers:</td>
</tr>
<tr>
<td><strong>Training Services</strong></td>
<td>OJT as wage subsidy; lack of standards.</td>
<td>employment services for all. Both workers</td>
</tr>
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<td></td>
<td>Business is primary customer.</td>
<td>and businesses are key customers.</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>Cut unemployment insurance taxes and benefits</td>
<td>Maintain adequate UI to support families temporarily</td>
</tr>
<tr>
<td></td>
<td>Cut Workers’ Compensation</td>
<td>Maintain Workers’ Compensation.</td>
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<td></td>
<td></td>
<td>Increased Safety and health technical assistance</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>Use tax incentives to lure new companies</td>
<td>Limit tax incentives and require public accountability</td>
</tr>
<tr>
<td></td>
<td>Cut business taxes; increase income and</td>
<td>Equitable, progressive taxes on businesses, individuals</td>
</tr>
<tr>
<td></td>
<td>property taxes</td>
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<tr>
<td><strong>Regulations</strong></td>
<td>Reduce environmental health and safety,</td>
<td>Regulations to maintain quality of life.</td>
</tr>
<tr>
<td></td>
<td>zoning regulations</td>
<td>Land use planning</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td>Shrink government; cut social programs</td>
<td>Invest in people – adequate health care, education, training, welfare</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>Target to new companies as part of</td>
<td>Invest in infrastructure that helps all companies and</td>
</tr>
<tr>
<td></td>
<td>industrial recruitment</td>
<td>workers</td>
</tr>
<tr>
<td><strong>Technology and</strong></td>
<td>Deploy technology to eliminate</td>
<td>Partner with workers and unions to deploy</td>
</tr>
<tr>
<td><strong>Business</strong></td>
<td>jobs/de-skill work</td>
<td>worker-friendly technology</td>
</tr>
<tr>
<td><strong>Assistance</strong></td>
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Table 5
Economic development theorists in the U.S. have identified three distinct literatures from the ‘30s through to the present (Bingham and Mier, 1993; Mier and Fitzgerald, 1991). The first began in reaction to the “smokestack chasing” in the ‘30s, when American states attempted to attract new business through any means that would reduce the costs of production for the company. Supporting theorists, leaning heavily on shareholder theory, theories of the firm, and neo-classical economics, attempted to isolate what conditions should govern corporate relocation. These have become known as ‘location’ or ‘space-based’ theories, and generally rely on profit maximisation rather than regional or community benefit. The goal must be to minimise the damage (or the costs) to those who are harmed since an efficient allocation of resources can not benefit everyone equally (McDonald, 1997). This approach is marked by little or no consultation with community, but, often, extensive partnership between government and the corporate sector. Many regional, community and local development projects have been initiated from this perspective.

The opposing tradition, growing out of a community (or international) development perspective, sees economic development through the experience of the community or region. This analysis generates questions about the equity of economic distribution in development and has produced
a second phase of literature, often Marxist in focus. It argues that economic development happens through a capitalist process, driven by the need for accumulation. Neighbourhoods, therefore, are a function of the capitalist process of production and communities are the site of resistance and a means of class struggle (Harvey, 1985; Scott, 1980). Using a class analysis, this literature attempts to explain the many examples of neighbourhood development that have been marked by conflict between government, real estate developers and community activists.

The third phase views economic development as grounded in local communities with a goal of local sustainability, and generated by partnerships between the public and private sectors (Bingham and Mier, 1993). This view recognises the limits (or bankruptcy) of municipal or city governments and looks to the private sector for partnership with government in local development. Inevitably there is some public funding and, therefore, some public accountability. There may or may not be productive relationships with community. This literature tends to document conflict in urban economic development, and in particular ‘fights [not] over appropriate strategies, but a fundamental struggle over definition of the local problem’ (Mier and Fitzgerald, 1991).
In Canada, an example of this type of economic development where partnerships define the nature of the development would be labour-sponsored investment funds. Unlike partnership development in the U.S., labour-sponsored funds in Canada are not characterised by community conflict. They have however been held to account for government subsidization, which will be described later.

**Union Training and Collateral Benefits**

It is estimated that, in the U.S., about $30 billion of pension funds are currently placed in ETIs (Jackson, 1997). A case study by Rudd and Spalding (1997) compares the ETI approaches of two pension funds in the U.S., both of which used the same investment company, McMorgan and Company.

The first fund had an estimated 8% of net assets in ETIs, amounting to $17.6 million. These funds were invested in the AFL-CIO’s Housing and Building Trusts, the Union Labor Life Insurance Company, and the Multi-Employer Property Trust, as well as a Rehabilitation Program which enabled loans for home improvement to union members with designated contractors.

This rehabilitation program, designed by the investment company, invested a portion of the fund’s assets in a bank, which then gave loans to
union members for home improvements. The work was done by union members. The advantages of the program for the pension fund were that its investment in the bank was liquid at a market rate of return, and it also ‘funnelled pension money directly back into the community, putting pension plan participants and contractors to work’ (Rudd and Spalding, 1997, p. 15). This meant that the fund also received increased contributions from the increased hours of work.

By comparison, the second pension fund invested only a few million dollars in ETIs. The study concludes that for the first fund, trustees considered the collateral benefits of ETIs, whereas in the second fund they did not. For the first fund, union training on investment and its collateral benefits was found to be essential to allow trustees to set a ‘more broadly progressive investment agenda’ (ibid., p. 24).

Union Involvement in ETIs

The Union Labor Life Insurance Company was created in 1977 as a pooled real estate mortgage fund to provide jointly trusteeed pension funds with a vehicle to generate union jobs in the construction trades. The fund, consisting of 108 mortgage and real estate assets, has a market value of approximately $850 million. Through a partnership with CalPERS and the
New York State Common Retirement Fund, the Union Labor Life Insurance Company is generating $600 million in construction of commercial real estate in the California and New York regions. The program claims high annualised returns and millions of hours of work created for the building trades (Watson, 1995, p. 4).

The Multi-Employer Property Trust is a real estate equity fund set up in 1982, and investing in income-producing office buildings, shopping centres and housing. All are new construction, union-built and located in regions where members of participating pension plans live and work. It has assets of US$1.2 billion, 107 pension plans that invest in it, and rates of returns that are above average for its sector.

The AFL-CIO Housing Investment Trust is a vehicle for investment in single and multi-family residential projects, and was established in 1965 with 390 pension funds investing in it. The Building Investment Trust invests in commercial real estate from the building stage, and builds and owns industrial, medical, retail and apartment buildings. It has assets of US$514.2 million. Both programs have 'solid track records' and competitive rates of return (Watson, 1995, p. 4).
Pension Funds, Unions and Economic Development in Canada

With net assets of $63.6 billion at the end of 1997, the Caisse de Dépôt et Placement du Québec is the largest investment agency in Canada and the repository of Québec’s pension and benefits funds as well as the Québec Pension Plan. Originally set up in 1965 by the Québec Government to manage the Québec Pension Plan, the Caisse has provided a model in the management and investment of pension funds. (It has also provided survivor, death and disability benefits that are more generous than the norm.)

In the rest of Canada, provincial governments used pension premiums in excess of pay-outs to beneficiaries to fund budget deficits through low-yield provincial bonds. In Québec, excess funds were invested back into the Québec economy with a subsequently higher yield. In the expectation of future returns, funds have also been allocated to finance small knowledge-based companies.

The Caisse describes its objectives as ‘high returns, financial soundness and an unwavering commitment to the economic vitality of its milieu’. Further, in its Annual Report (1998, p. 3), it states that since its creation by a special act of the Québec National Assembly in 1965, ‘it has had the objective of achieving optimal financial returns and contributing, by its vitality, to the Québec economy, while ensuring the safety of the capital
under management’. It has thus combined social investment initiatives with the other more traditional rate of return objectives of pension funds in the rest of Canada.

The Caisse is most noted for its economic development initiatives in Québec. Through its private investment subsidiaries, it invested $3 billion in 1997. The total value of the 367 private investments is now $4.6 billion. One subsidiary of the Caisse, the Accès Capital network, provides a regional network of development funds across Québec. Another subsidiary, Capital d’Amérique CDPQ, invests in small, medium and large companies in various industries, in the amount of $2.6 billion in 1997. Other subsidiaries specialize in emerging, small- and medium-sized companies in communications, biotechnology, health and financial services development. For example, in 1995 with $500 million of the Caisse’s assets, Sofinov was created as a venture capital company specializing in bio-technology; in 1997, another $500 million was infused into Sofinov to make it a leading venture capital company in Canada.

Finally, the Caisse instigates joint ventures and syndications with other investment players in Québec like the Solidarity Fund, a labour sponsored investment fund, as well as the provincial government.
Labour-Sponsored Investment Funds

The idea of a labour-sponsored investment fund was first raised by the Québec Federation of Labour in 1982 at a summit economic conference in Québec organized by the Parti Québécois government. As an economic engine for rebuilding the province of Québec, labour-sponsored funds were to provide much-needed capital from workers to fund small- and medium-sized businesses and consequently to create jobs in the face of high unemployment. As of 1998, they provide just under half of all venture capital in this country with assets almost $4 billion.

The Solidarity Fund in Québec is the longest established and most successful of the labour-sponsored funds. Since Solidarity’s founding, however, labour-sponsored investment funds have been created in most provinces under the umbrella of the provincial federations of labour. Their mandate as venture capital funds has expanded to include providing capital to companies in the early stages of development, new technology and companies undergoing restructuring. Investments in labour-sponsored funds provide the investor tax credits of 30% divided equally between the federal and the provincial governments. If shares are purchased as an RRSP, they qualify for further tax deductions. Since these funds are viewed as patient capital, investors are required to invest for a minimum of eight years.
In Ontario, the NDP government attempted to introduce a similar model but there was no consensus in the labour movement. Some unions were very interested having already had experience in economic development (for example, the United Steel Workers of America and the United Food and Commercial Workers). But the Canadian AutoWorkers Union was vociferous in its opposition, on the grounds that it was unclear whether workers would ever get their money back, and that these funds would undermine pension plans. Both arguments have been shown to be without foundation.

The Ontario NDP government did create enabling legislation for labour-sponsored funds, but was unable to use the Ontario Federation of Labour as the sponsoring body. This has allowed a situation where venture capital companies can literally 'rent-a-union' as a sponsor to gain access to the favorable tax exemptions for the investors and the fund. There are, therefore, two classes of labour-sponsored funds in Ontario, only one of which is genuinely union-sponsored.

Because of this confusion, five funds across the country have drawn up a statement of principles and defining characteristics of 'true' labour-sponsored funds. They are the Solidarity Fund in Québec, the Crocus Fund in Manitoba, the Workers Investment Fund in New Brunswick, the First
Ontario Fund in Ontario and the Working Opportunity Fund in B.C. These principles are:

- The promotion, sponsorship and direction by a labour body
- Meeting economic and social goals in investment
- Providing an equitable rate of return
- Providing risk capital in a diversified portfolio
- Participation by a broad base of working people
- Facilitating cooperation between business and labour

These funds recruit union members who, after training and licensing, sell shares to co-workers. In 1995, the Canadian Labour and Business Centre reported that more than 379,000 Canadians were investors in funds across the country. More than half were union members (Canadian Labour and Business Centre, 1995).

Once a year, the Solidarity Fund also runs educationals for employees in investee firms to encourage both transparency of the firm’s books and employee understanding of accounts.

The success in raising funds reflects an enthusiastic investor-base. The tax credits on investment have been a powerful incentive. These credits can be reflected in the returns. In its first ten years, Solidarity reported
cumulative average returns of 5.88%. With tax credits taken into account the returns jump to 18% (Quarter, 1995; Ellmen, 1996).

The year 1995 produced a flurry of research and reports to provide favorable interpretations of the first ten years of the Solidarity fund. This was largely in reaction to a damming study (Suret, 1993), claiming that Solidarity had poor performance, high management costs and was not cost effective in relation to the amount of government subsidization. It concludes that each dollar invested in Solidarity costs governments between $2.02 and $4.24. This was followed by another article by Suret, published by the Fraser Institute, damming the public policy initiatives of the Québec government.

The Suret study uses a cost-benefit analysis which has been criticised by a more recent (1997) unpublished study by Melissa Moye, a labor economist at the American Federation of State, County and Municipal Employees Union, entitled A Review of Studies Assessing the Impact of Labour-Sponsored Investment Funds in Canada. Moye points out that the Suret study is actually a narrow cost-benefit analysis that fails to take into account such indirect and induced effects as the effects of job creation, taxation from the newly created jobs, increased consumer spending, all of which address the multiplier effects of investment in businesses.
Another study (Jackson and Lamontagne, 1995) published by the Canadian Labour and Business Centre, further criticises the Suret study for counting as a cost the opportunity lost to investors by not investing in mutual funds. For every $10 invested, $7.71 is lost. The Jackson and Lamontagne study analyses the performance of seven investee firms in the Solidarity Fund and three investee firms of the Working Opportunity Fund of B.C. It proceeds, through a cost-benefit analysis that includes indirect effects, to conclude that ‘with one-time costs of $37.5 million and annual benefits of $13.8 million, the pay back period for the governments’ support of these investment projects is less than three years’ (p. 38). The study is a careful analysis of fiscal costs to governments of labour-sponsored funds and the benefits of direct, indirect and induced effects of the work of the investee firms. In spite of these studies, the Canadian Auto Workers and the Fraser Institute continue to criticise labour-sponsored funds on the basis of government subsidization (Stanford, 1999b).

**Concert Properties (formerly Greystone)**

The subject of this study is Concert Properties in British Columbia. In the early ’90s, 26 pension funds in British Columbia pooled a small proportion of their funds – $30 million – and created a real estate
development company to provide rental housing. This project was initiated by the then president of Telecommunication Workers of Canada, Bill Clark, and supported by a number of other unions. The development company was to use union labour only. Concert Properties is now the largest developer of rental housing in Western Canada. Concert, guided by criteria including self-sustaining community development as well as rate of return, works jointly with communities on massive neighbourhood redevelopment projects. Concert Properties now has a $450 million asset base and uses union labour only.

Summary

This chapter has shown that Canada has a small but growing venture capital market. However, about half of the money invested comes from labour-controlled investment funds. This low investment in venture capital is reflected in the lack of money available for the development of new industry and the low levels of productivity in the economy. Pension funds are an ideal source of investment in venture capital because they are ‘patient capital’, that is, with a long-term orientation.

Economically targeted investments are generally funds that are pooled by several pension funds and independently managed. They can be invested
in mortgage trusts, affordable housing, commercial building, regional development, or real estate. They are designed to provide job creation, community development and a reasonable rate of return for the pension fund.

The Rudd and Spalding (1997) study has shown that trustees can be encouraged to invest pension funds in economically targeted investment if they have received appropriate education. If they do not receive education, it is unlikely that they will access the full benefits of the investment for pension plan members. This study has extensive implications for trustee training in social investment.

There are few examples in Canada, but one is Concert, a real estate development company and the subject of this study. This study will provide an analysis of Concert in the form of a social accounting of its collateral benefits to the community in British Columbia. It will broaden the range of variables normally considered in pension fund investment. In so doing, it will show the extent to which social investment should be productive, long-term investment in our communities.
Chapter 9

Research Methodology

This chapter provides an explanation of how and why this study was conducted as participatory research in the trade union movement. It considers the role of the researcher in the trade union movement. It outlines the methods and processes used to assemble information on Concert, a real estate development company funded by pension funds, and the work of union activists involved in Concert. It outlines the variables that were the framework for the social accounting models, and the factors critical to the development of Concert that provided the foundation for the Social Action model.

Description of Study

This study investigated Collingwood Village, a project of Concert Properties Real Estate Development Company, formerly Greystone. The study also used social accounting approaches and multiplier models to estimate the collateral benefits of Concert. Interviews and documentation were used to understand the development of Concert as a social investment.
model, and provide a preliminary case study of an economically targeted investment of a pension fund.

In this study, social accounting models have been used in three ways. First, some of these models are descriptive tools, revealing different ways of examining Concert as a pension fund investment. Secondly, some are evaluative tools, measuring the success of Concert as a pension fund investment. Third, others provide tools to measure the impact of Concert. All can be considered tools to report on social investment projects.

Therefore the findings and discussion in the following chapters provide an extensive and comprehensive description and analysis of a pension fund investment.

The study was carried out in two phases. The first phase was exploratory and designed to initiate contacts between the researcher and those involved in Concert, to assemble a preliminary ‘picture’ of the work done by union activists in building Concert. The second phase was formal and consolidated a particular direction of the study and filled in gaps in information. Between the exploratory and formal phases, there was extensive literature review and consideration of the data.
Site Selection

In the face of a slump in the economy and the loss of union jobs in the construction industry, 26 unions worked together on the West Coast of Canada to form a limited partnership for the purposes of social investment of pension funds.

Concert is a profit-making real estate development company, incorporated in British Columbia. Its profits are returned to its shareholders, that is, union pension funds. Yet, from its birth, it has had a social mission shaped by union activists who wanted to have some local control over their provincial economy. Their goals were to build and maintain affordable, rental housing in a market where developers would no longer build rental housing because of its lack of short-term returns; to build affordable housing for sale which was of good quality, in contrast to the poor quality, ‘leaky condos’ which were fast becoming the norm; to use union labour to challenge developers in the market who increasingly were using non-union labour; finally, to provide good returns on this investment of workers’ pension funds.

This partnership gave birth to the Vancouver Land Corporation, which ultimately became Concert, a successful real estate development company. Pension funds in English Canada remain sceptical about social investment,
and therefore other examples of economically-targeted investment are rare. This is unlike Quebec, where investing pension funds to boost the economy is more widely accepted.

There is very little research on social investment, as has been noted, and none on Concert that might prove persuasive to pension trustees in English Canada. Pension trustees, unions and Concert officials have spoken of the need for more research, case studies and education. For these reasons, Concert was selected as the site for research on the accounting of collateral benefits.

**Study Participants**

The criterion for selection of study participants was the extent to which they could contribute to knowledge about Concert’s history and development. The selection, therefore, was highly ‘purposive’ (Lincoln and Guba, 1985, p.201), that is, to collect as much varied information as possible to contribute to an emerging picture or design of a theoretical model (Glaser and Strauss, 1967). There could be no ‘a priori’ participant selection, as in a hypothesis-testing study. In fact, the selection ‘networked’ from a few key contacts (Glesne and Peshkin, 1992, p.27).
Bill Clark, the retired President of the Telecommunication Workers’ Union, was the key contact who helped me set up interviews with Concert officials, and, in particular, David Podmore, President and Chief Executive Officer. Clark also enabled a key group interview with staff of Mortgage Fund One, a mortgage trust set up by union pension funds to provide capital to Concert. Bruce Rollick, the actuary for the Telecommunication Workers’ Union (among others) and one of the original team, also attended that meeting.

Participants in both the exploratory and formal phases were active in the development of a social investment perspective in the trade union movement, participated in the setting up of the limited partnership amongst unions which was to lead to the Vancouver Land Corporation, the predecessor company to Concert. They are also key figures in the present operations of Concert and Mortgage Fund One.

In addition, an interview was conducted with a staff person of the Vancouver regional government who was involved in some aspects of the negotiations over development of the Collingwood community. While detailed documents were not available (and these negotiations were not central to the study), this interview served to corroborate some of the key issues surrounding Concert’s ongoing relationship to the community.
Interviews were also set up with people active in the Collingwood community, a lower east-side neighbourhood in Vancouver, where Concert has been the developer of 65 acres of land. These contacts were made through community activists in Vancouver.

Interviews

The table in Appendix A shows the interviews conducted in the exploratory phase of the study in Vancouver, British Columbia in April 1999.

Interviews were open-ended and inter-connected because so little has been known about this part of trade union history and the development of economically targeted investment. All interviews were taped and transcribed for the purpose of the study. At the beginning of each interview, participants were advised of the taping, assured that the content of the tapes was only for the purpose of the study. Every participant was comfortable with being taped, and expressed no concerns about confidentiality.

Questions focussed on union interest in alternative investment methods for pension funds, concern about the B.C. economy and, in particular, real estate development and the welfare of union members. The format which provided the springboard for interviews is in Appendix B.
Interviews turned out to be broader, more complex and detailed than the skeleton set of questions indicate. While interviews varied in length, interviews with central participants often lasted up to three hours.

A second set of interviews were then held with Concert officials, union shareholders and activists, community leaders in Collingwood Village and Vancouver city urban development staff. These interviews were conducted on the telephone, by electronic mail and in person in Vancouver in late October, November and December, 1999. There was further collection of documentation, as needed. The list of those interviewed is contained in the table in Appendix C.

These interviews were surprisingly not as long as the first set of interviews. Basic information had already been collected and therefore the questions were targeted towards gaps in my knowledge. Preliminary interviews had been more extensive and less exploratory than intended.

I cannot thank Concert enough for its cooperation in working with me during a very busy and demanding time for them. I visited Vancouver again in December 1999 to complete the second set of interviews.
Research Approach

This participatory research study has linked and will link research, education and action in the area of union pension fund investment. Its goal is to provide unions and their activists with the tools to counter the 'disempowering knowledge of experts' (Hall, 1993, p. 3), through developing a counter-hegemonic body of knowledge to challenge fund managers. This approach may ultimately enable the trade union movement to participate in building a new economy.

Because of the lack of union training and isolation from the union, union pension trustees have complained that they often have no alternative but to concede to the knowledge of fund managers representing the financial industry (Carmichael, 1998). One of the objectives of this study is to present an approach whereby union trustees can become more "expert" and have greater solidarity with the trade union movement.

At present, even when unions have a role in investment, it is not recognised. For example, a recent article on labour-sponsored investment funds in the Globe and Mail (Won, 2000) has no mention of union involvement at all. This study has had as its goal to enable trustees and activists to break open this silence (Reinharz, 1992; hooks, 1988; Schrijvers, 1991).
This participatory research study is contributing to the accumulation of trade union knowledge. It will also provide impetus to critical, collective discussion through a broader base of trade unionists interested in social action and social change (Habermas, 1972; Comstock and Fox, 1993).

I am using a participatory research methodological framework for this study, since, as I have acknowledged in Chapter 1, I am from the trade union movement. Following Lincoln and Guba (1985), I have noted my background and interests in this topic. My approach, therefore, is not unbiased, but rather brings a critical analysis to the interviews and the research. This is inevitable because everyone is socially and historically located (Smith, 1987; Harding, 1992). This work, therefore, makes no claim to be value-free. Objectivity is replaced by ‘conscious partiality’ where critical reflection and dialogue can take place between all participants (Mies, 1983, p. 122).

However, I am also an outsider in that I am not from Concert or any of the unions connected to Concert. Nor did the participants direct or shape this work. To this extent, this is a limitation to its participatory nature.

The first set of interviews defined the parameters of the study. From these interviews it was determined that the study should also include Mortgage Fund One and Collingwood Village, a Concert project, to enable a
closer contact with community activists. The focus on Collingwood also provided an important community perspective, which, otherwise would be lacking in the study.

In order to develop the social accounting model, substantial information was needed of Concert projects. Some of this information was archival; other data were based on formulae used by Concert to estimate labour and construction costs. It was also necessary to have a broad understanding of basic accounting practice in the industry.

To develop the social accounting model, a set of variables were identified. These were:

(a) increased contributions to the pension fund

(b) job creation, and

(c) fiscal benefit to government and the broader community.

These variables shaped the ensuing review of the literature, to highlight the critical assumptions and underlying questions. This review became incorporated into several chapters of the study. These variables also provided the basis for the social accounting models proposed in the following chapters.
Data Analysis

Given the opportunities for testing, re-testing and checking of information, the two-phase design of the study, supplemented by a comprehensive literature review, allowed for trustworthiness of results (Guba and Lincoln, 1985). Data analysis followed those procedures for de-contextualizing and re-contextualizing, as proscribed in Tesch (1990). Factors used in the social action model were drawn out fairly easily, probably because of my experience in the trade union movement. The social accounting models also followed this process but were more difficult to conceptualise. The contents of the models were governed by the data supplied by Concert.

Two models have been proposed in Discussion, as a result of analysis of the data. They are intended as guides for unions in pursuing social investment strategies. The first illustrates the levels of control over pension funds necessary for unions to implement social investment. The levels are: negotiability, governance, fund management. The second is a social action model for union control of social investment. This model identifies three factors that are necessary for effective action. These factors are: leadership, support and expertise, and education. In suggesting action strategies, each of these factors interact with each level of control. These factors are based upon
an interpretation of Concert and Mortgage Fund One and, again, were easily drawn from the data.

A critical part of the analysis was the review of the findings by Concert, and the review of the thesis itself by the two peer groups. This process ‘exposes’ the work to ‘disinterested’ peers, for the purpose of raising inquiry that otherwise may remain implicit (Lincoln and Guba, 1985, p. 308). This process confirmed trustworthiness, relevance and credibility.

Credibility

Credibility has been identified as a critical trustworthiness criteria for research (Lincoln and Guba, 1985). It is also seen as an issue for researchers doing participatory research. However, this generally pertains to ‘outside’ researchers (Ellis, 1990; Comstock and Fox, 1993). My involvement in the trade union movement has enabled me to have a lengthy connection with union pension trustees and with the few experts in the field in Canada on the issue of the social investment of pension funds. The credibility of the study will be confirmed if its resulting theoretical models are not only anticipated, but also critically examined and ultimately used in expanding information on social investment models in Canada.
Credibility has been reinforced through the use of peer-debriefing for several analytic sessions on social accounting models and social policy, and pension fund investment, as described above (Lincoln and Guba, 1985).

One group consisted of experts in the field of social analysis and social accounting frameworks. The second group consisted of experts in the field of trade union pension fund investment and capital market theory. Records have been kept of the feedback of both groups (see Appendix D).

To further ensure credibility, I guaranteed that Concert principals would have a review of the references to Concert (primarily Chapter 10) content. This was critical in my view to ensure that Concert was represented fairly and without harm. This research is intended to be a fair reflection of the experience of the group of union activists and their team who built Concert and Mortgage Fund One.

Finally, the fact that this is a doctoral thesis subject to the supervision and review of the academe, lends credibility to the work. There are concerns to the contrary that the demands of academic research may take control away from the community of interest (Hall, 1993). In this case, however, there are strong feelings expressed from various sectors of the trade union movement that the credibility of the academe is needed to empower a trade union perspective on pension fund investment.
Furthermore, I have made efforts to have members on the thesis committee who are recognised experts in the field of capital markets and economic development theory, international labour relations and social policy. Finally, my academic supervisor is renowned for his expertise in the social economy, community economics and new forms of social development. This provides the much sought-after credibility desired by the trade union movement.

Confidentiality

Principals in Concert and Mortgage Fund One were extremely co-operative in making information and data available to me. Concert officials had some initial misgivings about compromising Concert’s market position by revealing information that may be used against the company. Since I do not wish to compromise Concert in any way, I undertook to have the chapter on Concert reviewed by David Podmore, Chief Executive Officer of Concert. As my work continued, David Podmore saw the gathering of information (sometimes from archives) as a valuable exercise in interpreting Concert’s activities to pension funds across Canada.
Summary

This chapter has outlined the methods and processes used to assemble information on Concert and the central themes that were chosen as important to the project and its participants. As participatory research, this study aims to link research, education and action within the trade union movement. The next chapter presents the findings of this research.
Chapter 10

A Case Study of Concert

This chapter presents some findings of this study. It traces the history of Concert Properties through interviews with significant people in its development. It describes the formation and development of Mortgage Fund One (MFO), a mortgage trust designed to complement and support Concert Properties as a pension fund investment vehicle. It illustrates the pension fund asset allocation strategies for both and examines the success of these strategies.

It's Our Jobs, It's Our Money

In 1968, as the new president of the Telecommunications Workers Union (TWU), Bill Clark negotiated the right to bargain pensions, and then joint trusteeship of the pension fund. Bruce Rollick, a young actuary working for union/employer pension funds at the time, was sent on the road to visit every local to explain the importance of pensions, of collective control of this large pot of money and of a collective agreement and a trust agreement to prevent abuse of these funds by the employer. Membership
involvement was crucial to back up negotiations with the employer and support the union in its new role as trustee of the fund.

Bill Clark was astonished when he learnt of the large amount of money in the pension fund. He considered pension money, "just different wages", even though the money was in a pension fund rather than a pay cheque. He was strongly influenced by Peter Drucker’s book The Unseen Revolution. He reasoned that if other pension funds were similar, there must be a lot of money leaving British Columbia “because Ontario, Quebec, New York and places like that were better investments for fund managers”. When interviewed by a reporter from the Vancouver Sun, some years later, he said:

You can only drain a community so long and too late you realize it has a serious effect on employment and that has a serious effect on (payments into) pension funds (Casselton, 1988).

Both Clark and Wayne Stone, now Administrator of the British Columbia Carpentry Workers’ Pension Plan, attested to the continuing loss in B.C. of unionized employment in the construction trades. The percentage of union work on construction sites had been decreasing for years as developers used more and more non-union labour. Clark estimates now that the building trade unions are still only getting about 27% of the commercial construction work in British Columbia, and even less of the residential construction. Construction workers, on average, are the lowest paid group of
workers in the goods-producing industries, as reported by BCStats (Government of British Columbia, 2000), with gross weekly wages in 1998 of $723. This works out to be $20.67 per hour based on a 35-hour work week. It is predominantly non-union but combines union and non-union wages. By comparison, an average Concert construction wage based on Concert’s on-site workforce, at unionized rates of pay, is $33 per hour. Both rates are gross, including benefits and vacation.

Getting control of pension funds, then, was a way for union members to fight union-busting in the construction trades in B.C., and create well-paid construction jobs.

Pooling Pension Funds and Company “A”

Clark’s goal was to pull together a group of pension funds, and create a new fund where “nobody [had] to put in more than they’re comfortable with, but you still end up with a huge pool of equity funds” (Interview with Bill Clark, April, 1999, p. 3). The pool of money would not be directly managed by the funds, but by experts hired by the funds, to invest according to the policies established by the trustees (ibid, p. 2).

First attempts at creating a model were too “all-encompassing, too complex and scared people off” (ibid, p. 3). One model proposed was a trust
company, funded by a multiplicity of pension funds with a board of directors to deal with real estate, mortgage funds, venture capital and other financial services. Driven by a desire to own some of the B.C. corporations that were being bought up by foreign interests, this direction sought to use pension money to start buying up the B.C. corporate sector.

This model, called Company “A”, is shown in Figure 2. The model was developed by Bill Clark, then President of Telecommunication Workers’ Union, Bruce Rollick, the union’s actuary and others, to provide economic development from pension fund investment in B.C. As a result of resolutions pushing for pension funds to be used to rebuild the B.C. economy and provide jobs for union members, the group was instrumental in getting a policy paper produced by the B.C. Federation of Labour entitled A New Look at British Columbia’s Economic Future. Company “A” was to use union labour to make pension funds accessible as capital in the B.C. economy in a broad base of sectors. Pension funds would commit a certain percentage of their assets to the pooled fund.

The model laid the groundwork for the pension fund investment vehicles that were to be created. It illustrated a basic shareholder structure for larger and smaller pension funds, reserving the directorship for the larger
COMPANY "A":
PROPOSED INVESTMENT COMPANY OF BRITISH COLUMBIA
FEDERATION OF LABOUR

Source: Worker Investment Funds (Baldwin, Jackson, Decter and Levi, 1991)

Figure 2
funds, who, by dollar amount of funds (rather than percentage of assets),
could invest more than the smaller funds. Company “A” was to be the
management company of a number of specialized investment vehicles,
designed to provide capital to different sectors of the economy.

At the time, Company “A” was considered ambitious but still was
approved by a number of unions. However, it ultimately failed to get the
support of employer pension trustees (Baldwin et al., 1991). As Bruce
Rollick later pointed out, this strategy did not fly with the employer trustees,
since it often involved investing in competitors (MFO Interview, April,
1999, p.11).

Finally, the new group settled on real estate “because you can build it,
you can see it and you can sell it”. There was also a familiarity with real
estate. Some of the building trade unions were already investing in
construction, but were doing it individually (Bill Clark Interview, p. 3).
However, this was to be different. The idea behind the earlier Company “A”
proposal of pooling small amounts of money from a number of pension
funds to spread the risk was retained, as was the concept of a management
compny and investment vehicle.

One of the earliest projects was 424 Drake on Pacific Point in
Vancouver. This project was called a ‘precedent-setting first joint venture’
by the *Vancouver Sun* (Casselton, 1988) and financed by 13 separate pension funds, with no more than 2% of assets from each fund. It was a plan to construct residential housing in two phases – condominium and rental. The idea was for the sales of the condominiums to finance the rental accommodation.

Bill Clark and others recruited the support of trustees of the pension funds for the plan. Some of the unions that committed funds were the Telecommunication Workers’ Union, food and pulp unions, carpenters, floorlayers, shipbuilders, electrical workers and piledrivers. In 1988, each phase was worth more than $14 million, with the long-term expectation of 14-15% returns. First, the mortgage on the land would be paid off by rental returns; once the mortgage was paid off, these payments would revert directly to the pension funds. In the meantime, returns would be approximately 9%. At this point, there was no management company (Rollick, telephone interview, January, 2000).

**Pension Funds, Affordable Housing and Rates of Return**

While many pension funds were still moving their assets into the stock markets, Clark and Rollick were arguing that long-term investment of 30 or 40 years in real estate was a perfect strategy for pension funds. They
suggested a limit of 10% of their assets. This investment strategy could be put to best use in the residential rental market, where long-term ownership over a long period could stabilize rents and provide a stock of affordable housing in the Vancouver region.

Developers were (and are) reluctant to build rental accommodation. Building housing for sale provided immediate returns from the sale of the buildings. Building rental accommodation is a longer term investment with low returns in the short-run unless the project is well capitalized. To avoid investment in the longer term rental accommodation, developers have often sold rental buildings to get the immediate return. This has the consequence of increasing rents, since the new owner geared the rents to the new purchase price. Pension funds could provide the guarantee of long-term investment, stabilized ownership and affordable rents, if government had the land for development and the pension funds gather enough capital to fund the project.

To this end, in 1988 under Clark’s leadership, five pension plans put together a real estate and property management company called Westcan, with employer and union representatives of jointly trusteed plans as shareholders. Westcan employed six experts in real estate development and
property management. At the time, Clark said enthusiastically to the

**Vancouver Sun:**

If we’re able to pull this together, we’d have available $300-400 million without anyone having to put up more than 10% of their assets. The potential is absolutely staggering (Casselton, 1988, p. D12).

Clark noted recently that ‘we had money and land, but nobody knew how to do anything’ (David Podmore Interview, April, 1999, p. 8). The new management team, led by Jack Poole, now Chair of Concert, was critical. A team of experts would put into action what the pension fund trustees had in mind.

Affordable housing was the leading criterion for development. The pension funds guaranteed that, in any given year, rents would not go up more than inflation plus 1%. The City of Vancouver had unused land, and the partnership was ideal. Led by Mayor Gordon Campbell, the council was enthusiastic about this new cooperative venture (Casselton, 1988). The City of Vancouver was particularly interested in this partnership since Vancouver had been losing its stock of rental housing through demolition and conversion to condominium development. From April 1986 to October 1988, the vacancy rate in West End Vancouver was under 1% (CMHC, 1999).
There was 'little prospect' of rental housing being built without the combination of capital from pension funds, land from the city and the expertise of the management team assembled by the funds (Interview with David Podmore, April, 1999, p. 8). The city agreed to be a 25% financial partner and create a new entity. The city was to lease the land under long-term leases to the new company, and the new company would build and manage the rental housing.

The provincial government, led by the Social Credit party, however, was not a supporter of this new proposal, nor was it a supporter of labour. It turned down the joint venture proposed by the City of Vancouver and the group of pension funds to make a bid on the Expo lands in downtown Vancouver. However, in 1990, when a new provincial government was elected, led by the New Democratic Party under Mike Harcourt, the provincial government was willing to be connected to this new company, popularly known as the Vancouver Land Corporation, but called VLC Properties. The province was prepared to contribute five-year mortgage subsidies under its rental supply program. Westcan was eclipsed by VLC.

Incorporated in May 1989, VLC Properties had a mandate to provide economically priced, multi-family rental and for-sale housing in B.C. at a reasonable rate of return to shareholders. It was a remarkable collaboration
of business, labour and government. With an initial capitalization of $27.3 million, the company had as shareholders the province, the city of Vancouver, pension funds, and private interests. Pension funds owned 75% of VLC.

The VLC’s objectives were to provide quality, economically priced housing and job creation for skilled, unionized labour with reasonable rates of returns (Greystone Properties Ltd, undated). The City provided the land on long-term leases, and the pension funds were to put up the capital and expertise to build and manage guaranteed rental housing. Pension funds would get their returns through rental income (Interview with David Podmore, April 1999).

Table 5 illustrates the housing projects built on city-owned land by VLC, from 1990-1992. The table does not include later rental accommodation built by Concert on city-owned land. 460 rental units were built with the land for a cost of over $35.5 million. It is important to note that no property taxes were paid by VLC since the land remained under the ownership of the city. Over this short period of a few years, almost 400,000 hours of on-site labour was used in the construction. Pension funds, most of them shareholders, gained over $1 million in additional contributions to their funds.
### Construction of Rental Housing Projects by VLC

**With Land Leased by the City of Vancouver 1990-1992**

<table>
<thead>
<tr>
<th>Project</th>
<th># of Rental Units</th>
<th>Construction Date</th>
<th>Total Project Cost</th>
<th>Construction Hard Costs (1)</th>
<th>Total Labour Component (2)</th>
<th>Hours of On-site Labour (3)</th>
<th>Contributions to Benefits Plans (4)</th>
<th>Contributions to Pension Plans (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parkside Village</td>
<td>52</td>
<td>Jan-August 1990</td>
<td>$4,050,000</td>
<td>$3,550,000</td>
<td>$1,597,500</td>
<td>48,409</td>
<td>$72,614</td>
<td>$137,482</td>
</tr>
<tr>
<td>Fraser Pointe 1</td>
<td>177</td>
<td>Jun 90-Sept 91</td>
<td>$13,850,000</td>
<td>$10,600,000</td>
<td>$4,770,000</td>
<td>144,545</td>
<td>$216,818</td>
<td>$410,509</td>
</tr>
<tr>
<td>Cassiar Court</td>
<td>48</td>
<td>Jan-Sept 91</td>
<td>$4,350,000</td>
<td>$3,250,000</td>
<td>$1,462,500</td>
<td>44,318</td>
<td>$66,477</td>
<td>$125,864</td>
</tr>
<tr>
<td>Fraser Pointe 2</td>
<td>183</td>
<td>Apr 91-Jun 92</td>
<td>$13,200,000</td>
<td>$10,750,000</td>
<td>$4,837,500</td>
<td>146,591</td>
<td>$219,886</td>
<td>$416,318</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>460</strong></td>
<td></td>
<td><strong>$35,450,000</strong></td>
<td><strong>$28,150,000</strong></td>
<td><strong>$12,667,500</strong></td>
<td><strong>383,863</strong></td>
<td><strong>$575,795</strong></td>
<td><strong>$1,090,173</strong></td>
</tr>
</tbody>
</table>


**Note 1:** Construction hard costs represent labour costs as well as construction materials purchased for the construction project.

**Note 2:** The total labour component is the amount of hard costs spent on on-site labour (i.e. hard costs minus materials equals labour). This figure is the equivalent of gross pay, before deductions for taxes, vacation and benefits.

**Note 3:** Hours of on-site labour is calculated on an average rate of pay of $33 per hour.

**Note 4:** Contributions to Benefit Plans are calculated based on an average rate of $1.50 per hour deducted from pay for health and welfare.

**Note 5:** Pension fund contributions are calculated based on an average rate of $2.84 per hour deducted from pay.

Table 5
Table 5 illustrates that:

1. Pension funds, for an original investment in VLC of $20.48 million, created in returns a total of $12.7 million in work, contributions to the health and welfare plans and additional contributions to the pension funds. These returns are for the four projects which were to remain in VLC.

2. Another way of expressing these gains is that for every dollar of investment sixty-two cents came back in returns in the form of work and contributions to health and welfare, and pension funds.

3. On increased pension fund contributions alone, pension funds made returns of 5.3% on their original investment.

This calculation does not include dividends returned to pension funds during these periods of construction. The calculation also assumes that the work would not have been available otherwise to construction workers. These points are discussed in a later table. It is also important to note that the gains are made in unionized work for a broad group of construction unions, not all of whose pension funds invest in Concert.

The provision of rental housing capitalized by pension funds with land leased from the City of Vancouver has been extremely successful. In fact, Podmore (Interview, April, 1999) has reported that 80% of the rental
housing built in Vancouver since 1989 was built by Concert. Moreover, VLC met its target in not increasing rents beyond inflation plus 1%.

However, the actual rate of return resulting from these investments was reduced because the pension funds did not provide 100% of the capital that was required to build the units. The company, therefore, had to have mortgage debts on the properties, at the high borrowing rates that existed in the early part of the 90s.

While the decision to mortgage was vehemently opposed by Clark, shareholders did not have the confidence to inject more pension fund capital into the company. One intimation is that employer trustees were not prepared to invest a higher level of capitalization. Podmore described the lack of capitalization as generated by ‘a new initiative and a natural reluctance to go too far at the outset’ (Interview, December 1-2, 1999).

Clark, however, has said that:

we don’t like paying any profits to the bank. But that has always been the feeling in my union. That it’s nuts to build a beautiful property and then borrow from the bank (Interview with David Podmore, April 1999, p. 7).

This experience, for Clark, formed the genesis of the concept of Mortgage Fund One, which will be described later in this chapter.
Structure of the Company

When VLC Properties was originally structured, Podmore estimates that 29-30 pension plans were investors. There were also 20-22 private investors including the City of Vancouver and the provincial government. Included in the private group were the Bank of Montreal, Toronto-Dominion Bank, several major property developers and some business people in the community. He described the company as follows:

We really set three goals for the company and they were laid out in the offering. Obviously, the company was created with a social purpose, which was to address the housing needs at the time with the creation of rental housing. Secondly, [the company was] to generate a return on the invested pension capital over a long-term. There was a deliberate emphasis to caution everyone that this was a very long-term investment, rather than an immediate return. And the third objective was to create employment, union-only employment. We’re a union builder, we build on an all-union basis. We’ve never conceived of this company as a buyer of real estate product. This distinguishes us from Penreal, another pension fund investment group, where the main emphasis is on buying existing real estate (Interview with David Podmore, April, 1999, p. 3).

VLC Properties was restructured in 1992. There were a number of reasons for the restructuring. First, Podmore, Clark and Rollick reasoned that a pension fund investment mechanism should not be taxable. A company of pension funds and others as shareholders could not qualify for tax exemption.
Further, the *Income Tax Act* only allowed for pension fund investment in real estate development if the company were established before 1978. During the 1970s, a number of Ontario pension funds invested in real estate as active builders. Real estate development companies fought this competition by successfully lobbying the federal government to change the *Income Tax Act*, to restrict pension funds to buying existing real estate only. Pension funds with companies registered before 1978 were exempt.

To guarantee fiduciary responsibility, the pension funds themselves needed a shield from the liabilities of real estate development. While they insisted that quality work was a natural outcome of union labour, civil suits were always a possibility. Given the proliferation of 'leaky condo' suits in B.C., they could not put members' pension benefits at risk. A company that dated pre-1978, called Collingwood, was found and purchased from the Air Canada pension fund. The company, re-named Greystone, was registered as a pre-1978 company under section 149 (1) (0.2) of the *Income Tax Act*.

It was clear that more capital was needed and that the capital would come from pension funds rather than private investors. The company was to be restructured as a tax-exempt real estate development corporation, provided it was wholly owned by pension funds. This made it possible to raise capital from pension funds only. On restructuring, the company went
from $27.3 to about $80 million. One later additional offering took the company to $128 million.

At this point in 1992, most of the land owned by the City of Vancouver had been developed. VLC Properties had completed four major buildings with the City of Vancouver on the leased land. To avoid tax penalties, these buildings (and their management) remained with VLC, which was re-named VLC Leaseholds and retained the same ownership structure. Ownership shares were valued at $5.00, and shareholders were repaid $4.75 of their original share capital. They continued to hold shares valued at 25 cents, which, in 1999, were worth approximately $1.60. The long-term mortgages went with the new company. Returns therefore have been ‘substantial’ on the four buildings (Interview with David Podmore, April, 1999, p. 5). Pension funds transferred the share capital returned to them into the new company at a dollar a share.

The new company had only pension funds as shareholders. The larger pension funds were represented on the Board of Directors and the Board also retains to the present day the President of the B.C. Federation of Labour as a member. If VLC was a remarkable alliance of business, labour and government, Greystone was an equally remarkable multi-sector collaboration across labour.
Pension Fund Investment

The new company, Greystone, was to exist in the form of two companies, Greystone Real Estate Corporation and Greystone Properties. This enabled the pension funds, through the company, to both own and develop land. The name, Greystone, was challenged in 1995 by Greystone Capital Management, an investment management company based in Saskatchewan. To overcome this problem, the new name – Concert – was formally adopted in 1999.

The shareholders’ major investment is in Concert Real Estate Corporation, effectively a holding company for equity and title of properties. Concert Properties Limited is a taxable corporation that exists to enable joint ventures with other groups besides the shareholder-pension funds (Letter from David Podmore, January, 14, 2000).

Table 6 shows the present percentage shares held by shareholders in both companies. Clark has maintained that for the model to work, there should be an anchor pension fund that is large and can set the pattern for the other investor funds in terms of the proportion of funds it invests. In this case, his own fund, the Telecommunications Workers Pension Plan (TWPP), is clearly the anchor fund (Interview with David Podmore, April, 1999, p. 19).
### Concert Shareholders by Sector

<table>
<thead>
<tr>
<th>Building Trades</th>
<th>Concert Real Estate Corporation</th>
<th>Concert Properties Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boilermakers' Pension Trust Fund</td>
<td>0.77%</td>
<td>0.59%</td>
</tr>
<tr>
<td>Bricklayers and Masons Pension Plan</td>
<td>0.30%</td>
<td>0.23%</td>
</tr>
<tr>
<td>Carpentry Workers Pension Plan of B.C.</td>
<td>3.54%</td>
<td>2.70%</td>
</tr>
<tr>
<td>Ceramic Tile Workers Pension Plan</td>
<td>0.14%</td>
<td>0.10%</td>
</tr>
<tr>
<td>Floorlayers' Industry Pension Plan</td>
<td>0.27%</td>
<td>0.21%</td>
</tr>
<tr>
<td>GWIL Industries</td>
<td>0.08%</td>
<td>0.06%</td>
</tr>
<tr>
<td>Heat and Frost Local Union 118 Pension Plan</td>
<td>0.46%</td>
<td>0.36%</td>
</tr>
<tr>
<td>Labourers Pension Plan of B.C.</td>
<td>0.39%</td>
<td>0.30%</td>
</tr>
<tr>
<td>Local 213 Electrical Workers' Pension Plan</td>
<td>3.10%</td>
<td>2.37%</td>
</tr>
<tr>
<td>Marine and Shipbuilders' Local 506 Pension Plan</td>
<td>0.15%</td>
<td>0.12%</td>
</tr>
<tr>
<td>Operating Engineers Pension Plan</td>
<td>2.32%</td>
<td>1.77%</td>
</tr>
<tr>
<td>Piledrivers, Divers, Bridge, Dock and Wharf Builders</td>
<td>0.23%</td>
<td>0.18%</td>
</tr>
<tr>
<td>Sheet Metal Workers (Local 280) Pension Plan</td>
<td>1.23%</td>
<td>0.94%</td>
</tr>
<tr>
<td>Shopworkers Industrial Union Local 1928 Pension Plan</td>
<td>0.17%</td>
<td>0.13%</td>
</tr>
<tr>
<td>Teamsters Canadian Pension Plan</td>
<td>3.61%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Teamsters (Local 213) Pension Plan</td>
<td>3.06%</td>
<td>2.34%</td>
</tr>
<tr>
<td>The Plumbers Union Local 170 Pension Plan</td>
<td>1.13%</td>
<td>0.87%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>20.95%</strong></td>
<td><strong>16.02%</strong></td>
</tr>
<tr>
<td><strong>Food Service</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Wholesale Union Pension Plan and Trust Fund</td>
<td>2.73%</td>
<td>2.09%</td>
</tr>
<tr>
<td>United Food and Commercial Workers Union Pension Plan</td>
<td>11.25%</td>
<td>8.59%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>13.98%</strong></td>
<td><strong>10.68%</strong></td>
</tr>
<tr>
<td><strong>Forestry</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian Forest Products Ltd. Pension Master Trust Fund</td>
<td>4.89%</td>
<td>3.74%</td>
</tr>
<tr>
<td>Pulp and Paper Industry Pension Plan</td>
<td>11.06%</td>
<td>8.45%</td>
</tr>
<tr>
<td>The Trustees of the IWA Forest Industry Pension Plan</td>
<td>8.32%</td>
<td>6.36%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>24.27%</strong></td>
<td><strong>18.55%</strong></td>
</tr>
<tr>
<td><strong>Telecommunications</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunications Workers Pension Plan</td>
<td>40.78%</td>
<td>31.5%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>40.78%</strong></td>
<td><strong>31.15%</strong></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concert Real Estate Corporation</td>
<td>0%</td>
<td>23.62%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Concert, 12/14/99*

Table 6
The shareholders are listed by sector in Table 6. The largest shareholder and anchor is the Telecommunication Workers’ Pension Plan (40.78% of Concert Real Estate and 31.15% of Concert Properties). The second largest shareholder is the United Food and Commercial Workers (Union Pension Plan 11.25% of Concert Real Estate and 8.59% of Concert Properties), whose members do not derive on-site work from construction projects. The next three largest shareholders are pension plans with members in the forestry sector and constitute the largest sector excluding the anchor. The building trades pension plans constitute the largest number of investors in concert, but none has investments exceeding 3.61%.

Pension Fund Asset Allocation

Concert recommends that no more than 5% of plan assets should be invested in its shares. Table 7 shows share ownership as a percent of fund assets for selected owners of Concert Real Estate Corporation. Owners were selected based on the availability of data on their pension fund assets. The data was drawn from the Canadian Pension Fund Investment Directory (1999).
### ESTIMATES OF SELECTED OWNERSHIP IN CONCERT REAL ESTATE CORPORATION AS A PERCENTAGE OF FUND ASSETS

<table>
<thead>
<tr>
<th>Pension Fund</th>
<th>Fund Assets (1)</th>
<th>% Ownership in Concert Real Estate Corporation (2)</th>
<th>$ Outstanding Share Ownership in Concert (3)</th>
<th>Ownership as % of Fund Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Building Trades Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heat and Frost Local Union 118 Pension Plan</td>
<td>$51,500,000</td>
<td>.46%</td>
<td>$475,000</td>
<td>.9%</td>
</tr>
<tr>
<td>Teamsters Local 213 Pension Plan</td>
<td>$150,000,000</td>
<td>3.06%</td>
<td>$3,126,890</td>
<td>2.1%</td>
</tr>
<tr>
<td>Carpentry Workers Pension Plan of B.C.</td>
<td>$200,000,000</td>
<td>3.54%</td>
<td>$3,613,561</td>
<td>1.8%</td>
</tr>
<tr>
<td>Operating Engineers Pension Plan</td>
<td>$374,000,000</td>
<td>2.32%</td>
<td>$2,370,555</td>
<td>.6%</td>
</tr>
<tr>
<td><strong>Food Service</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Wholesale Union Pension Plan</td>
<td>$209,000,000</td>
<td>2.73%</td>
<td>$2,791,666</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Forestry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pulp and Paper Industry Pension Plan</td>
<td>$1,250,000,000</td>
<td>11.06%</td>
<td>$11,301,599</td>
<td>.9%</td>
</tr>
<tr>
<td>I.W.A. Forest Industry Pension Plan</td>
<td>$1,831,000,000</td>
<td>8.32%</td>
<td>$8,500,000</td>
<td>.5%</td>
</tr>
<tr>
<td><strong>Anchor Pension Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunication Workers Pension Plan</td>
<td>$1,791,000,000</td>
<td>40.78%</td>
<td>$41,658,896</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Note 1: Drawn from the Canadian Pension Fund Directory (1999)
Note 2: % ownership in Concert Real Estate Corporation taken from previous table

Source: Estimated from cited sources by author

Table 7
The following points can be made:

1. None of the funds allocate a large percentage of their funds to Concert.

2. The Telecommunication Workers' Fund remains the anchor fund, with the largest percent of assets in Concert at 2.3%.

3. It is closely followed by the Teamsters Local 213 who have 2.1% of their assets in Concert.

4. There is data available for two of the three forestry funds, the Pulp and Paper Industry Pension Plan and the I.W.A. Forest Industry Pension Plan. Both have over $1 billion in assets. Yet their asset allocations in Concert are .9% and .5% respectively.

It is important to note that this table does not show the total investments of each pension fund in both Concert companies. Nor does it show investments in VLC. The percentage figure therefore does not reflect the full investment in Concert and its related companies. Nor does it reveal the total real estate asset class for the pension fund.

It can be concluded therefore that the larger the pension fund, the larger share of ownership in Concert. However, from the data available, the larger pension funds do not necessarily commit more capital in relation to
their total assets. In fact, the converse may be true, that the smaller funds commit a larger proportion of their assets to Concert, compared to all sectors with the exception of the anchor (telephone call with Bruce Rollick, Jan 12, 2000).

There are several reasons cited for a lower commitment of pension funds to Concert. First, it has been suggested that there may be employer resistance to these investment strategies. Union trustees in pension funds that are trustees by the union only (particularly in the building trades) have far greater freedom than those union trustees in a jointly trustees fund.

Second, some union trustees are reluctant to invest in Concert as their only real estate investment. Concert argues that pension funds should not invest more than 5% of their assets in real estate, and a maximum of 5% in mortgages (which count as fixed assets). Nevertheless, investing in one company, Concert maintains, is low risk because of its reliance on the rental residential market and the security provided by its assets. Even so, Concert did diversify by moving into housing sales (of condominium townhomes) in order to increase its short-term returns.

Third, as Clark had said earlier, a way to increase capitalization of Concert was to decrease loaning from the banks and establish a financial institution owned by pension funds.
Mortgage Fund One (MFO)

Concert has been, in some ways, too successful. While the attempt to build a real estate development company based entirely on equity had not worked since Concert was under-capitalized, the company, as Podmore has said, has a far greater capacity than it was delivering. Overall, the model worked.

However, as Rollick said, if the company was to own everything it built, it would need much more funding. So the idea was to manage both the equity and the debt. Mortgage Fund One was created and could not have existed without Concert (MFO Interview, April 1999). Clark called it a 'politically integrated company' (Interview with David Podmore, April, 1999, p. 6) for the following reasons.

First, MFO was conceived to decrease the influence of private lenders who may, in the long run, have interests antithetical to Concert. Thus, MFO would stabilize the long-term interests of Concert. MFO was set up in 1992 and essentially enabled the growth of Concert from $27.3 to approximately $130 million.

Second, while MFO is independent of Concert, it exists to fund not less than 30% or more than 50% of total loans to Concert projects. Concert, for its part, receives approximately 33% of its financing from MFO and is
working to increase borrowing to about 50% of long-term requirements. In the long run, MFO should be about three times the size of Concert (Interview with MFO, April, 1999). However, this does not mean that there will be no borrowing from banks. Both Concert and MFO assert that lending to and borrowing from conventional lenders as well (without being dependent on the banks) provides an additional test to ensure non-preferential treatment.

Third, the more Concert borrows, the more returns go back to MFO and thus to pension fund shareholders who compensate their lower short-term returns on Concert with their higher, short-term returns on the mortgage fund.

The MFO Financial Statements for 1998 describe it as an investment trust established under British Columbia law for the benefit of its unit-holders by trust agreement originally dated by September 30, 1992 (Price, Waterhouse, Coopers, 1998, p.1). It meets the conditions of a Unit Trust under the Income Tax Act, since all net income reverts to the unit holders. There is therefore no income tax paid (ibid, p. 3). There is one class of units, and no limit on the number of units that can be issued. The work of the Trust is managed by ACM Advisors Ltd, created for the purpose, who are paid fixed fees for portfolio management services (ibid, p. 3).
Pension funds investing in MFO achieve diversification in their fixed income portfolio by using the MFO investment as an alternative to bonds. ACM recommends that pension funds invest at least 5% of their assets. The unit-holder or investor base is just slightly different from the Concert Properties shareholder group.

Union-Built Housing

The objective of MFO is to provide:

by way of investments in mortgages, interim and long-term financing to fund the development, re-development and construction of residential housing, office, retail, industrial and mixed-use buildings located in British Columbia all of which will be constructed by contractors whose employees are represented by approved unions under a collective agreement (MFO, 1999).

It currently has 14 investments with an approximate value of $91 million in term and interim construction loans, all in British Columbia. MFO insists that any project funded, however partially, must be 100% union built. While all Concert projects are union-built, ACM staff report examples of projects of other developers that would not have been 100% union built and therefore would have paid lower non-union wages without MFO’s involvement. ‘Eight. One. Nine’, a high-rise condominium tower in Vancouver, and The Grande, another tower in North Vancouver, are two examples. This
condition is signed into the covenant the borrower has to sign. Building sites have also been inspected by MFO for potential violations of the condition of funding (MFO Interview, April, 1999).

**Mortgage Fund One: Capitalization and Rates of Return**

Table 8 illustrates a summary of MFO capitalization.

<table>
<thead>
<tr>
<th>INVESTORS</th>
<th>CAPITAL INVESTED</th>
<th>CAPITAL INVESTED AS A PERCENT OF MFO</th>
<th>INVESTMENT GROWTH</th>
<th>MARKET VALUE 31 DEC-1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELECOMMUNICATIONS WORKERS PENSION PLAN</td>
<td>$45.0</td>
<td>57.4%</td>
<td>$18.8</td>
<td>$63.8</td>
</tr>
<tr>
<td>UNITED FOOD AND COMMERCIAL WORKERS</td>
<td>$6.0</td>
<td>7.7%</td>
<td>$1.0</td>
<td>$7.0</td>
</tr>
<tr>
<td>PULP AND PAPER INDUSTRY PENSION PLAN</td>
<td>$3.0</td>
<td>3.8%</td>
<td>$1.8</td>
<td>$4.8</td>
</tr>
<tr>
<td>CARPENTRY WORKERS PENSION PLAN OF B.C.</td>
<td>$7.6</td>
<td>9.7%</td>
<td>$1.8</td>
<td>$9.4</td>
</tr>
<tr>
<td>OTHERS</td>
<td>$16.8</td>
<td>21.4%</td>
<td>$4.3</td>
<td>$21.1</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$78.4</td>
<td>100%</td>
<td>$27.7</td>
<td>$106.1</td>
</tr>
</tbody>
</table>

MFO's other shareholders are:

- Local 213 Electrical Workers Pension Plan
- Teamsters Local 213 Pension Plan
- Teamsters Canadian Pension Plan
- International Heat and Frost Union Local #118 Pension Plan
- Pile Drivers, Divers, Bridge, Dock and Wharf Builders Pension Plan
- Ironworkers Local 97 Pension Plan
- Floorlayers Industry Pension Plan
- Marine and Shipbuilders Local 506 Pension Plan
- Sheet Metal Workers (Local 280) Pension Plan

Mortgage Fund One's shareholders, therefore, are very similar, but not identical to Concert. Again, the Telecommunication Workers’ Pension Plan plays an anchor role with respect to the funding.

Since the average maturity of loans is approximately five years, Mortgage Fund One has already established its track record of returns. These are shown on Table 9.

### RATES OF RETURN OF MORTGAGE FUND ONE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RATE OF RETURN</td>
<td>8.26%</td>
<td>8.11%</td>
<td>8.22%</td>
<td>10.02%</td>
<td>7.69%</td>
<td>8.40%</td>
</tr>
</tbody>
</table>


Table 9
Table 10 shows that MFO’s management fees are less than two other Canadian mortgage benchmarks. In addition, MFO’s net annual yield exceeds those other benchmarks and therefore provides a higher return to the pension plan investors (Ibid, April, 1999).

<table>
<thead>
<tr>
<th>INVESTMENT COMPARISON</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-1998</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>MORTGAGE FUND ONE</th>
<th>WYATT POOLED MORTGAGE FUNDS SURVEY</th>
<th>SCOTIA McLEOD MORTGAGE INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative Yield</strong></td>
<td>62.20%</td>
<td>58.20%</td>
<td>63.00%</td>
</tr>
<tr>
<td><strong>Annual Yield</strong></td>
<td>8.4%</td>
<td>7.94%</td>
<td>8.48%</td>
</tr>
<tr>
<td><strong>Management Fee Ratio</strong></td>
<td>0.52%</td>
<td>0.61%</td>
<td>1.25%</td>
</tr>
<tr>
<td><strong>Net Annual Yield</strong></td>
<td>7.88%</td>
<td>7.33%</td>
<td>7.23%</td>
</tr>
</tbody>
</table>

Summary

This chapter has described the history of Concert since its conception by a group of union leaders and their union-directed experts. Through an innovative partnership of labour, business and government, VLC was formed to build and manage rental accommodation on land leased from the city with 75% of the funding provided by pension funds.

The original core of union pension activists reasoned that pension funds could provide the guarantee of long term investment, stabilized ownership and affordable rents, if government would lease land for development. The land was necessary to lower the need for capital. The pension funds guaranteed that rents would not increase by more than inflation plus 1%. The City of Vancouver had unused land, and the partnership was ideal.

VLC, in a few short years, created 460 rental units with 400,000 hours of on-site labour at a cost of $35.5 million. Pension funds, most of them shareholders, gained over $1 million in additional contributions to their funds.

The next stage of development created Concert, a remarkable multi-sector alliance wholly funded and owned by pension funds. This form of organization protected the tax-exempt status of pension fund investment.
Concert was in fact two companies to allow for land acquisition (which is tax-exempt) and real estate development (non-tax-exempt).

Concert, however, has not been able to provide total capitalization of rental housing projects and has mortgage debts on the VLC projects, reducing the short term rate of return. Mortgage Fund One, a mortgage trust owned by pension funds, was developed primarily to provide debt financing to Concert. Financing union-built projects only, it yields a short-term rate of return to pension funds and, in effect, compensates for Concert’s lower short-term rate of return. In the longer term, debts are repaid and rental income provides a reasonable rate of return to pension fund investors.

The next chapter provides social accounting models of Concert and examples of shareholder gains from investment in Concert and Mortgage Fund One.
Chapter 11

Carpenters' and Concert: Social Accounting Models

This chapter describes the Carpenters' Union and its role in Concert. It presents social accounting models for Concert using the variables identified for this study and described in Chapter 9. These are job creation, increased contributions to pension funds and fiscal benefits to government and broader community.

The B.C. Carpenters' Union

The Carpenters' is the largest construction union in B.C. with over 9,000 members. While its membership (and organizing policy) is not restricted to carpenters, this trade predominates. The Carpentry Workers Pension Plan has been in existence for 30 years, and for much of that time Wayne Stone has been the Administrator. The Pension Plan (referred to as the Carpenters') is a Special Multi-Employer Plan under the Income Tax Act, and all contributions are technically classed as employer contributions. All seven trustees are from the union side. It has about 14,000 members and its total assets are shown in Table 7 of the previous chapter.
The Carpenters’ has been involved in real estate since the late ‘70s. Its original involvement was through co-operatives, buying the land and building for the cooperative. Wayne Stone views this period as the only time when the Carpenters’ was able to provide social housing, through government funding:

With the wrap-up of social housing and the cooperative program, we started looking for other alternatives so that we could still provide good quality homes for people. We worked very closely with Bill Clark to set up VLC. That’s been part of our history (Interview with Wayne Stone, p. 2, April 19, 1999).

Indeed, Wayne Stone and Bill Clark were the core union leaders working with Ken Georgetti at the B.C. Federation of Labour to set up first Westcan and then the VLC. The three were the first union champions of pension fund investment. In 1988, in response to a question from a Vancouver Sun reporter (Casselton, 1988) about a ‘marriage of convenience’ between labour and capital, Stone said:

It’s created some problems for us as individuals. We’ve overcome it from the point of view we’ve created employment and provided quality housing (p. D12).

Stone goes on to say that if Carpenters’ pension money was with ‘money managers whose main concern is best possible returns, ethical guidelines [will likely be] violated through investment in armaments and atomic power’
Georgetti was more forthright at the time. He is reported as saying:

It’s just the old tired attitude that if you believe in labour or social democracy, you have to be against capital and profits. We can use pension income to create jobs, union jobs, that pay a fair rate and get a fair return. We can make a profit... but... without exploiting people (ibid., D12).

Carpenters continued its interest in real estate development by investing in Concert and, later, Mortgage Fund One. However, it also set up a real estate development company of its own, Western Housing Development Corporation. Through this company, it has done joint ventures with other development companies to build quality rental and affordable housing. While the returns on this wholly-owned subsidiary were exceptional, Revenue Canada determined that the company was not exempt under the Income Tax Act, and assessed the Carpenters’ $4.5 million in back taxes. This matter has been resolved out of court with no back taxes payable by the Carpenters’, but a guarantee that the company will be disbanded. Stone concludes that the only way pension funds can go into real estate development is through a model such as Concert (Interview with Wayne Stone, November 30, 1999).
It should be no surprise that the Carpenters’ favours real estate and mortgages as investment. Table 11 shows the estimated proportion of carpentry work Concert uses on its projects. At 37% of the total labour component, far more carpentry workers are needed than any other trade in a typical project.

Table 12 shows the impact of nine years of Concert’s construction activity on job creation and pension fund contributions for the Carpenters’ and on estimated tax revenues for the federal and provincial governments.
### CARPENTRY WORKERS' CONSTRUCTION ACTIVITY IN CONCERT 1990-1999

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Value (Construction) completed by February, 2000</td>
<td>$360,000,000</td>
<td></td>
</tr>
<tr>
<td>Labour Component ($360,000,000 x 45%)</td>
<td>$162,000,000</td>
<td></td>
</tr>
<tr>
<td>Hours of On-Site Labour created ($162,000,000 divided by $33.00/hour)</td>
<td></td>
<td>4,910,000</td>
</tr>
<tr>
<td>Hours of Employment for Carpenters (4,910,000 x 37%)</td>
<td></td>
<td>1,817,000</td>
</tr>
<tr>
<td>Contribution to Carpenters Health and Welfare Plan (1,817,000 hours @ $1.195/hour)</td>
<td>$2,171,000</td>
<td></td>
</tr>
<tr>
<td>Contribution to Carpenters Pension Fund (1,817,000 hours @ $2.34/hour)</td>
<td>$4,252,000</td>
<td></td>
</tr>
<tr>
<td>Total Carpenter Benefit (wages, vacation, health and welfare, and pensions) [$21.62 x $1.12 + (1.195 + 2.34)] x 1,817,000 hours</td>
<td>$50,421,000</td>
<td></td>
</tr>
<tr>
<td>Carpenters' pay net of contributions</td>
<td>$43,998,000</td>
<td></td>
</tr>
<tr>
<td>Est. taxes paid by on-site labour of Carpenters ($43,998,000 x 25%)</td>
<td>$10,999,500</td>
<td></td>
</tr>
</tbody>
</table>

Source: Concert Properties, November 12, 1999; Department of Finance.

Table 12
There are several points to be made about the calculations. Some of these points are made more briefly in the notes of Table 5:

1. The construction value of a project represents its 'hard costs'. These costs are split almost equally between materials and labour. Labour costs are usually estimated by Concert at about 45% of the construction value.

2. Concert calculates its average on-site labour costs at $33 per hour. This includes taxation, vacation, pension and health and welfare payments. As has been noted, this should be compared to the average gross rate of pay for a construction worker in B.C. of $20.67 per hour. Carpenters’ gross union wage (including vacation, pension and health and welfare) is $27.75 an hour.

3. A carpenter’s contribution to the union’s health and welfare plan is $1.195 per hour, as governed by the collective agreement.

4. Contributions to the pension fund are at the rate of $2.34 an hour, also governed by the collective agreement and having remained unchanged for a number of years.

5. Tax revenues are estimated at 25% of the Carpenters’ pay net of benefit contributions (which are tax-exempt). This is an average tax rate also used by the Ministry of Finance.
Table 12 estimates that 4.9 million hours of work have been created by Concert projects, of which an estimated 1.8 million hours were for carpenters. This on-site work has an estimated value of $162 million, of which the total Carpenter benefit is estimated at $50.4 million. This does not include the 'soft' costs of professional or administrative services.

From all Concert's construction activity between 1990 and 1999, the Carpentry Workers Pension Fund is estimated to have received contributions of $4.25 million as a direct result of the work created by Concert. This increase in contributions flows directly from the insistence on union labour on construction sites, since the pension plan is a creation of the Carpentry Workers' Union. The pension plan would not have received this increase in contributions had it not been for Concert projects.

This table also estimates that almost $11 million in tax revenues were collected from carpenters' employment. This is an estimate of actual (rather than attributable) tax revenues. It recognizes that government is a stakeholder in pension fund investment, as discussed in previous chapters (particularly with reference to the value-added statement in Chapter 7).
Politically Integrated Accounts

Savona is a woodframe four-storey building in west-side Vancouver with 103 residential apartments, designed for first-time homeowners and single people, sold by Concert. Table 13 illustrates a social accounting model for measuring pension fund investment in Savona. It was selected since it is also a project funded by Mortgage Fund One. It therefore illustrates how the two investments — Concert and Mortgage Fund One — complement one another in terms of their short-term rates of return.

The data are derived from a number of documents supplied by Concert and Mortgage Fund One. Some costs are actual rather than estimated. For example, project and labour costs and Concert equity data are actual figures supplied by Concert. Health and welfare and pension funds allocations are as outlined in collective agreements. Therefore, the formulae, as outlined in the previous table, do not necessarily apply. There are several points of clarification:

1. Concert estimates that, as a rule of thumb, it provides 20-25% equity in a project. Of the remaining financing, 66% comes from the banks and 33% from Mortgage Fund One (Letter from David Podmore, January 14, 2000).
# A Social Accounting Statement of the Carpentry Workers Union Pension Fund Investment in Savona, A Concert Project (Construction Period 1998-99)

<table>
<thead>
<tr>
<th>Description</th>
<th>Concert</th>
<th>Carpenters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Concert's Total Project Cost</td>
<td>$21,950,000</td>
<td></td>
</tr>
<tr>
<td>2. Total Equity Required by Concert (20% of Cost)</td>
<td>$4,390,000</td>
<td></td>
</tr>
<tr>
<td>3. Carpenters' Equity in Concert (@3.54%)</td>
<td></td>
<td>$135,400</td>
</tr>
<tr>
<td>4. Mortgage Fund One Loan to Concert</td>
<td></td>
<td>$8,250,000</td>
</tr>
<tr>
<td>5. Carpenters Equity in Mortgage Fund One (@9.7%)</td>
<td></td>
<td>$800,250</td>
</tr>
<tr>
<td>6. Total Investment of Carpenters</td>
<td></td>
<td>$955,650</td>
</tr>
<tr>
<td>7. Total Value of On-Site Employment (169,224 hrs @ $33 per hr)</td>
<td></td>
<td>$5,584,392</td>
</tr>
<tr>
<td>8. Carpenters On-Site Employment (37% of 169,224 hrs)</td>
<td></td>
<td>(62,613)</td>
</tr>
<tr>
<td>9. Contributions to the Carpentry Workers Pension Plan of B.C. (@$2.34 per hr)</td>
<td></td>
<td>$146,514</td>
</tr>
<tr>
<td>10. Contributions to the Carpentry Workers Health and Welfare Plan (@$1.195 per hr)</td>
<td></td>
<td>$74,823</td>
</tr>
<tr>
<td>11. Pay to Carpenters, Net of Contributions</td>
<td></td>
<td>$1,315,663</td>
</tr>
<tr>
<td>12. Estimate of Net On-Site Employment Attributable to Concert</td>
<td></td>
<td>$572,712</td>
</tr>
<tr>
<td>13. Dividends Paid by Concert to Pension Fund (@$34,951 @ 3.54%)</td>
<td></td>
<td>$8,317</td>
</tr>
<tr>
<td>14. Return on Investment to Mortgage Fund One (@8.4%)</td>
<td></td>
<td>$67,221</td>
</tr>
<tr>
<td>15. Total Return to Carpentry Workers</td>
<td></td>
<td>$1,812,538</td>
</tr>
<tr>
<td>(add lines 9, 10, 11, 13, 14.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Return to Carpenters Net of Investments</td>
<td></td>
<td>$856,888</td>
</tr>
<tr>
<td>(subtract line 15 from line 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Per Cent Gain to Carpenters</td>
<td></td>
<td>89.7%</td>
</tr>
<tr>
<td>(line 16 divided by line 6, times 100)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Net Per Cent Gain to Carpenters in Work Attributable to Concert as Against Investment</td>
<td></td>
<td>36.8%</td>
</tr>
<tr>
<td>(lines 12 minus (lines 9 plus 10)) as a percent of line 6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. Total Returns to Carpenters Pension Fund</td>
<td></td>
<td>$226,052</td>
</tr>
<tr>
<td>(add lines 9, 13 and 14)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Per Cent Return to Carpentry Workers Pension Fund Based on Investment</td>
<td></td>
<td>23.7%</td>
</tr>
<tr>
<td>(line 19 divided by line 6 times 100)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 13
2. The Carpentry Workers’ Pension Fund has a 3.54% ownership in Concert (see Table 6) and a 9.7% ownership in Mortgage Fund One (see Table 8). Therefore, their investments in Savona through Concert and MFO are pro-rated to reflect their ownership.

3. The data for actual hours of employment for Savona are supplied by Concert. This social-accounting statement sets off the total investments of the Carpenters’ Pension Fund in a Concert Project against its gains from the investment. It shows that, through work provided by Concert, members of the Carpentry Workers Union make substantial gains of 87.6% (set against their original investment in Concert and MFO). Table 13 further shows that the Carpenters’ Pension Fund through its dual investments in Concert and MFO makes a total rate of return of 21% through increased pension fund contributions and returns on investment.

Table 14 has more similarity to a value-added statement. While it is not a balance sheet, it illustrates more clearly the investments and returns of several stakeholders in Concert – employees, shareholder pension funds and government.
#### Investments:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total equity from Concert (20%)</td>
<td>4,390,000</td>
</tr>
<tr>
<td>Mortgage Fund One loan</td>
<td>8,250,000</td>
</tr>
<tr>
<td>Other loans</td>
<td>9,310,000</td>
</tr>
<tr>
<td><strong>Total Project</strong></td>
<td><strong>21,950,000</strong></td>
</tr>
</tbody>
</table>

Est. government foregone revenue on investment and returns:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concert</td>
<td>1,164,448</td>
</tr>
<tr>
<td>Mortgage Fund One</td>
<td>2,188,313</td>
</tr>
<tr>
<td><strong>Total Est. Foregone Revenue</strong></td>
<td><strong>3,352,761</strong></td>
</tr>
</tbody>
</table>

#### Returns:

**Employees (1):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value of on-site employment (169,224 hrs @ $33)</td>
<td>5,584,392</td>
</tr>
</tbody>
</table>

Benefits:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>health and welfare (@ $1.50)</td>
<td>253,836</td>
</tr>
<tr>
<td>pension (@ $2.84)</td>
<td>480,596</td>
</tr>
<tr>
<td>Pay net of contributions</td>
<td>4,849,960</td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>5,584,392</strong></td>
</tr>
</tbody>
</table>

**Shareholders:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Est. increased contributions to</td>
<td>395,984</td>
</tr>
<tr>
<td>Pension plans</td>
<td></td>
</tr>
<tr>
<td>Dividends from Concert (2)</td>
<td>234,951</td>
</tr>
<tr>
<td>Dividends from Mortgage Fund One (3)</td>
<td>693,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,323,935</strong></td>
</tr>
</tbody>
</table>

**Rate of return** 10.5%

**Government:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Est. Tax revenues from on-site employment (25% of pay net of contributions)</td>
<td>1,212,490</td>
</tr>
<tr>
<td>net loss</td>
<td>2,140,271</td>
</tr>
</tbody>
</table>

Note (1): All figures are estimates based on calculations used by Concert.
Note (2): This figure is extracted from the Annual Report, 1998.
Note (3): Mortgage Fund One reports annual rate of return is 8.4% (see Table 9).

Concert Properties: Savona, November 12, 1999.
Most of the calculations are drawn from Table 13 and therefore need no explanation. Foregone tax revenues on pension fund contributions and investment returns referred to in Chapter 8, are estimated using the same method as the Department of Finance of the Federal government. A return on investment of 6.1% is assumed since it represents the 1998 rate of return on 10-year government bonds. (This rate of return is likely far in excess of the rate of return on Concert investment and slightly less than Mortgage Fund One returns). An average tax rate of 25% is also assumed.

The table shows that government had a net loss of $2.1 million on the foregone revenue. However, there are a number of cautions about this result. First, the model only considers government as a stakeholder without distinguishing between different levels of government. Second, estimates of returns relate only to taxes on on-site employment. Information was not readily available for administrative staff of Concert and employees of all the professional services required in real estate development. Also, there are other taxes, primarily property taxes, which have not been taken into account. It can be assumed therefore that the estimate for tax revenue is extremely conservative. Third, this is only one project of several in 1998-99. Therefore, it is not a complete picture of Concert’s work in one year.
Finally, the value-added model shows its limitations, in this case, in not being able to account for impact beyond the walls of the project. This table does not account for indirect or induced effects of Concert's productivity or the jobs created by Concert, both of which have tax revenue implications.

**Hours of Work Attributable to Concert**

An important question is how to account for hours of work created by Concert. It is always problematic to assert that this work would not have been created had it not been for Concert and that, therefore, all hours should be attributed to Concert. What is agreed by those interviewed in Concert, Mortgage Fund One and some of the unions involved is that the *union* work would not have been created. For example, carpenters may have got work but it would have been for lower wages on non-union construction sites. Concert, then, can at least be attributed with contributing to community wealth through providing higher (union) wage rates for its construction labour.

This point is conceded in line 17 of the accounting statement where Concert is attributed with a net contribution of $572,712 in hours of work for carpenters. This is a conservatively low estimate. It assumes that, with a
general (not industry) unemployment rate of 8.9% in B.C. in 1998, approximately 10% of carpenters would have gone from unemployment to employment on a Concert construction site. In other words, their full hours of work can be attributed to Concert. The other 90%, in the absence of Concert, would have been obliged to take non-union work, earning the average rate of construction pay for the province of $7.08 less than the union (gross) rate.

Even with this conservative estimate, the dollar value of job creation for Carpenters that can be fairly attributed to Concert for its Savona project is $572,712. Furthermore, carpentry workers still make a gain on their pension funds investment in the project of 36.8%.

It is important to note that Savona housing construction was units for sale, rather than rental. As has been stated, 80% of the rental accommodation in Vancouver since 1989 is directly attributable to Concert. Given the vacancy rate in Vancouver at the time, the reluctance of developers to build rental accommodation, and the history of the relationship between Concert and the City of Vancouver through VLC, it seems reasonable to attribute the work created by construction projects of rental accommodation directly to Concert. The consequence of this will be seen in the next table.
Union-Built Rental Accommodation

600 Drake Street was controversial when it was being built in 1992-3 because it aimed to provide housing for low-income people. Its design is contemporary, and it is a high-rise of 192 small apartments, a mix of studio, junior one-bedroom and one bedroom apartments. It is possible for the residents of 600 Drake to be on welfare or unemployment insurance. It is likely the closest a private developer has come to providing social housing in Vancouver.

Table 15 continues the social accounting model from the previous table. There is, however, one important difference. The project, 600 Drake street, is a rental housing project.

The following should also be noted:

1. This was one of the first Mortgage Fund One projects. MFO provided a 20-year term mortgage for 63% of the total cost of the project. In the absence of data, it is assumed that Concert financed 25% of the total cost of the project, rather than the remaining 12%. This is a conservative assumption since it lowers the individual union investment.

2. All data in relation to the Carpentry Workers’ Union is assumed to be based on the same proportions of ownership in Concert and MFO and are
### A Social Accounting Statement of the Carpentry Workers Union Pension Fund Investment in 600 Drake Street, a Concert Project (Construction Period 1992-1993)

<table>
<thead>
<tr>
<th>Description</th>
<th>Concert</th>
<th>Carpenters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Concert's total project cost</td>
<td>$14,350,000</td>
<td></td>
</tr>
<tr>
<td>2. Total equity required by concert (25% of cost)</td>
<td>$3,587,500</td>
<td></td>
</tr>
<tr>
<td>3. Carpenters' equity in concert (@3.54%)</td>
<td></td>
<td>$126,998</td>
</tr>
<tr>
<td>4. Mortgage Fund One loan to concert (@9.7%)</td>
<td>$9,000,000</td>
<td></td>
</tr>
<tr>
<td>5. Carpenters' equity in Mortgage Fund One (@9.7%)</td>
<td></td>
<td>$873,000</td>
</tr>
<tr>
<td>6. Total investment of carpenters</td>
<td></td>
<td>$999,998</td>
</tr>
<tr>
<td>7. Total value of on-site employment (129,545 hrs @ $33 per hr)</td>
<td>$4,275,000</td>
<td></td>
</tr>
<tr>
<td>8. Carpenters on-site employment (37% of 129,545 hrs)</td>
<td></td>
<td>(47,931)</td>
</tr>
<tr>
<td>9. Contributions to the Carpentry Workers Pension Plan of B.C. (@2.34 per hr)</td>
<td></td>
<td>$112,159</td>
</tr>
<tr>
<td>10. Contributions to the Carpentry Workers Health and Welfare Plan (@1.195 per hr)</td>
<td></td>
<td>$57,278</td>
</tr>
<tr>
<td>11. Pay to carpenters, net of contributions</td>
<td></td>
<td>$1,160,648</td>
</tr>
<tr>
<td>12. Estimate of on-site employment directly attributable to concert</td>
<td></td>
<td>$1,151,751</td>
</tr>
<tr>
<td>13. Return on investment to Mortgage Fund One (@8.26%)</td>
<td></td>
<td>$72,110</td>
</tr>
<tr>
<td>14. Total return to carpentry workers</td>
<td></td>
<td>$1,402,195</td>
</tr>
<tr>
<td>(add lines 9, 10, 11, 13)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Return to carpenters net of investments</td>
<td></td>
<td>$402,197</td>
</tr>
<tr>
<td>(subtract line 6 from line 14)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Per cent gain to carpenters</td>
<td></td>
<td>40.22%</td>
</tr>
<tr>
<td>(line 15 divided by line 6, times 100)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Net per cent gain to carpenters in work directly attributable to concert as against investment (lines 12 minus (lines 9 plus 10) as a percent of line 6)</td>
<td></td>
<td>98.2%</td>
</tr>
<tr>
<td>18. Total returns to carpenters pension fund</td>
<td></td>
<td>$184,269</td>
</tr>
<tr>
<td>(add lines 9 and 13)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. Per cent return to carpentry workers pension fund based on investment</td>
<td></td>
<td>18.4%</td>
</tr>
<tr>
<td>(line 18 divided by line 6 times 100)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 15
based on the proportion of work on a construction site, as supplied by Concert.

600 Drake Street is a rental housing project built as a result of a unique arrangement between the City of Vancouver and Concert, as described earlier. Concert has been credited with providing 80% of rental housing in Vancouver since 1989. It is therefore reasonable to assume that it is highly unlikely that this project or others would have been built without the intervention of Concert.

It is reasonable, based on the evidence, to assume that 80% of the work would not have been created without Concert and, therefore, can be directly attributed to Concert. The formula used in the previous table can be used for the remaining 20%. It can be assumed that 10% of the remaining

<table>
<thead>
<tr>
<th>CALCULATION OF HOURS OF WORK OF CARPENTERS DIRECTLY ATTRIBUTABLE TO CONCERT FROM THE 600 DRAKE STREET (RENTAL ACCOMMODATION) CONSTRUCTION PROJECT</th>
</tr>
</thead>
<tbody>
<tr>
<td># of hours of work for Carpenters                                      47,931</td>
</tr>
<tr>
<td>Carpenters’ labour component                                        $1,330,085</td>
</tr>
<tr>
<td>80% of hours                                                      38,345</td>
</tr>
<tr>
<td>value of 80% hours of work @ $27.75                                  $1,064,068</td>
</tr>
<tr>
<td>remaining hours of work                                               9,586</td>
</tr>
<tr>
<td>10% @ $27.75                                                      $ 26,601</td>
</tr>
<tr>
<td>90% @ $ 7.08                                                       $ 61,082</td>
</tr>
<tr>
<td>Total value of Carpenters’ work directly attributable to Concert   $1,151,751</td>
</tr>
</tbody>
</table>

Table 16
hours of work would have been done by carpenters who otherwise would have been unemployed. In the absence of Concert, one can assume that 90% of the remaining work would have been done by carpenters obliged to take non-union work, earning the average rate of construction pay for the province of $7.08 less than the union (gross) rate. The calculations, then, would be as in Table 16.

Table 16 illustrates that just a 13% deduction is actually made of the total labour component because 600 Drake Street is rental accommodation. Yet, the total labour component of Savona suffers a 67% decrease. Both these social accounts show the difference between taking 100% of the jobs created as a benefit for the carpentry workers union and its pension fund, and a more accurate attribution of job creation.

**Summary**

Following chapters will discuss the fuller implications of these two models. However, it is important to note that pension fund investment has financed both Concert and Mortgage Fund One; can lead to substantial returns and help build up the pension fund through higher contribution levels; can provide higher waged work for its employees; and can openly advocate for a union presence in B.C. workplaces. Furthermore, pension
fund investment can provide socially useful services to the community. The next chapter examines a working class neighbourhood in Vancouver — Collingwood — which is also Concert project. It assesses the fiscal benefits provided by Collingwood and Concert to government and the broader community.
Chapter 12

Collingwood and Concert: Union and Community

First, this chapter examines the Collingwood project and provides a short case study of the neighbourhood and a history of the development of housing projects from 1994-99. It assesses the amount of job creation that is directly attributable to Collingwood and an estimate of stakeholder returns. Second, this chapter applies these same models to all Concert projects since its inception, providing an estimate of Concert’s direct impact on the community as well as its benefit to its stakeholders. Finally, this chapter uses multipliers to estimate the impact of Concert on the productivity of British Columbia.

Collingwood is a large on-going project of urban redevelopment initiated by Concert Properties in 1993. Collingwood Village is a high density residential community, still being re-developed from 27.26 acres of industrial land. This land, assembled by Concert Properties, includes the remaining 2.276 acres of the land owned by the City of Vancouver and leased to Concert which is now completely developed. Its potential is for up to 2,800 multi-family residential units, of which 15% would be assured.
market rental units (the original pieces of land leased by the City of Vancouver). The re-zoning of the land was completed in 1993.

According to the Census data of 1991, the Renfrew-Collingwood community prior to re-development was a stable, family-oriented and ethnically diverse community of lower income families. Eight-eight percent of the community lived in single family homes with an average household size of 3.2. Forty-five percent of females were in the workforce, with a high representation of residents in low-paying work. Forty-eight percent of families had incomes below the city average of $30,000. Eighty-five percent of families were two-parent families. Nearly 60% of families had English as a second language. Homes in the neighbourhood had the highest proportion of basement apartments in Vancouver. It was a safe, reliable community where a working class family could own a home and raise a family (Interview with Paula Carr, November, 1999).

In 1981, the provincial government announced the selection of the Advanced Light Rapid Transit system, or the Sky Train, for Greater Vancouver. Chris Taulu, a long-time resident and community activist, describes her neighbourhood then as a run-down east-side neighbourhood before the Sky Train. It had, in fact, been left alone and starved of services for years. It was, she said, ready for re-development. The City of Vancouver
initiated neighbourhood planning meetings and the route and stations were built through neighbourhoods during the ‘80s. The Joyce Street Station became the focus of re-development as developers moved in to buy up land, and the city developed the Joyce Station Area Plan.

Fortunately, the city, working with community activists at the time, promptly re-zoned land scheduled for re-development, effectively preventing land speculation. Developers sold the land to Concert for $65 million (Interview with Chris Taulu, November, 1999). The community therefore had one developer to deal with. This worked in the community’s favour, according to city planners and community activists involved in the community negotiations (Interview with Chris Taulu, November, 1999; Interview with Heike Roth, November, 1999).

Community Negotiations

Negotiations proceeded between the community, the city and Concert on development of the new Collingwood community. Negotiations covered the planning, design and construction of residential buildings as well as the new site for the Collingwood Neighbourhood House. Prime concerns of the community were integration of the new and the older community residents, child care and crime prevention. The Sky Train had created a ‘crime
corridor’ across Vancouver because it was a surface train system that was completely un-staffed. This quiet, forgotten east-side community had become vulnerable to substantially increased crime levels.

A new 10,000-square-foot facility for the Collingwood Neighbourhood House, which had been in existence since 1985, became the focus of new services to the community. It contains offices and meeting rooms, an 8,000 square foot daycare centre for 69 children and a gymnasium. As a result of negotiations with the community, the capital costs were paid by Concert and the City of Vancouver, the costing as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard construction costs:</td>
<td>$5,400,000</td>
</tr>
<tr>
<td>Total cost:</td>
<td>$6,300,000</td>
</tr>
<tr>
<td>City paid:</td>
<td>$3,600,000</td>
</tr>
<tr>
<td>Concert paid:</td>
<td>$2,700,000</td>
</tr>
</tbody>
</table>

Present operating funds come from all levels of government, United Way and other smaller donors. The Collingwood Neighbourhood House employs 120 people, including approximately 70 child care staff and over 300 volunteers. Under a local hiring policy, it recruits about 60% of its staff from the local community. The employees are on the verge of unionization.

While there have been union drives in the community services sector in B.C. in the last couple of years, there is no doubt that the spotlight has been on the community centre given the funding of the community by union pension funds (Interview with Paula Carr, November 1999).
A new health care centre is being built by Concert and leased to the Regional Health Board, and a new elementary school is being planned.

Crime Prevention

With the highest rate of crime in the city, crime prevention remained the central issue for the community. In April 1994, a new community Crime Prevention office was opened with one staff person, Chris Taulu and 120 volunteers. Within five months, Collingwood had dropped to number three in the city for incidents of crime (Crime Prevention Office Evaluation Report, 1994).

The office works closely with community. It teaches prevention through information leafleting, block watch programs, pooch patrols and bicycle programs. All training of volunteers is done by the Police Department. Chris Taulu reports that the office is effective precisely because it is independent from the Police Department, unlike all other Crime Prevention Offices in Vancouver.

Concert has provided space free of charge, paid for the maintenance of the office space as well as a $40,000 endowment over ten years, on the grounds that it too will benefit from strong crime prevention programs.
Collingwood, Pension Funds and Job Creation

Collingwood Village is almost completed, a project of seven years duration since re-zoning. Table 17 shows projects totalling over $195 million, with labour costs for construction workers running at almost $57 million. Of this, almost $5 million has gone to pension funds.

<table>
<thead>
<tr>
<th>Project</th>
<th>Rental Or Sales</th>
<th>Construction Date</th>
<th>Project Cost</th>
<th>Total Labour Component</th>
<th>Total On-Site Hours</th>
<th>Pension Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne</td>
<td>R</td>
<td>1994-95</td>
<td>$18,900,000</td>
<td>$6,402,150</td>
<td>194,005</td>
<td>$550,973</td>
</tr>
<tr>
<td>Wessex Gate/Earles Court</td>
<td>R</td>
<td>1994-95</td>
<td>$23,850,000</td>
<td>$8,278,200</td>
<td>250,855</td>
<td>$712,427</td>
</tr>
<tr>
<td>Alexander Court</td>
<td>S</td>
<td>1994-95</td>
<td>$6,102,000</td>
<td>$1,530,450</td>
<td>46,377</td>
<td>$131,711</td>
</tr>
<tr>
<td>MacGregor</td>
<td>S</td>
<td>1994-95</td>
<td>$33,390,000</td>
<td>$8,693,100</td>
<td>263,427</td>
<td>$748,133</td>
</tr>
<tr>
<td>Collingwood Neighbourhood House</td>
<td></td>
<td>1994-95</td>
<td>$6,300,000</td>
<td>$2,430,000</td>
<td>73,636</td>
<td>$209,127</td>
</tr>
<tr>
<td>Gaston Park</td>
<td></td>
<td>1994-95</td>
<td>$1,210,000</td>
<td>$456,750</td>
<td>13,841</td>
<td>$39,308</td>
</tr>
<tr>
<td>Phase 1 Infrastructure</td>
<td></td>
<td></td>
<td>$1,424,000</td>
<td>$630,000</td>
<td>19,091</td>
<td>$54,218</td>
</tr>
<tr>
<td>Emerald Park/Amberley</td>
<td>S</td>
<td>1997-98</td>
<td>$36,227,000</td>
<td>$9,617,400</td>
<td>291,436</td>
<td>$827,679</td>
</tr>
<tr>
<td>Melbourne Park</td>
<td></td>
<td>1998</td>
<td>$565,000</td>
<td>$227,250</td>
<td>6,886</td>
<td>$19,557</td>
</tr>
<tr>
<td>Remington</td>
<td>R</td>
<td>1998-2000</td>
<td>$31,450,000</td>
<td>$8,122,500</td>
<td>246,136</td>
<td>$699,027</td>
</tr>
<tr>
<td>Bradford</td>
<td>S</td>
<td>1998-99</td>
<td>$6,953,000</td>
<td>$1,919,700</td>
<td>58,173</td>
<td>$165,211</td>
</tr>
<tr>
<td>Phase 2 Infrastructure</td>
<td>R</td>
<td></td>
<td>$1,613,000</td>
<td>$558,900</td>
<td>16,936</td>
<td>$48,099</td>
</tr>
<tr>
<td>Phase 3 Infrastructure</td>
<td></td>
<td></td>
<td>$525,000</td>
<td>$198,450</td>
<td>6,014</td>
<td>$17,079</td>
</tr>
<tr>
<td>The Centro</td>
<td>S</td>
<td>1997-98</td>
<td>$21,707,000</td>
<td>$6,342,750</td>
<td>192,205</td>
<td>$545,861</td>
</tr>
<tr>
<td>Joyce and Crowley</td>
<td>R</td>
<td>1998-99</td>
<td>$4,870,000</td>
<td>$1,370,250</td>
<td>41,523</td>
<td>$117,925</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$195,086,000</td>
<td>$56,777,850</td>
<td>1,720,541</td>
<td>$4,886,335</td>
</tr>
</tbody>
</table>

Source: 'Concert Projects from 1989 to 1999' (December, 1999).

Table 17
It can be assumed that of this total cost, Concert invested 25% in equity. Therefore, for an investment of $48,771,500, the pension funds gained a rate of return of 10% in pension fund contributions.

The next table, Table 18, provides a social account of the amount of construction work that can be attributed to Concert in Collingwood. Since Collingwood is a community where both rental and market housing has been built, both models are used. The total number of hours of on-site work is divided into work on rental accommodation and work on housing for sale. It is assumed that 80% of construction work on rental accommodation would not have proceeded had it not been for Concert. Of the remaining hours, it is assumed that 10% of the hours would have been taken by construction workers who would otherwise have been unemployed. The other 90% would have been taken by construction workers at non-union rates of pay.

Work on housing sale projects is calculated by assuming that 10% of construction workers would have been unemployed had it not been for the projects. These hours are calculated at full rate of the average paid by Concert. The other 90% are calculated at the difference between the full unionized average rate of pay and the average rate of pay for construction workers in B.C.
<table>
<thead>
<tr>
<th>$</th>
<th>hrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total # of hours of work</td>
<td>1,720,541</td>
</tr>
<tr>
<td>Total Labour Component (@ $33 per hour)</td>
<td>$56,777,850</td>
</tr>
</tbody>
</table>

### Value of work on rental accommodation projects to be attributed to Concert (1):

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total hours of work on rental accommodation projects</td>
<td>868,923</td>
</tr>
<tr>
<td>80% of hours</td>
<td>695,138</td>
</tr>
<tr>
<td>80% hours of work @ $33</td>
<td>$22,939,554</td>
</tr>
<tr>
<td>remaining hours of work</td>
<td>173,785</td>
</tr>
<tr>
<td>10% @ $33</td>
<td>$573,491</td>
</tr>
<tr>
<td>90% @ $12.33</td>
<td>$1,928,492</td>
</tr>
<tr>
<td>(@$33 minus $20.67)(2)</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$25,441,537</td>
</tr>
</tbody>
</table>

### Value of work on housing sales projects to be attributed to Concert:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total hours of work on housing sales projects</td>
<td>851,618</td>
</tr>
<tr>
<td>10% of hours</td>
<td>85,162</td>
</tr>
<tr>
<td>10% hours of work @ $33</td>
<td>$2,810,346</td>
</tr>
<tr>
<td>90% of hours</td>
<td>766,456</td>
</tr>
<tr>
<td>90% of hours @ $12.33</td>
<td>$9,450,402</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$12,260,748</td>
</tr>
</tbody>
</table>

**Total Labour Value to be Attributed to Concert in Collingwood Project:** $37,702,285

---

**Note 1:** Included in this list of ‘rental accommodation’ are the Collingwood Neighbourhood House, several parks, a baseball diamond and a Health Centre. All, with the exception of the Health Centre are on land owned by the city and leased to Concert. The Health Centre is on land owned by Concert and leased to the Vancouver/Richmond Regional Health Board.

**Note 2:** The average construction gross rate of pay for British Columbia is $20.67 (BCStats, 2000).

**Sources:** Concert Projects from 1989 to 1999. (Concert, December, 1999). Letter from David Podmore, dated January 17, 2000

**Table 18**
The account shows that a total labour value of almost $38 million can be attributed to Concert from its on-site labour component of almost $57 million. This labour value is a direct effect attributable to Concert’s economic activity in the Collingwood project since 1994. Its benefits flow to British Columbia.

**Benefit to Stakeholders**

However, it is also possible to estimate the direct benefit to various stakeholders as shown in Table 19. This table is an estimated social accounting of benefits to employees, shareholders and government of Concert’s work in Collingwood for the construction period 1994-1999. It is based on information provided by Concert in Table 17 and calculations explained in Table 5.

The first stakeholders – on-site employees – had 1,720,541 hours of work for a total benefit of $56.7 million including pension and health and welfare benefits. It should be noted that this item could also have been included in the ‘investment’ category as a debit from project costs to denote that employees are an investment.
A SOCIAL ACCOUNTING SUMMARY OF STAKEHOLDER INVESTMENT AND RETURNS IN COLLINGWOOD, A CONCERT PROJECT (CONSTRUCTION PERIOD 1994-99)

Investments:

Total equity from Concert (25%)\(^{(1)}\) 48,771,500
Mortgage Fund One loans (34%) 49,746,930
Subtotal 98,518,430
Other loans (66% of remaining financing) 96,567,570
Total Project 195,086,000

Est. government foregone revenue
On investment and returns
Concert 12,936,640
Mortgage Fund One 13,195,374
Total Foregone Revenue 26,132,014

Returns:

Employees:

Est. hours 1,720,541
Est. Pay net of contributions (2) 49,310,704
Est. Benefits:
  health and welfare (2) 2,580,811
  pension (2) 4,886,335
  total 56,777,850

Shareholders:

Est. increased contributions to Pension plans 4,886,335
Dividends from Concert (3)
Dividends from Mortgage Fund One – 1994-1999 (4) 3,518,766
Total 8,405,101
rate of return 8.5%

Government:

Tax revenues from on-site employment
(25% of pay net of contributions) 12,327,676
Property Taxes 6,265,601
net loss 7,538,737

Source: Concert Projects from 1989 to 1999, December 1999;
Concert Real Estate Corporation Summary of Property taxes, December 13, 1999.

Note (1): This is Concert's estimate of their project financing in general. (Letter from David Podmore, January, 2000)
Note (2): see Table 5 notes
Note (3): Information unavailable
Note (4): See Table 9. An average of the rates of return – 7.07% was taken for the total investment

Table 19
The second stakeholders are shareholders who benefit from increased contributions to pension funds as well as dividends from their investment in both Concert and Mortgage Fund One. It is noted that figures are not available for returns on investment in Concert. Nevertheless, shareholders still make an average 8.5% return on their investment over these years of construction in Collingwood. Given that Collingwood has both rental and market accommodation, the rate of return will increase in the future as outstanding loans to other than Mortgage Fund One are paid off and rental income continues to be generated.

The third stakeholder is government. A simplified calculation is made contrasting the estimated foregone revenue from contributions and investment rates of return with the taxes estimated to have been paid by on-site labour and in property taxes. The net loss to government is $7.5 million. The same cautions apply to this table as applied to Table 14. This is simplified since it does not account for other employment directly created by Concert. Nor does it account for many other taxes paid such as corporate and sales taxes. Finally it does not take into account indirect and induced effects of Concert’s productivity and job creation.
**Concert and Community**

The final question is the extent to which Concert’s work has benefited the larger community. Table 20 provides another social accounting of Concert’s work from 1989, since Concert’s inception, to 1999. It summarises the total number of hours of on-site employment and the value of that work that can be directly attributed to Concert.

It is important to note that this is an account of on-site labour only. This work includes bricklaying, cement masonry, carpentry, electrical, glazing, iron work, engineering, painting, plastering, plumbing roofing and carpentry. It is therefore a conservative account, since there is also professional and administrative work to support the on-site labour. It is also important to note that this work was carried out on projects with a total cost of $498,585,000, almost half a billion dollars.

Table 20 shows that of a total labour value (or component) of $129.4 million, only $79.2 million should be directly attributed to Concert, largely based on the proportion of hours spent on rental construction, as opposed to housing sales construction. This represents 2,400,752 hours of work, 61% of the actual labour component.
### A Social Account of On-Site Employment Directly Attributable to Concert from 1989-1999 (Both Rental and Sales)

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
<th>hrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total # of hours of work</td>
<td>3,922,527</td>
<td></td>
</tr>
<tr>
<td>Total Labour Component (@ $33 per hour)</td>
<td>$129,443,400</td>
<td></td>
</tr>
<tr>
<td><strong>Value of work on rental accommodation projects to be attributed to Concert (1):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total hours of work on rental accommodation projects</td>
<td>1,528,799</td>
<td></td>
</tr>
<tr>
<td>80% of hours @ $33</td>
<td>$40,360,293</td>
<td>1,223,039.2</td>
</tr>
<tr>
<td>remaining hours of work:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10% @ $33</td>
<td>$1,009,007</td>
<td></td>
</tr>
<tr>
<td>90% @ $12.33</td>
<td>$3,393,017</td>
<td></td>
</tr>
<tr>
<td>(@$33 minus $20.67)(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td>$44,762,316</td>
<td></td>
</tr>
<tr>
<td><strong>Value of work on housing sales projects to be attributed to Concert:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total hours of work on housing sales projects</td>
<td>2,393,728</td>
<td></td>
</tr>
<tr>
<td>10% of hours @ $33</td>
<td>$7,899,302</td>
<td>239,373</td>
</tr>
<tr>
<td>90% of hours</td>
<td>$26,563,199</td>
<td>2,154,355</td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td>$34,462,501</td>
<td></td>
</tr>
<tr>
<td><strong>Total Labour Value directly Attributable to Concert:</strong></td>
<td>$79,224,817</td>
<td></td>
</tr>
<tr>
<td><strong>Total Hours to be directly Attributed to Concert (@ $33 per hour):</strong></td>
<td>2,400,752</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

1. Included in this list of 'rental accommodation' are the Collingwood Neighbourhood House, several parks, a baseball diamond and a Health Centre. All, with the exception of the Health Centre are on land owned by the city and leased to Concert. The Health Centre is on land owned by Concert and leased to the Vancouver/Richmond Regional Health Board.

2. The average construction rate of pay for British Columbia is $20.67 (BCStats, 2000).
What impact does this work have on the community? The Analysis and Evaluation Branch of the Ministry of Finance in the Government of British Columbia maintains an Input-Output Model, with the assistance of Statistics Canada. This model has as its base year 1990. It has been used for many studies assessing economic impact and can be used to calculate approximately 13,000 different multipliers for the B.C. economy (B.C. Ministry of Finance, 1996).

Input-output models and their multipliers present a simplified way of accounting for economic interdependence. In this case, they allow for an estimation of the indirect and induced effects of Concert's projects and the work it has created. They are somewhat crude and mechanistic. Therefore, for example, multipliers were not used to estimate the direct effect of Concert's production in creating jobs in this study. Nevertheless, they are useful as estimates in the absence of information such as:

- the value added to capital by the Concert projects that have been built;
- the impact of the value added on spending in B.C.;
- the impact on the suppliers of construction materials and services in the B.C. community in relation to their own economic growth and spending;
- how many jobs have been created indirectly by suppliers or more distantly by commercial ventures benefiting from Concert projects;
how much spending has been created (or induced) by Concert, as a consequence of its production;

how much spending is lost to other provinces; and

how much is paid for employment, property and business taxes.

### INDIRECT AND INDUCED EFFECTS BASED ON TOTAL PROJECT COSTS OF CONCERT OF $498,585,000, FROM 1989-1999(1)

<table>
<thead>
<tr>
<th></th>
<th>Indirect</th>
<th>Induced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output</td>
<td>(.55) $274,221,750</td>
<td>(.15) $74,787,750</td>
<td>$349,009,500</td>
</tr>
<tr>
<td>GDP – Value Added</td>
<td>(.23) $114,674,550</td>
<td>(.09) $44,872,650</td>
<td>$159,547,200</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$388,896,300</td>
<td>$119,660,400</td>
<td>$508,556,700</td>
</tr>
</tbody>
</table>

#### Employment

<table>
<thead>
<tr>
<th></th>
<th>(person years)</th>
<th>(person weeks)</th>
<th>(person hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>(4.4) 2191.2</td>
<td>(1.7) 847</td>
<td>3038.2</td>
</tr>
</tbody>
</table>

#### Taxation (2)

<table>
<thead>
<tr>
<th></th>
<th>Direct/Indirect</th>
<th>Induced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>(.14) $69,801,900</td>
<td>(.01) $4,985,850</td>
<td>$74,787,750</td>
</tr>
<tr>
<td>Provincial</td>
<td>(.11) $54,844,350</td>
<td>(.01) $4,985,850</td>
<td>$59,830,200</td>
</tr>
<tr>
<td>Municipal</td>
<td>(.02) $ 9,971,700</td>
<td>(.00)</td>
<td>$ 9,971,700</td>
</tr>
<tr>
<td>Total</td>
<td>$144,589,650</td>
<td>$144,589,650</td>
<td>$144,589,650</td>
</tr>
</tbody>
</table>

Note (1): Multipliers are shown in brackets and are taken from the multiplier tables, item 154: Residential Construction (B.C. Ministry of Finance, 1996)

Note (2): Taxation collected on direct, indirect and induced employment and businesses

Table 21
Table 21 uses multipliers against Concert’s total project costs for its ten years of existence to attempt to provide estimates in response to these questions. Table 21 illustrates that, over a period of ten years, the indirect and induced effects alone of Concert outweigh the total project costs. Even though the multipliers chosen for employment effects are the more conservative in that they take account of social safety nets in the absence of employment, indirect and induced employment increases the direct effect of Concert’s estimated labour component by 71%.

Using multipliers, the social accounting shows that Concert’s impact on indirect and induced employment created 5,529,524 hours of work, more than doubling its direct, attributable on-site employment. This is in spite of the fact that the multipliers chosen for employment effects are the more conservative in that they take account of social safety nets in the absence of employment. Furthermore, its value added or contribution to productivity (in the community) through its indirect and induced effects is $508,556,700, just over its total project cost for the ten years.

Finally, the taxation revenues for all levels of government generated through Concert’s productivity total $144,589,650, which amounts to 29% of the total project cost. How does this compare with taxes foregone by
government through tax exemption of contributions and returns on investment?

Table 22 estimates taxes foregone by (the Federal) government for both Concert and Mortgage Fund One:

| FOREGONE TAX REVENUES FOR CONCERT AND MORTGAGE FUND ONE – 1989-1999 |
| ON TOTAL PROJECT COSTS OF $498,585,000 |
| Concert |
| Equity (@25%) | $124,646,250 |
| Foregone Taxes on: | (1) |
| Investment | $31,161,563 |
| Returns (@ 6.1%) | (2) |
| | $1,900,855 |
| Total | $33,062,418 |
| Mortgage Fund One |
| Equity (33% of financing) | $123,399,788 |
| Foregone taxes on: | |
| Investment | $30,849,947 |
| Returns (@7.07%) | (3) |
| | $2,181,091 |
| Total | $33,031,038 |

Total Foregone taxes for Concert and Mortgage Fund One $66,093,456

Note (1): as estimated by the Department of Finance
Note (2): as estimated by the Department of Finance, in the absence of information on rates of return
Note (3): Average rate of return – see Table 9

Table 22
Calculations are based on methods used by the Department of Finance of the Federal Government. If it is assumed that tax revenue is foregone by the Federal Government, this level of government more than recoups its investment through direct, indirect and induced returns in the form of personal and business taxes. For all levels of government, it is clear that the work of Concert and Mortgage Fund One yields opportunities for tax revenue that far outweigh government subsidization. Clearly, the benefits of Concert extend beyond the interests of construction workers and their pension funds.

Summary

The Collingwood project is an example of urban renewal of a working class community in the lower eastside of Vancouver. Preliminary models have shown the total project costs of five years of this development as just over $195 million. This accounting has further itemized the jobs created as well as monies flowing to union pension funds as a result of the development. The first social accounting model calculates the direct effect of this job creation on the broader community, using models developed in the

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13 The Department of Finance calculates foregone revenue on pension fund asset returns by multiplying the total pension fund assets in Canada (as reported by Statistics Canada) by the reported interest rate on 10 year government bonds (6.1% in 1997). This sum is multiplied by an 'average tax rate' (Interview with Ian Pomeroy, January 6, 2000).
previous chapter. It shows that a total labour value of almost $38 million can be attributed to Concert from its on-site labour component of almost $57 million.

A second social accounting model has estimated the returns to stakeholders – employees, shareholders and government – from Collingwood. Shareholders made an average rate of return of 8.5% on their investment, with dividends from Concert unaccounted for. Governments made a net loss of $7.5 million, taking into account only revenues generated by on-site labour and property taxes, with indirect and induced effects unaccounted for.

The former model is then applied to all Concert projects since its inception, providing an estimate of Concert’s direct impact on the community. Of a total labour value (or component) of $129.4 million, $79.2 million can be directly attributed to Concert, largely based on the proportion of hours spent on rental construction, as opposed to housing sales construction. This represents almost 2.5 million hours of work.

Finally, a multiplier model is used to estimate the impact of Concert on its broader community through its indirect and induced effects. It was found that the company doubled its direct, attributable hours of employment in impact on community employment. Further, its contribution to
community productivity was more than double its total cost over a ten year period. Indirect and induced value, it doubles its project costs. Finally, the taxation revenues for all levels of government generated through Concert’s productivity total $144.5 million, almost a third of the total project cost. Foregone tax revenues on pension fund investment returns in Concert and Mortgage Fund One over 10 years are estimated at $66 million. Therefore, the Federal government had a net gain of $8.7 million on its investment. However all levels of government benefited in the amount of $144.5 million.

The following chapter considers the implications of these findings for pension funds. It will propose and discuss a transferable social action model that may guide union pension funds in setting up social, or economically targeted, investment. It will also discuss the transferability of this particular economically targeted investment model for union pension funds in the private and the public sectors.
Chapter 13

Accounting for Social Investment

One theme of this thesis has been the barriers confronted by union trustees in establishing meaningful, actionable social investment strategies. This chapter offers an antidote by proposing interpretations of the findings described in the previous chapter, and providing a way forward for union trustees to implement social investment strategies.

This chapter is organized into two sections. First, definitions and standards for social investment proposed by this thesis are discussed. Integral to this discussion is consideration of the validity of using social investment as a category for ethical investment, shareholder activism and asset targeting. Second, measurability of social investment is discussed. In particular, social accounting models used in this thesis are considered in terms of their transferability.

Definitions of Social Investment

This thesis has considered three different types of social investment: shareholder activism and corporate governance; ethical screens; and economically targeted investment. These three broad types provide a
collateral, or social, benefit aside from the fiduciary responsibility to beneficiaries. Further, they meet the initial definition proposed of social investment in Chapter 6, as the ‘inclusion of various social standards in investment decision-making to accompany financial standards’ (p. 73). An extension of the definition embraces social investment as a tool to challenge conventional corporate behaviour, often because such a challenge arises in an arena of contested control (Bruyn, 1987; Lowry, 1991; Zadek, Pruzan and Evans, 1997).

A measure of the challenge to corporate behaviour could be the extent to which social investment contributes to economic and social benefit. If the definition is extended as a necessary condition of social investment, it can effectively prevent the inclusion of right-wing criteria. Examples of this are anti-gay criteria for investing in companies. Such funds exist in the U.S. and could easily develop in Canada. The process of measuring would then be called ‘social accounting’.

Finally, one factor common to all forms of social investment is the need for collective action by unions and pension funds. Both shareholder action, corporate governance and screens are more effective with more investors working together in holding corporations accountable for their economic and social performance. As well, alternative investment strategies
such as asset targeting can only work through the ongoing, long-term collective collaboration of unions and their pension funds.

The term ‘social investment’ appears to be valid for these apparently disparate ways of investment because of their social action component.

To summarize, ‘social investment’ (in relation to pension funds) can be defined as:

- collaborative action by unions and pension funds, leading to various types of collateral investment,
- which implicitly or explicitly challenge conventional corporate behaviour, and,
- through social accounting techniques, provide verifiable contribution to the social and economic benefit of the community.

All forms of social investment are at a beginning stage in Canada. The central area of research to date in the U.S. has been the examination of the impact of social investment on the rate of return. As this thesis has indicated, there is no body of evidence indicating that any form of social investment systematically lowers returns.

From the point of view of a union pension trustee, types of social investment appear disparate and require different forms of organization,
knowledge and skills on the part of trustees, fund managers and pension funds. This view contributes to the practical difficulties in implementing social investment.

Shareholder activism assumes an involvement of investors’ representatives in the daily life of the corporation. Pressuring for corporate accountability includes actions like meetings with corporate players, writing letters and stacking annual meetings. These actions are directed at bringing about social change in the corporation’s relationship with its shareholders, employees or community (local or global).

Pension fund involvement in shareholder action is dependent upon control over the proxy votes. When funds are pooled, they are often under the control of the financial industry.

There are also fundamental legal barriers, in effect in Canada since 1975, preventing shareholders from filing proposals on social performance of corporations. These barriers are opposed by the Social Investment Organisation (Ellmen, 2000) and the Taskforce on the Churches and Corporate Responsibility, the two Canadian organizations promoting socially-oriented shareholder activism.

As described in Chapter 4, in Canada it is extremely difficult for a pension fund to improve share value through either threatening or
withdrawing their investment in a particular corporation. The cost of pulling out shares may diminish their value because of the lack of market liquidity and therefore call into question the fiduciary responsibility of trustees.

There is evidence, however, that corporate governance strategies amongst pension funds may be on the rise in Canada. These strategies tend to revolve around issues of executive compensation, board structure, takeovers and mergers and tend not to be considered social issues. Indeed, the Globe and Mail (Blackwell, 2000), recently reported a ‘sea change’ in corporate thinking on shareholder proposals. These proposals may influence corporate behaviour without reducing rates of return, although evidence suggests that pension funds seldom withdraw funds in any event.

Nevertheless, while there is some disagreement over whether shareholder action can actually increase rates of return, there is no evidence that it can lower rates of return.

An exciting shareholder proposal, recently submitted by Working Enterprises Limited (a company owned by seven unions in B.C.) has asked Placer Dome to provide risk management plans and liability insurance information for shareholders. This is described in more detail in Chapter 5. The proposal requests a social accounting of the costs of risk management and liability insurance for all its sites. While addressing the social and
economic behaviour of a corporation, this proposal is grounded in financial concerns contemplated by Paragraph 137 (5)(b) of the Canada Business Corporations Act. It illustrates how social accounting can be a tool to implement shareholder activism, even under the restrictive conditions imposed by legislation. It further shows how the impact of the behaviour of a corporation on its community can be shown by an internal accounting. For example, the social accounting requested by this proposal could be reflected in a value-added statement as described in Chapter 7.

Shareholder action among pension funds is largely unco-ordinated in Canada, although there have been recent attempts to provide a union focus through Working Enterprises, the B.C. Federation of Labour and the Canadian Labour Congress, under the leadership of Ken Georgetti. However, pension funds tend neither to coordinate or resource their activities. This has been viewed as economically wasteful and possibly undermining fiduciary responsibility through loss of shareholder value.

Ethical screens may be useful as a first step in exercising some control over investment. However, there are still technical limitations to screens that limit their usefulness as measures of corporate social performance. For example, the summation of negative and positive factors necessarily leads to negatives being cancelled out by positives. A company that has points
against it for serious environmental violations can neutralise its score for numbers of women on its Board of Directors. Also rigorous trade union or environmental values incorporated into an ethical screen tend to leave little room to invest in the smaller Canadian markets. Finally, screens cannot accommodate portfolio diversification.

Further, criticism of screens is warranted because of the apparently low standards of social performance exacted by some screens. This can only be corrected through political pressure on corporations. Screens therefore are not a substitute for other forms of activism exerted by pension funds and are a relatively weak tool with which to hold a company to account. Finally, there is a lack of clarity over the relationship between ethical standards and social and economic benefit. In the U.S., for example, there are screens to implement right-wing as well as left-wing value systems.

This thesis proposes that screens are a form of social investment to the extent that they are measures of the economic and social benefits provided by the performance of the corporate sector. Accordingly, right-wing, exclusionary values espoused by investment screens should be supported by an accounting of their social and economic benefit to the community in order to be classified as a social investment.
Nevertheless, there is no evidence that ethical screens lower the rate of return, although they may not perform better than unscreened investments. Most of this research is in the U.S. where there are more ethical funds and the Kinder, Lydenberg and Domini Index has been developed to provide a benchmark for the performance of social investment portfolios. In Canada, a similar index has recently developed by Michael Jantzi and Associates, based on the KLD Index, which will allow for more Canadian research on ethical fund performance.

Shareholder activism, corporate governance and screens are approaches to social investment, where the investor is attempting, however imperfectly, to hold corporations to account. This is made more difficult since pension funds are limited by law to investing no more than ten percent in any one corporation. Nevertheless, these methods of social investment are the only ones that can be used by pension funds to evaluate stock market investment when assets are under the control of pension funds.

Stronger relationships with Working Enterprises, MiningWatch and others attempting to pursue shareholder action strategies would be also be helpful in enabling trustees to hold funding staff and managers accountable for proxy voting of shares. Finally, unions should have stronger relationships with organisations which are lobbying for change and developing social
action strategies to pursue social investment goals. Unions can provide much-needed support and resources to their pension trustees in this work.

Asset targeting, or economically targeted investment, is the third form of social investment and the subject of this study. It involves setting funds aside with those of other investors to create an investment vehicle which provides a reasonable rate of return and social or collateral benefits as well. The pooled fund lowers the risk by spreading it among all the investors. This form of investment takes a very small proportion of assets – often (as this study shows) between one and two percent - and allocates it to affordable housing and other economic development projects.

There is strong support for this form of social investment by pension funds in the U.S. in the form of regulatory sanction and federal investment guarantees to lower the risk. There is an even greater incidence of asset targeting in Quebec where a strong and unwavering commitment to economic development is linked to the nationalist aspirations of many institutions of the province. A similar commitment to economic development has been noted in this study by the pension activists in B.C. who organized Concert and Mortgage Fund One.

Economically targeted investment has been shown to be dependent on leadership from the union and the pension fund where there is not strong
regulatory or cultural support. For example, Concert was set up by the persistence of a small group of leaders in the trade union movement, with links to union pension funds, and the real estate development industry. This does not necessarily mean that Concert is not replicable. It does mean though that there is a strong need for training and education targeted at union leadership and pension trustees; further, that there should be improved communication between unions and their pension funds; finally, that there should be increased collaboration between pension funds and between unions on pension fund investment. This particularly applies to the ability to pool funds. This issue is dealt with more fully in a later chapter.

Labour-sponsored investment funds are a strong Canadian example of social investment. These funds target sectors and regions of the economy to support innovative, as well as older small- and medium-sized businesses. They also invest in ethical funds and use shareholder action techniques to encourage productive, corporate behaviour. Some of them are union-based. While pension funds have a different regulatory environment, both can be union-based. Therefore, they can work with pension fund trustees and learn from each other.
Social Accounting Models

Social accounting has been identified as a necessary condition of social investment in order to provide measurement of social and economic benefit to the community. Further, social accounting methods should – and can – be used as a tool to assess the collateral benefits of investment. Such accounting can provide evidence of productive or unproductive behaviour of corporations and of social benefits or social damage caused by corporations. Since there is no evidence of lower returns through social investment, the next argument to be made is that there are provable and replicable benefits (or damage) to beneficiaries through certain investments. Social accounting methods will be critical in these arguments.

This study has provided a first social accounting of an economically targeted investment by a pension fund in Canada. Further, theory has been extended by providing measures of returns on pension fund investment going beyond the financial rate of return through the use of social accounting. A broader set of criteria has been used, compared to that which is normally used in financial statements associated with investment returns.

There are a series of social accounting methods used in this study that can be categorised as follows:
A. **Stakeholder benefit** –

1. to workers through job creation;
2. to pension fund shareholders through increased contributions and dividends; and
3. to government through increased employee taxes.

B. **Broader Community Impact** –

4. of job creation through construction of rental accommodation and market housing;
5. of the indirect and induced effects of job creation;
6. of the total project costs of Concert; and
7. of the indirect and induced effects on taxation of Concert.

The first section of accounts can be considered ‘internal’ in that they only consider the benefit of the organization’s work to its various stakeholders. The stakeholders recognised by the model in this study are workers, shareholders and government. The value-added statement is an appropriate model for illustrating stakeholder interest, although in this study the statements are not in the form of balance sheets since not enough
information was available. This is unlike the model which was pioneered in the U.K.

The second section of models considers impact on the broader community. First, an approach was developed to account for the direct impact of Concert’s job creation through several projects. This net social gain was calculated based on the differing social and economic value to the broader community of the construction of rental accommodation and market housing.

Second, multipliers were used from the British Columbia Input-Output Model to estimate the indirect and induced effects of Concert’s projects and the work it has created. A further estimation was made of the impact on all levels of government of tax revenues from direct, indirect and induced employment, and business production as a result of Concert’s activity.

There are clear benefits to workers from investment of their pension funds. This is shown in Table 12, in the first series of models, which illustrates that 4.9 million hours of work have been created through Concert projects, of which 1.8 million were for carpenters. Further tables corroborate this picture for on-site employment.
However, it should be recognised that not all pension fund investors in Concert have their members represented in on-site employment. The Telecommunication Workers Union which provides anchor funding to Concert through its jointly trusteeed pension fund is a case in point. Arguments for economically targeted investment based on direct job creation for members of the investee pension funds will have narrow appeal, and miss the more important argument that such investment has a benefit and impact on a much broader community of interest.

Table 12 also shows that the Carpenters’ pension fund received additional contributions of $4.25 million. Again, while this is a significant gain for the pension fund, arguments for more productive pension fund investment that rely on increased pension contributions through job creation will have a narrow appeal (resting on self-interest) to those unions which can benefit directly. Furthermore, such investment may not meet the suggested definition of social investment since it offers no measurement of social and economic benefit to the broader community.

There is scant literature on pension fund investment. In the United States, the ‘whole participant’ approach has been proposed by Barber and Ghilarducci (1993) in recognition that pension funds benefit from higher levels of contributions when there is a strong economy that keeps fund
members at work. **Members, they argue, also benefit by working until they reach retirement age.** This approach proposes that investment be measured according to its collateral benefits as well as its returns, as opposed to speculating for the best possible returns in a supposedly free market (Ghilarducci, 1994).

Quarter (1995, p. 213), in Canada, has suggested that ‘it is possible to have investment policies that take into account a broader range of criteria than the rate of return’; he notes that pension funds can be invested to provide additional contributions to the fund and jobs for members of the fund. He goes further, however, in suggesting that funds can also be invested in social housing.

However, this study has argued that ‘collateral benefits’ needs to be understood broadly enough to include the impact of a pension fund investment on the broader community. Social and economic indicators may reveal collateral benefits (or damage) to community and, therefore, should be used as social accounting measures of investment return.

Furthermore, job creation by its nature is not necessarily a social or economic benefit. This thesis has introduced the notion of net social gain from direct job creation (in section B above) which is discussed in the second model below. Some work has more social value than other work
because of the kind of housing created. This point could be extended to other industries besides residential construction, such as environmental technologies, health products and mass transit.

Moreover, public policy should be based on a view of a social return on investment that benefits contributors, beneficiaries, government and the broader community. It is important to note that the anchor fund, the Telecommunication Workers Union, was driven by a broader interest than simply creating jobs for its own members. Its goal was to create economic growth in the province through pension fund investment from which everyone could benefit. Thus, the union was not self-serving in its use of pension funds.

This position is supported by Deaton (1989), who argues that it is important to consider the broader impact of social investment strategies. Taxable benefits for those covered by pension plans already create an inequitable distribution of wealth. Therefore further social investment policies that benefit members only increase these inequities.

The second model (in Section B #1 above, and presented in Tables 13, 15 and 18) calculates the returns on investment for the Carpentry Workers Pension fund from investments in both Mortgage Fund One and Concert. This model introduces the idea of a net social gain from direct job creation.
It assigns different values of job creation to two variables – construction of rental accommodation and construction of market housing – based on the differing social and economic value to the community of the two types of residential construction.

Further this accounting process is applied to all Concert’s work from 1989 to 1999. The analysis shows that Concert can be directly attributed with $79,224,817 in labour value, or 2,400,752 hours of work, based on its mix of rental and affordable housing construction.

This analysis relies on Giloth (1997) who maintains that it is imprecise and unrealistic to assume that all jobs created in the course of a project would not have been created otherwise. However, he says, there are few rules governing the ‘what-if’ of alternative job creation scenarios. This thesis offers an analysis that rests on the scarcity of rental housing in Vancouver because of the unwillingness of developers to invest the patient capital needed for rental housing. The social accounting model ascribes a financial value to the social benefit provided by this investment.

The third model (described in section A, #3) uses the value-added framework to estimate the benefit of pension fund investment to government through job creation. This is introduced in Table 14. This is a fairly
simplistic account of government revenue from a Concert project, since it only accounts for tax revenues from on-site job creation.

The final social accounting model (described above in section B, #5, #6 and #7) examines the impact of Concert's work on the broader community of British Columbia, through the use of multipliers. The accounting shows that Concert's impact on indirect and induced employment has created 5.5 million hours of work, more than doubling its direct, attributable on-site employment. Furthermore, its value-added (that is, contribution to productivity through its indirect and induced effects) is $508,556,700, just over its total project cost for the ten years. Therefore, Concert's benefit to the community is more than double its total cost.

Finally, the taxation revenues for all levels of government generated through Concert's productivity total $144.5 million, almost a third of Concert's total project cost. Foregone federal tax revenues on pension fund investment returns in Concert and Mortgage Fund One over 10 years are estimated at $66 million. Therefore, the Federal government had a net gain of $8.7 million on its investment. This thesis has used well-established techniques such as profit and loss accounting and multiplier effects drawn from the fields of accounting and economics. Through a social accounting approach it has been possible to reveal some important components of the
social value of pension fund investment. Social accounting models have provided a practical method of measuring the value of the collateral benefits of pension fund investment. In so doing, they have redefined collateral benefits in terms of social and economic benefits.

These accounting methods can theoretically be used on all real estate development investment and similar approaches could be developed to apply to all investment. These accounting methods would then become an evaluative tool, measuring the extent to which an investment contributes to social and economic benefit.

These social accounting methods can also serve as ways of reporting on investment. Developing techniques such as the measures used in this thesis is conceptually possible for all investments, though unlikely in some political climates. However, it is always encouraging to remember that (as described in Chapter 7) a labour government in the U.K. introduced value-added accounting statements as a reporting requirement for all corporations. This regulation was later rescinded by the Thatcher government who viewed labour costs as a liability lowering profits.

Therefore, it is not inconceivable that collateral benefit statements could be a requirement of pension fund investment in general. This type of reporting would enhance the probability that pension fund investment
contributes to social and economic benefit. Needless to say, it would require a change in direction of government policy towards a regulatory support of productive investment.

In the current political climate, this kind of regulatory change may not be achievable. A more achievable scenario at the present time is that pension funds voluntarily provide more public (and membership) information on the social and economic benefits of their fund investments. This would be timely, given public (and membership) scrutiny of pension fund investment. Voluntary reporting may stimulate public debate about the value of investment in general and about the use of pension funds.

Summary

This chapter has proposed a working definition for the social investment of pension funds. This definition calls for collaborative action by unions and pension funds to initiate various types of collateral investment, which may be shown through social accounting techniques to provide social and economic benefit to the broader community. This is likely to provide an implicit or explicit challenge conventional corporate behaviour.

All three types of social investment – shareholder action (and corporate governance), ethical screens and economically targeted investment
– meet the conditions of the definition. None lower rates of return and therefore are available as means of collateral investment. Shareholder action can be improved through more collaboration between pensions funds and between union and community organizations. Ethical screens can be strengthened through tests of economic and social benefit to the community. Economically targeted investment has been shown to be dependent on union and pension fund leadership where there is no regulatory or cultural encouragement. This does not limit the transferability of Concert as a social investment model, but calls for intensive training and education targeted at union leadership and pension trustees.

This chapter has presented several social accounting models that extend theory by providing measures of returns on pension fund investment going beyond the financial rate of return. There are two broad categories – the first relating to stakeholder benefit and the second to broader community impact.

In the first, stakeholders considered are workers, shareholders and government. When pension funds consider only the first two, they fail to consider the broader policy implications of tax exemption and the ensuing argument that there should be benefit to the broader community. Such
investment would also fail to meet the requirements of the definition proposed in this chapter.

In the second, the broader community impact is considered of job creation through construction of rental accommodation and market housing; of the indirect and induced effects of job creation; of the total project costs of Concert; and the indirect and induced effects on taxation of Concert. A net social gain was proposed based on the differing social and economic value to the broader community of the construction of rental accommodation and market housing. Multipliers estimated the productivity of Concert, the indirect and induced effects of on-site job creation and the returns to all levels of government in increased tax revenues.

This chapter concludes by suggesting that social accounting techniques are essential in measuring the success of collateral investments and reporting results to members and the general public. This may encourage greater reporting on investment in general.
Chapter 14

Models for Union Control of Pension Funds

Union control over pension fund investment is a critical step if unions are to participate in building more productive, social investment strategies. First, this chapter considers whether the Concert model is transferable. Second, two models are proposed that are transferable as a guide for unions in pursuing social investment strategies. The first illustrates the levels of control necessary for unions to implement social investment. The second is a social action model for union control over investment.

Concert as a Transferable Model

There is no easy formula for social investment that makes the Concert model directly transferable. First, it is not known whether a similar or identical model of real estate investment to Concert can be set up by other pension trustees. As was explained in Chapter 10, pension funds wanting to own and develop land can only do this through a pre-1978 company under section 149 (1) (o.2) of the Income Tax Act. It is unlikely that there are many pre-1978 companies available for purchase, and it is not known how many pension funds are registered to own and develop land.
This section of the Act needs to be changed. Unions and pension funds could enlist the assistance of labour-sponsored investment funds, experienced in federal government relations, to lobby the Federal Government for changes to the Income Tax Act to change this loophole.

Second, it might be argued that the need for specific types of leadership to build Concert effectively negates its ability to be a model for other trustees. On the contrary, both models proposed illustrate how education, training and recruitment of expertise at various levels of control over fund investment may lead to social investment strategies.

It is a question, though, whether there should be more than one company in Canada like Concert or Mortgage Fund One, funded by pension funds. Moreover, it should at least be considered whether these companies should stand on their own as national investment vehicles for pension funds.

Traditionally, particularly in the building trades, the reverse has been true. Unions, where they have sole trusteeship of pension funds, have developed their own real estate development initiatives. There is a strong social policy argument to be made that national investment vehicles make more sense, so that funds can be pooled to build rental housing and affordable market housing wherever there is a shortage of long-term capital and affordable housing.
Furthermore, it makes more sense to pool resources and expertise and work together for social and economic benefit, than to compete. Pooling allows for the sharing of expertise on local market conditions and also mitigates the risk. It is hard to envisage competition among pension fund investors unless it is for the benefit of the individual pension fund and at the expense of the community. Capital is lost, moreover, through the inability of some pension funds to compete.

The Board of Directors of Concert has recently decided to move Concert into Alberta and Ontario. They bring with them the expertise developed in construction of rental housing and will build partnerships with pension funds and technical experts more knowledgeable of local real estate development conditions. Mortgage Fund One is also looking for investors in Ontario. As mature examples of social investment, Concert and Mortgage Fund One can become training grounds for union pension trustees in investment in mortgage trusts and the development of rental accommodation. This may mark the beginning of national pension fund investment models.
Levels of Union Control of Pension Funds

The experience of unions in British Columbia provides us with the elements of two models for union control of pension funds. The first model, shown in Figure 3, identifies the three levels of control attained by unions over their members' pension funds. These levels are developmental in that attaining the first level (negotiating pension plans) is needed before the second level (negotiating governance) can be achieved. Similarly, without joint trusteeship, it is unlikely that management of funds can occur.

The first level is the negotiability of pension plans. It is not uncommon for public sector unions, in particular, to have no statutory negotiability of their pension plans or funds. For example, the Ontario Municipal Employees Retirement System (OMERS) is not negotiable, even though there are some employee representatives (chosen by government) on the Board of Trustees. In this case, changes in pension benefits or in the terms of the fund can be made unilaterally by the employer. In the Concert case study, Bill Clark started his work as President of his union with the power to win negotiability of the pension plan. Some unions (for example, the CAW) have partial negotiability, that is, negotiability of the plan but not plan or fund management.
LEVELS OF CONTROL NECESSARY FOR UNIONS TO EXERCISE SOCIAL INVESTMENT STRATEGIES

1. NEGOTIATING PENSION PLANS

2. FUND GOVERNANCE

3. FUND MANAGEMENT

4. SOCIAL INVESTMENT

Figure 3.
The second level refers to governance. This model builds on the findings of a study identifying relatively little control by unions over pension funds in Canada, but identifying eight distinct models of control in the top 23 funds. These models range from no control to full joint control over pension fund governance. This study further identifies a distinct trend towards joint trusteeship among these top funds (Carmichael, 1998).

The Telecommunication Workers' Union negotiated joint trusteeship in order to win meaningful control over fund investment (the third level). This was a strategy developed by Bill Clark, the President of the union and Bruce Rollick, his actuary, who knew the difference between real control and the appearance of control and had the power to achieve it.

Often, though, joint trusteeship does not deliver an effective control over investment. For example, teachers' unions in Ontario have joint trusteeship through their federated union the Ontario Teachers' Federation. However, trustees must be 'financial experts' by law, so that few teachers are, in fact, trustees. Further, investment is handled by the Vice President of Investment and his staff. There are therefore many organizational barriers between a teachers' union and the investment process.

Within the third level (active engagement in pension fund investment), there are different degrees of engagement ranging from access
to information from investment staff or fund managers to the ability to hire fund managers, set their contracts and fire them in the event they do not follow instruction.

Union control over pension investment is a step towards a greater voice for unions in decisions about production, as discussed in greater detail in Chapter 6. Control over pension fund investment is a critical link between the trade union movement's goal of a decent living wage for everyone and any real transformation of the system. Moreover, pension funds are well placed to provide the capital needed to begin to build a more productive economy.

Figure 3 illustrates (by means of the arrow with dotted lines) that it is not a necessary condition of attaining all three levels of control that unions implement social investment strategies. There are already union trustees with substantial fund management control who have no record of implementing or attempting to implement such strategies. Pension fund power, leadership, education and specific types of support are also necessary elements.
A Social Action Model for Union Control

The second model, Figure 4, is a Social Action Model for Union Control of Pension Fund Investment. This model identifies three components that are necessary for effective action. These components are: leadership by champions, support and expertise, and education. In suggesting action strategies, each of these components interact with each level of control. These components are based upon an interpretation of Concert and Mortgage Fund One.

Leadership

This study finds that union leadership is essential in pursuing a pension fund control strategy. In the case study, the key players remained consistent from the time when union investment strategies were first discussed with the B.C. Federation of Labour, even though the numbers in leadership grew.

All were in positions of power. Bill Clark exerted an almost visionary leadership in his union, in spite of the lack of models to follow and in the face of a certain amount of scepticism. He was also President of his union, and union trustee of his members’ pension plan. He was, therefore, well-placed to execute his vision. So was Wayne Stone who still is Administrator
SOCIAL ACTION MODEL FOR UNION CONTROL OF PENSION FUND INVESTMENT

LEADERSHIP

SUPPORT AND EXPERTISE

EDUCATION

UNION CONTROL

Figure 4
of the Carpenters’ Pension Plan and well-respected and trusted by the Carpenters’ Union.

For many unions, pensions may be an important item on the collective bargaining agenda but involvement in the issue is not seen as a breeding ground for leaders, activists or champions. Perhaps that is why the history of Concert is viewed by some as idiosyncratic, and therefore not replicable. On the contrary, the activists – or champions – involved in Concert have uncovered a new arena for union activism. This is replicable through a change in union priorities and targeted leadership education.

Where union and pension fund leadership is separated, leadership from both the union and the pension fund is critical to the success of the investment strategy. In the case study, a good relationship and understanding of pension fund administration was shared by union and pension fund officials alike. Often, a union and its pension fund had leadership in common, through the president of the union who would also sit on the Board of Trustees. This was the case with the Telecommunication Workers Union. Where this was not the case, as in the Carpenters’, there were mechanisms for sharing information between the union and the pension fund, such as reports and resolutions at annual conventions and fairly constant contact.
Where there is little or no relationship between trustees and their union, it can be problematic, often because of a perceived threat to fiduciary responsibility and to the autonomous leadership of trustees. This is the case today with several unions and their pension funds across the country (Carmichael, 1998).

Different types of leadership are necessary at different levels of control. For example, union leadership has been found to be critical in campaigns for pension-plan negotiability and joint trusteeship. However, union pension trustees become the new leaders of investment activism as pension fund governance develops. This has clear implications for training programs on pension fund activism.

There need to be clearly defined roles for both the union and the pension fund. Trustees have the legal obligation of fiduciary responsibility to make informed and independent decisions. The pension fund requires its autonomy as a separate, bipartite organisation respected. However, following Figure 4, the union has a clear role to play in research and education to train pension activists and trustees.

A similar point was made in a previous study of the OPSEU Pension Trust, a jointly trusteeed pension plan (Carmichael, 1997). Union and employer negotiators had to transform themselves into trustees, working in a
‘different legal entity with very different responsibilities’ (ibid, p. 53). Similar comments were made by Clark and Podmore, as they attributed much of the success of Concert to the ability of the main players to build a new organisation without the politics and relationships of their respective unions and workplaces.

Unions are abandoning their responsibility when they leave their trustees to fend for themselves without any preparation and organizational policy direction on trusteeship and investment. In the survey by Carmichael (1998), trustees complained about the lack of support and resources from their unions. When this occur, the unfortunate outcome is the unavoidable reliance of trustees on fund managers, thereby perpetuating hegemonic approaches to investment.

On the other hand, one factor contributing to counter-hegemonic work is the informed leadership of trade unions and pension funds working together, in spite of the fact that, in Concert, the key players received no formal training from the union or the pension fund, but, as they said, they learned by doing.

Social investment strategies can be made more probable through union training that challenges the dominant thinking of the financial
industry. This has implications for adult education strategies, which will be discussed later.

Formal leadership of the economically targeted investment was provided by the anchor pension fund, the Telecommunication Workers’ Fund. As shown in Chapter 10, it invested proportionately more in both Concert and Mortgage Fund One. Having an anchor fund was necessary to provide stability to the pooled vehicles. This has implications for organizing strategies among pension funds. Pooling appears a natural move for smaller funds in order to spread the risk through asset targeting. However, they must ally themselves with at least one larger fund to provide the stable core. Larger funds, on the other hand, also must look to smaller funds to spread risk. Both large and small funds are required to exercise leadership in an economically targeted investment vehicle.

Similarly, collective action among large and small pension funds may be required by other forms of social investment. If either shareholder action or screens are to have an effect on holding a corporation accountable for its economic and social performance, it is more effective if funds and unions act collaboratively.
Support and Expertise

Choosing allies, winning enduring support and finding the right expertise were found to be critical for Concert. Having negotiated joint trusteeship, unions face steep learning curves in pension-plan administration as well as pension fund investment – fields of expertise quite alien to traditional trade-union experience. It is unknown, for example, how many fund managers there are with trade union experience or expertise in social investment. Since the dominant view of the financial industry is opposed to social investment, it has proven difficult for pension trustees to find fund management support for alternative investment strategies. This has been cited by the Canada Labour and Business Centre in its survey of pension fund trustees (Falconer, 1998).

This inability to access knowledge about social investment strategies is exacerbated by existing training for pension trustees, which is provided primarily by the financial industry and by its representatives through the Institute for Fiduciary Education, an American educational institution, that is corporate and anti-worker in its focus. Relying on this one institution reinforces hegemonic approaches to pension fund education and training.

Nevertheless, unions can find the expertise necessary to pursue a social investment agenda that enhances the viability of pension funds and
promotes economic and social benefit to the community. Bruce Rollick, an actuary, and David Podmore and Jack Poole, who are real estate developers, are all experts identified by union leaders as union-sympathetic and who were instrumental in building Concert. As much as the union and pension fund leaders, they are champions in the stories of Concert and Mortgage Fund One. They do not make Concert a less replicable model. On the contrary, they were sought out by leaders who wanted to pursue social investment strategies but needed help in providing the framework. Good referral networks among unions can put union leaders, pension trustees and investment experts together.

In Canada, there is a growing cadre of expertise in labour-sponsored investment funds. While regulatory frameworks are somewhat different, investment strategies can be shared with pension trustees.

In the U.S., the Heartland Project under the leadership of Leo Gerard, President of the United SteelWorkers of America, is a group of union pension trustees, international researchers and experts working on innovative, 'high-road' investment strategies for pension funds. This project is just a few years ahead of the work that Canadian union trustees need to do. Therefore, this project is another available resource.
The Center for Working Capital – an educational and research agency being established by the AFL-CIO – is setting up an advisory committee of investment specialists who are willing to work with the trade union movement. It is hoped that this stable of experts will put flesh on the bones of a trade union pension fund investment agenda.

The trade union movement, itself, played a critical role in policy development and general support of Concert, providing legitimacy to the work of a relatively small group of trade unionists. Provincial federations of labour vary in their support of pension fund investment. In B.C., the Federation of Labour has shown positive, enduring and informed support for Concert, to the extent that its (former) president, Ken Georgetti, sits on the Board of Directors. He has now taken that informed support to the Canadian Labour Congress.

This support has provided a link to other trade unions as potential shareholders, and solidified the support needed to ensure the long-term viability of the investment vehicles. This formal support of the trade union movement through the Congress and the provincial federations is critical in pursuing a social investment strategy.

Federations do not always make the best use of their facilitative role. For example, the system of labour-sponsored investment funds in Ontario...
(or rent-a-union funds as they have been called) is an outcome of poorly managed conflict resolution by the Ontario Federation of Labour between the Canadian Autoworkers, the Canadian Union of Public Employees and other unions. An old disagreement on policy direction resulted in laws that allowed for labour-sponsored investment funds run by unions in name only and brought discredit upon the trade union movement.

Federations of Labour and the Canadian Labour Congress are not the only unions in a co-ordinating role. The National Union of Provincial and General Employees has recently started working with its component unions in organizing for joint trusteeship. The goal is to exchange experience and set standards for joint trusteeship. Its components are unions of provincial employees with large, contributory pension plans. In the past, there has been little consultation or exchange of information on joint trusteeship, so it is no surprise that there are now eight models of control among the top 23 plans (Carmichael, 1998).

Such co-ordination is effective in giving unionists a way to network and the opportunity to develop more supportive programming for pension activists. However, there is also a need for pension trustees themselves to set standards for joint trusteeship, fund management, social investment and new
social accounting methods. This would be a project of union and employer pension trustees.

It is important to note that, for Concert to succeed, union trustees have had to win the support of employer trustees sharing their pension boards. While the idea for Concert and Mortgage Fund One generated from trade unionists, it was critical that they have the respect and support of their employer trustees.

Because of the nature of joint trusteeship, the relationship between employer and union trustees tends to be less combative than the adversarial process associated with collective bargaining in Canada. The following is a descriptions of more collaborative working relationships at the OPSEU Pension Trust:

Because of the equal numbers of union and employer trustees, no decision can be made by one side or the other. There has to be some level of agreement between the trustees. Consensus has been established as the most comfortable form of decision-making; and there is an understanding that decisions need to be acceptable to most of them, even if it is not the personally preferred route (Carmichael, 1997, p. 64).

The process is not unlike other joint committee structures routinely negotiated in collective agreements. Informed union trustees reserve their distrust for financial managers who funnel institutional pension funds into the international capital markets.
Summary

Union control over pension fund investment is a critical step if unions are to participate in building more productive, social investment strategies. There are distinct levels to union control requiring different types of leadership, support and expertise. Winning negotiability of pension plans and joint trusteeship require focused union leadership to work with union membership on pension issues, with the vision to interpret meaningful models of control over fund management. Pension trustees become the new leaders once meaningful governance is achieved.

Leadership by union presidents, union trustees and experts hired by unions tends to be visionary and well-placed to pursue powerful strategies. This does not mean that Concert is not replicable. On the contrary, unions need to recognize that pension fund activism is a new arena for activism and leadership.

The trade union movement, however, needs to continue to play a supportive role in coordinating unions in pooled investment strategies and facilitating relationships between unions. In Canada, labour-sponsored investment funds are centres of expertise for union leaders and pension trustees to learn from. In the U.S., the Heartland Project and the Center for Working Capital are also good models for research and education.
In the next chapter there is an extensive discussion of the implications for union education, based on the models of levels and elements of union control. A strong role is proposed for trade unions in research and education in pension governance, investment issues and social accounting. Further, the limitations of this study are discussed and suggestions are put forward for future research.
Chapter 15

**Education and Research for Pension Practitioners**

This chapter provides an extensive discussion of the implications for education, based on the models provided in the previous chapter. While most of the discussion on education is devoted to the role of trade unions, joint trustee education is also proposed.

**Education**

Education is the third component of the social action model (see Figure 4), but it is also a major issue in its own right and critical to an effective investment strategy.

This thesis proposes a strong role for trade unions in research and education in pension governance, investment issues and social accounting. Without a co-ordinated strategy within the trade union movement, it is unlikely that there will be any more than isolated incidents of social investment of pension funds except in Quebec, where, as noted, this tradition is well-established because of its links to the nationalist movement.

The hegemonic control exerted by the financial industry over investment practice has been referred to in several chapters. Often this
control is exercised in the absence of any alternative frameworks proposed by their unions. But coercion and undermining of ‘lay’ trustees by fund managers should also not be underestimated. As it becomes clear that more union members want joint trusteeship and some control over investment, opposition to union trustees mounts. Senator Kirby, the Chair of the Standing Senate Committee on Banking, Trade and Commerce has referred to the need for ‘the quality of direction and oversight needed in today’s complex world’ through ‘highly knowledgeable people’ who can ‘effectively monitor fund managers’ (Canada, Standing Senate Committee on Banking, Trade and Commerce, (1998), p. 6). This can be achieved, it is often argued, through a model similar to the Ontario Teachers' Pension Plan Board, where, as a legislative requirement of the pension plan, ‘union’ trustees are selected from the financial industry.

It is therefore imperative that training be made available for pension trustees. Indeed, this is one of the recommendations made by the Senate Committee referred to above. However, as noted in the previous chapter, hegemonic approaches to pension fund education and training are exacerbated by existing training programs delivered primarily by the financial industry and by its representatives through the Institute for
Fiduciary Education, an American educational institution, that is corporate and anti-worker in its focus.

Undoubtedly, the argument will be made that this training is 'neutral' and that a training program supported by unions will be biased. There are several possible responses. First, union trustees have complained that training received from the financial industry rather than provide critical decision points for investment, tends to map out 'the way it is always done' uncritically. Further, there is often not enough information supplied to allow trustees to pursue a critical learning path on their own (Carmichael, 1998).

Second, existing training takes no account of topical discussions on the volatility of the market, gives few alternatives on different approaches to asset allocation, and fails to discuss gaps in the market. By providing less information, trustees often come away from training feeling 'mystified'.

Union pension education, on the other hand has traditionally been limited to equipping rank-and-file members to understand their rights to pension benefits when they retire. Freire (1973) refers to this type of training as involving a semi-transitive consciousness, where the union might take credit for gaining benefits for its members, but there is little historical context for struggle and few connections made between individual experience and social systems.
It can be argued that it is difficult for fiduciaries to be prudent in the absence of any training that promotes critical thinking. Critical learning is needed to expose dominant thinking and show how alternative approaches may be initiated. This approach is supported by literature on socialist pedagogy (Youngman, 1986), popular education (Freire, 1970; Freire & Faundez, 1989), participatory research (Hall, 1993), social action (Newman, 1995), critical teaching (Shor, 1992) and labour education (Wertheimer, 1981; Martin, 1995).

It may be argued that such an approach may not be compatible with training for union and employer trustees. There are several possible responses. First, both union and employer trustees need training that will enable them to make prudent decisions based on a critical approach to their trustee work. Second, developing a prudent approach involves deciphering the disparate interests of the financial industry, the employer, the union and plan members. This is particularly crucial in investment decisions. This thesis has pointed out the limitations of union self-interest in investment based on job creation alone, and the (legal) dangers of self-serving. It has also shown the historical basis for self-interest on the part of both employers and the financial industry. Third, union and employer trustees have to work together and reach decisions together.
Nevertheless, strong arguments have also been made for the trade union movement to expand its role in the economy through training of pension trustees. Therefore, first initiatives in trustee training could attempt both approaches through separate pilots.

Figure 4 illustrates some of the resources available for training in pension fund investment. All have been mentioned in previous chapters. There are academic institutions, a business and labour research centre, unions, economically targeted investment vehicles, venture capital funds, a pension fund, a research project and a social advocacy organization. All are readily accessible in Canada or in the northern U.S.

Such training should incorporate the informal knowledge already gained by the few union trustees across the country as well as the expertise of pension funds undertaking innovative social investment (such as the Caisse) and labour-sponsored investment funds. While using a broad range of experience it should pay particular attention to investing in the Canadian markets.
SOME EDUCATIONAL RESOURCES FOR PENSION FUND INVESTMENT TRAINING

The Heartland Project

The AFL-CIO Center for Working Capital

The National Union of Public and General Employees

The Ontario Institute for Studies in Education

The Ontario Public Service Employees Union

The Centre for the Study of Training, Investment and Economic Restructuring

Labour-Sponsored Investment Funds

Federations of Labour

The Canadian Labour Congress

Concert and Mortgage Fund One

The Taskforce for Churches on Social Responsibility

The Caisse de Depot et Placement Du Quebec

Working Enterprises

Figure 5
Training can be as effectively delivered by the trade union movement as by individual unions. It has traditionally been internal to individual unions at the first level of pension control. However, just recently, the National Union of Provincial and General Employees started the development of training for a second tier of (future) pension trustees on governance and alternative investment practice as a central initiative for its component unions. Support and involvement of the trade union movement at the third level – in fund investment – has been a positive element in the development of Concert.

The provincial Federations of Labour and the Canadian Labour Congress could also become leaders in pension fund educational strategies. The National Union of Public and General Employees has a key role to play with the Congress, since most, if not all, of its component unions either have or are seeking joint trusteeship. The National Union has also built an activist pension committee to explore social investment strategies and develop a comprehensive education program. It is already working with the CLC and international union bodies to assemble a tracking mechanism of international pension fund investment.

The AFL-CIO has provided a model by establishing the Center for Working Capital to provide research and training for union pension trustees.
The goal of the Centre is to enable trustees to both safeguard workers' deferred wages and promote economic prosperity. The AFL-CIO claims that the Center is intended to allow labour to speak with one voice, clearing the air of the mystification that surrounds investment issues. This model needs to be evaluated. The CLC could establish a working group to provide up-to-date information on the progress of the Center and to assess the model for its relevance to the Canadian trade union movement.

Training and education should be at all levels of the union membership - rank-and-file, second-tier leadership and pension trustees. Rank-and-file tend not to be trained unless there is a campaign for joint trusteeship. Otherwise, education is restricted to information on benefits and other retirement issues.

Joint trusteeship is frequently described to rank-and-file members in terms of control over their future. However, there is no union education that makes this meaningful by connecting joint trusteeship to the economic agenda of social investment and economic development developed by the Canadian Labour Congress. Nor is there research or training on social accounting that could provide the measure of success in social investment projects. Consequently, there is no education or research to support the work that trade unionists have been doing and continue to do in British Columbia.
and Quebec and no encouragement for any initiatives in other parts of the country.

Rank-and-file members rarely receive anything more than an annual report from their pension fund. However, the Carpentry Workers' Union of B.C. brings reports on pension fund investment to its annual convention, and has debate about the direction and benefits of different strategies. These debates respect the autonomous responsibilities of trustees. This has not happened to date in any public sector unions in spite of joint trusteeship campaigns.

Informed debate at the rank-and-file level helps maintain joint trusteeship — and ultimately control over investment — through a succession of well-trained members who can aspire to becoming trustees. There is no leadership succession planning in unions for pension trustee responsibilities (Carmichael, 1998). Rank-and-file awareness and education is vital to continue the responsibilities of joint control.

Pension activists are the second tier of leadership. They will succeed trustees. They are therefore a critical link in the chain of trained unionists. The National Union of Public and General Employees is designing an education program for this group, using participatory learning techniques, and building on the research of this study. Unionists will learn how to
identify structures for meaningful control of pension funds and get an introduction to social investment and some social accounting techniques. This program will be delivered for activists across the country.

Trustee education is critical as this study has shown. Union trustees need union space for training. Many have created their own space and survived. Those involved in Concert trained themselves. Some are accumulating a wealth of information on investment practice. For example, trustees are learning more about the respective advantages of some models of trusteeship, standards of accountability for fund managers, the intricacies of different techniques of investment, possible avenues for shareholder action and asset targeting. This information needs to be harnessed for educational and research purposes.

However, many trade unionists have reported on the isolation from their unions, the steep learning curves to catch up with investment professionals, and the temptation to depend on funding managers for advice (Carmichael, 1998).

This thesis will provide the basic materials for training union trustees. By transforming it into an educational handbook, much of the research will then be available for use in educational curriculum. A draft curriculum is proposed in Table 23. It is a four day program for second tier pension
# DRAFT CURRICULUM: TRAINING FOR SECOND TIER PENSION ACTIVISTS

## UNION APPROACHES TO NEGOTIABILITY, GOVERNANCE AND INVESTMENT

<table>
<thead>
<tr>
<th>DAY</th>
<th>THEME</th>
<th>SESSION OBJECTIVES</th>
<th>RESOURCES</th>
<th>METHOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day One:</td>
<td>&quot;Deferred Wages or Perks?&quot;</td>
<td>• to introduce participants to the three levels of union control of pension funds</td>
<td>National Union. Case studies from provincial unions. Readings.</td>
<td>Panel presentations on issues of negotiability. Small group analysis.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• to assess the different interests of employers, unions and the financial industry</td>
<td></td>
<td>Plenary discussion. Update on union progress on levels of control.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• to evaluate the regulatory framework of pension funds</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>• to assess different models of joint trusteeship</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Day Three:</td>
<td>&quot;The Industry Fights Back&quot;</td>
<td>• to assess the experience of others in working with the financial industry</td>
<td>CLBC. OPSEU. USWA. LSIF. Heartland Project.</td>
<td>Presentation from CLBC. Panel discussion on working with the financial industry. Final presentation a new economic story.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• to provide a critical understanding of investment and economic development</td>
<td></td>
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<td></td>
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<td>• to assess different approaches to investment</td>
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<tr>
<td></td>
<td></td>
<td>• to develop a perspective on the role of the trade union movement in the broader economy</td>
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</table>

Table 23
activists as an introduction to fund governance and investment. It illustrates how the resources in Figure 5 can be used in education. It also shows how the format of the thesis can be useful in framing a pension educational program for unions.

While there are valuable resources available on pension fund governance and investment for Canadian practitioners, there is no institutional base for this work to be co-ordinated and transformed into educational programming. Rather there is a loose-knit group of researchers, educators and practitioners across the country.

The AFL-CIO has provided a model by establishing the Center for Working Capital to provide research and training for union pension trustees. The goal of the Centre is to provide the research and training to enable trustees to both safeguard workers’ deferred wages and promote economic prosperity. The AFL-CIO claims that the Center is intended to allow labour to speak with one voice, clearing the air of the mystification that surrounds investment issues. This model needs to be evaluated for its use in the Canadian trade union movement.
Summary

There is an urgent need for training for pension practitioners in Canada. The trade union movement is ideally placed to provide educational programs for rank-and-file members, second tier activists and union trustees. This education needs to take a critical approach to de-mystify pension fund governance and investment and allow pension trustees to make prudent decisions. There should also be pilot projects for union and employer trustees since both suffer from a lack of training, and in the interests of collaborative working relationships.

There are many resources in Canada and the northern U.S. for unions and pension funds to recruit. However, there is no organization of education and research provide effective support to pension practitioners. The Canadian Labour Congress could appoint a working group to evaluate the progress of the AFL-CIO’s Center for Working Capital for its suitability as a model in Canada. Further this thesis can provide the basic research material for a handbook that will support the provision of educational training for all levels of pension practitioners.
Chapter 16

Limitations of the Study and Implications for Future Research

This chapter considers both the limitations of this study and the implications for future research. This study is viewed as a beginning in research in the more productive investment of pension funds. There is much more to be done.

This study, like all studies, has a number of limitations. First, it is unlikely that Concert itself can be replicated because of limitations imposed by the Income Tax Act. This is a somewhat startling discovery, particularly since much asset targeting in the U.S. is in real estate development. There may be other legal routes enabling pension fund investment in real estate development, but they remain to be tested. This study has recommended that both Concert and Mortgage Fund One be treated by pension funds as national investment vehicles, to use the expertise developed in both vehicles, to provide a well-tested training ground in investment vehicles for union trustees and to inhibit competition between pension funds.

Second, both Concert and Mortgage Fund One are in the real estate development market, an area of the market that possesses many unique features. The knowledge gained by Concert principals in real estate
development in the Vancouver region does not transpose to other types of investment. So, for example, from this case study we cannot learn about investment in technology firms, strategies around regional development or rebuilding manufacturing infrastructure. Nor can we necessarily learn about other real estate markets without good local partners. Nevertheless, we can learn from the process that union trustees went through in the development of these two investment vehicles.

Third, this thesis has noted that multipliers are used *in the absence of* information on specific social and economic effects of Concert’s productivity and the employment it creates in B.C. through residential construction. They are rather crude measures. However, the development of social indicators is a growing field of enquiry that should provide a more complete analysis of collateral benefit and damage. This study does not assume that all productivity or job creation are by their very nature social benefits. Indeed, as was discussed in Chapter 7, much social benefit remains unaccounted for and much social damage positively accounted for (Mies, 1986; Waring, 1988).

Fourth, this study considers real estate development as an example of productive pension fund investment. As one of its social accounting models it targets a working class community in Vancouver. The model contrasts the
differing social and economic value to the broader community of
collection of rental accommodation and market housing. The study also
reveals the reluctance of conventional real estate developers to build rental
accommodation because of the poor, short-term rate of return, unless they
can immediately sell the development. The example of Concert illustrates a
way of benefiting the broader community through stable rental
accommodation built on leased land in partnership with the City of
Vancouver. This is the first piece of research examining the use of pension
funds to increase affordable housing stock and rental accommodation. But
since its focus is pension fund investment rather than housing, it leaves
many questions about the provision of affordable housing unanswered.
However, a more complete assessment is needed since all urban centres in
Canada are characterized by the same shortage of housing. Furthermore,
there are many social indicators that could be developed to assess the social
and economic effectiveness of housing development in urban centres. For
example, more attention is being paid now to the costs of urban sprawl
versus the costs of affordable housing. This is the subject of future study. It
is particularly important since there is increasing possibility that pension
funds will capitalise urban development in Ontario.
Fifth, this study does not answer questions about affordability of housing and the impact on the homeless. Since pension funds provide a potential source of capital for housing, research needs to be pursued on how to provide a continuum of housing stock that serves the whole community. This would be particularly useful from the point of view of pension fund investment, since it would allow for more effective targeting of funds.

Sixth, this study has the natural limitations of a qualitative, case-oriented study. The relative weighting of the factors identified as key to the process of creating an economically targeted investment is unclear in the absence of a quantitative analysis. However, we can assume that, without Bill Clark’s leadership, Concert and Mortgage Fund One would not have happened. The other union interviewed, the Carpentry Workers, might well have continued in real estate development since it had a long history in social housing. However, it more than likely would have continued on its own. To the present day, it maintains its own strategy in social investment, apart from Concert and Mortgage Fund One. The leadership factor therefore was critical in the absence of either an overall strategy from the trade union movement or the training for trustees.

There is so much to be done. This examination of Concert and Mortgage Fund One has presented the first opportunity for research into
social investment by pension funds in Canada. This work needs to be continued and broadened so that we can have a greater understanding of economically targeted investment, shareholder action and ethical screens.

In particular, a study should be carried out of the Caisse de Dépôt et Placement du Québec, where there is more variety of asset targeting, and thus more possibility of social investment models. An investigation could reveal important information about pension fund investment in regional development funds, small- and medium-sized businesses in the communications, technology, bio-technology and health and financial services development. There are also many examples of asset targeting in the U.S. that should be examined for their relevance to Canada. This in itself is a massive task.

Quebec offers important information in terms of economic development. Legal frameworks, enabling regulation and organizational processes need to be examined to assess what conditions allow asset targeting to flourish. It is interesting to note that Concert and Mortgage Fund One also have flourished in B.C.

Shareholder action is also a huge field of activity. However, it suffers from an overabundance of research into whether or not it damages the bottom line. There is little to no research on how, for example, CalPERS –
the massive public pension fund in California – has set up corporate accountability standards for sectors of the economy and to what extent the standards have been successful in changing corporate behaviour.

There is also much work to be done on social accounting. The models presented in this study are acknowledged to be narrow. The value-added statement, in particular, promises to be fruitful. An implementation of the value-added approach in a private or public sector setting would be extremely interesting, since this model has the advantage of scrutiny by professional accounting standards organisations.

Social accounting is also a growing, international field of enquiry. An international organization that can assist Canadian unions in pursuing a better understanding of social accounting issues is The Institute of Social and Ethical Accountability. Its function is to develop consensus on a set of standards that can establish ‘a recognisable and accessible’ level of quality in social accounting and auditing (Zadek, Pruzan & Evans, 1997, p. 57) and to legitimize the practice of social accounting so that it can be used more widely in the corporate sector. On its board are such organizations as the New Economics Foundation from the U.K. Informed liaisons such as these are critical if the trade union movement is to move forward its own research in social investment.
Furthermore, compared to the U.S., there is very little information on Canadian pension funds in general. For example, there is comparatively little known about their respective investment practices and rate of return. In the absence of standards requiring greater levels of disclosure, it is optimistic to suggest that there should be more research. However, where a pension fund is willing, case studies could be undertaken of investment practice and rate of return. There is also a wealth of information needed on standards of care (the contracts governing fund managers), reporting methods and fee structures. All would be useful to a union agenda for exerting more control over fund managers.

Finally, consideration needs to be given to how this research will be implemented. The Canadian trade union movement must consider an organisation devoted to research and education, strongly linked to the trade union movement, and with the ability to concentrate its work to develop an alternative, progressive agenda for the social control of capital.

All these areas of future research suggest that a working group should be formed on asset targeting in Canada. While these are critical questions in real estate development, there are no doubt equally critical questions in each investment arena. A working group could focus on areas of research in relation to potential investment for the specific development of social
indicators to evaluate the progress of economically targeted investment initiatives.

Summary

While this thesis has examined a case study of a real estate development company, it has not given close consideration to many questions on housing policy in Canada. While it has developed social indicators to measure the fiscal benefits and impact of this company's contribution to the broader community, it is has not developed many of the social indicators needed to measure the impact of housing needs on the broader community.

Many of the research areas covered by this thesis are in their infancy. There is very little known about the investment practices of occupational pension funds in Canada. There are few models of social investment of pension funds outside Quebec. Concert and Mortgage Fund One are two such examples.

Concert itself may not be directly replicable and the real estate development market tends to vary depending on the region and the type of development so what is learnt may not be transferable to other types of
innovative investment in other sectors. Much more research is needed in asset targeting.

This study has provided some social accounting models to measure the impact and benefit of investment on the broader community. Multipliers were also used. However, more complete analysis is needed of collateral benefit and damage caused by investment (and pension fund investment in particular). Again, this area of research is just beginning.

This chapter has suggested that a centre for research and education be established to begin to answer the many questions that this study raises about productive pension fund investment. The previous chapter suggested an assessment of the AFL-CIO's Center for Working Capital as a model for such a centre in Canada.
Canadian pension fund assets are estimated at just under $500 billion and are second only to the combined financial assets of the major banks in Canada. These pension funds have become a critical source of capital for national and international markets. They are controlled by an intricate web of financial and legal standards such as fiduciary responsibility and yet, as deferred wages, are largely beyond the control of workers or their unions.

Given their tax-exempt status, pension funds can provide the long-term capital needed to build a new economy based on real productivity. To test this assumption, a participatory research methodology was applied to a real estate development company in British Columbia funded through the pooling of capital from 26 pension funds with union trustees. The study focused on investments targeted to a working class community in Vancouver. Social accounting models were used, broadening the criteria normally used in traditional accounting practice.

Based on the results of the study, a new definition of 'social investment' is proposed. The definition contains the following elements: the collaborative action by unions and pension funds leading to various types of
collateral investment; these investments implicitly or explicitly challenge conventional corporate behaviour by contributing to the social and economic benefit of the broader community; this can be verified through social accounting techniques.

There are a series of social accounting methods developed, to assess the benefit to workers through job creation; to pension fund shareholders through increased contributions and dividends; and to government through increased tax revenues. Another set of social accounting methods, including multipliers, measure the impact of pension fund investment on workers, pension fund shareholders and government.

Social accounting models of Concert have shown that this real estate development company more than doubled its direct, attributable on-site employment in work for the community. Furthermore, since its inception, Concert’s benefits in terms of productivity outweighed its total project costs. A net social gain of Concert’s direct job creation was calculated based on the differing social and economic value to the broader community of construction of rental accommodation and market housing. Finally, the federal government had a net gain of $8.7 million on its investment of foregone tax revenues on contributions and investment returns.
This study has suggested that it is unlikely that pension funds can replicate Concert. Rather, it is recommended that both Concert and Mortgage Fund One be considered national investment vehicles for the provision of rental accommodation and affordable housing in Canada.

Two models are proposed. The first model identifies three levels of control: negotiability of pensions; trusteeship or governance; and management of investment. All levels of control are essential for union trustees to implement social investment strategies. The second model identifies three components that are necessary for effective action. These are: leadership, support and expertise, and education. These models, taken together, recommend a strong role for research and education in the trade union movement for all levels of leadership at all levels of pension fund control. Without a co-ordinated strategy within the trade union movement, it is unlikely that there will be any more than isolated instances of social investment in Canada, outside Quebec.

There are signs that this strategy is underway. This signals a move on the part of the trade union movement towards a progressive influence on the economy through control over investment. This was the intention of the original group of union activists who began Concert.
References


Greystone Properties Ltd. (undated). *A Developer With a Difference*.


## INTERVIEWS CONDUCTED IN PHASE I OF STUDY
### APRIL, 1999

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Date of Interview</th>
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<tbody>
<tr>
<td>Bill Clark</td>
<td>Founder, Concert and Mortgage Fund One</td>
<td>12 April</td>
</tr>
<tr>
<td>Phil Legg</td>
<td>Executive Assistant to the President of the B.C. Federation of Labour</td>
<td>13 April</td>
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<tr>
<td>Ken Georgetti</td>
<td>President of B.C. Federation of Labour</td>
<td>13 April</td>
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<tr>
<td>Rod Hiebert</td>
<td>President, Telecommunication Workers Union; Trustee</td>
<td>13 April</td>
</tr>
<tr>
<td>David Podmore</td>
<td>CEO, Concert</td>
<td>14 April</td>
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<tr>
<td>Bill Clark</td>
<td>Founder, Concert, Mortgage Fund One</td>
<td>14 April</td>
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<tr>
<td>Group Interview with Mortgage Fund One</td>
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<td>15 April</td>
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<tr>
<td>Audrey Howe</td>
<td>President</td>
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<tr>
<td>Allan Collings</td>
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<tr>
<td>Gordon Allan</td>
<td>Principal</td>
<td></td>
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<tr>
<td>Bruce Rollick</td>
<td>Actuary, Wyatt Company</td>
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<tr>
<td>Susan Sanderson</td>
<td>Working Enterprises</td>
<td>16 April</td>
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<tr>
<td>Wayne Stone</td>
<td>Administrator, Carpentry Workers Benefit and Pension Plan of B.C.</td>
<td>19 April</td>
</tr>
</tbody>
</table>
Appendix B

Basic Interview formats for Phase One of the Study

Bill Clark Interview:
1. What has been your involvement in Greystone?
2. How did Greystone begin? What was its structure?
3. What is the investment structure of Greystone?
4. Does this make Greystone distinct from any other real estate development company?
5. What do you think are the collateral benefits of Concert Properties? Do you have measures?
6. Why did you set up Mortgage Fund One?

Questions for Ken Georgetti
1. Introduction
2. How did your involvement in more productive pension fund investment strategies begin?
3. What do you see as the role of the provincial federation? How did this role develop? What were the influences in the member affiliates? What was the opposition if any?
4. What do you see as the critical debates? Is there a need for policy resolutions? Member education?
5. Does the private sector/construction trade rationale for job creation translate for public sector workers?
6. What is your understanding of social investment, and how can it be achieved?
7. What do you see as a role for government? Is it achievable? Is there a way of providing say affordable housing in the absence of government?
8. Do you see this B.C. experience transferable to the federal level?

Questions for Rod Hiebert, President of Telecommunication Workers' Union:
1. Your union was in on the beginning of real estate investment. What has been your union's experience in relation to rate of return? Have you got records?
2. What are the collateral benefits? Have you records?
3. What is your understanding of social investment?
4. What are the debates in the membership?

5. Is there any need for policy? Education?

6. Is there a role for government?

David Podmore Interview:

7. What has been your involvement in Greystone?

8. How did Greystone begin? What was its structure?

9. What is the investment structure of Greystone?

10. Does this make Greystone distinct from any other real estate development company?

11. What do you think are the collateral benefits of Concert Properties? Do you have measures?

Questions for Mortgage Fund One Meeting:

1. When and why was Mortgage Fund One created? What is the function of Mortgage Fund One?

2. How is the Fund structured?

3. What are the limits on the size of the Fund?

4. How is the Fund different from other mortgage financing sources?

5. To what extent has there been tracking of the collateral benefits of the Fund?
   - Numbers of jobs created?
   - Benefit to individual pension funds?

6. How many of the Funds 14 projects are Greystone? How would the Fund deal with a potential client who does not use union labour?

Questions for Wayne Stone:

7. Your union was in on the beginning of real estate investment. What has been your union’s experience in relation to rate of return on Greystone?

8. What are the collateral benefits? Have you records of job creation?

9. What is your understanding of social investment? Did you ever consider that Greystone should provide social housing?

10. What are the rates of return on MF One? How many years has the Carpenters been in? What are the collateral benefits?
11. What do you see as the role of the unions in Greystone and Mortgage Fund One?

12. Why don't more unions get involved in more productive pension fund investment?

13. What are the debates in the membership on pension fund investment? Is there a need for membership education?

14. What next for pension fund investment?
Appendix C

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>Ann Pagnin</td>
<td>Economic Development Officer, Toronto</td>
<td>20 October</td>
</tr>
<tr>
<td>Paula Carr</td>
<td>Community Coordinator, Collingwood Neighbourhood House</td>
<td>8 November</td>
</tr>
<tr>
<td>Chris Taulu</td>
<td>Executive Director, Crime Prevention Office, Collingwood</td>
<td>12 November</td>
</tr>
<tr>
<td>Heike Roth</td>
<td>Economic Development Officer, City of Vancouver</td>
<td>13 November</td>
</tr>
<tr>
<td>Ken Green</td>
<td>Chair, Collingwood Chamber of Commerce</td>
<td>17 November</td>
</tr>
<tr>
<td>Rod Hiebert</td>
<td>President, Telecommunications Workers Union; Trustee</td>
<td>30 November</td>
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<tr>
<td>Wayne Stone</td>
<td>Administrator, Carpentry Workers Benefit and Pension Plan of B.C.</td>
<td>30 November</td>
</tr>
<tr>
<td>Dave Podmore</td>
<td>CEO, Concert</td>
<td>December 1, 2, 2000</td>
</tr>
<tr>
<td>Bill Clark</td>
<td>Founder, Concert, Mortgage Fund One</td>
<td>December 1</td>
</tr>
<tr>
<td>Chris Taulu</td>
<td>Executive Director, Crime Prevention Office, Collingwood</td>
<td>December 2</td>
</tr>
<tr>
<td>Bruce Rollick</td>
<td>Actuary, Wyatt</td>
<td>12 January 2000</td>
</tr>
</tbody>
</table>
Appendix D

Peer Groups for Thesis Review

1. Social Accounting and Social Analysis

Sonja Greckol, Ph.D., Consultant on Social Indicators
B.J. Richmond, Ph.D., Manager of Evaluation, Trillium Foundation
Laurie Schugurensky, Accountant

2. Pension Fund Investment and Capital Market Theory

Bob Baldwin, Researcher, Canadian Labour Congress
Kirk Falconer, Labour Researcher, Canadian Labour and Business Centre
Tessa Hebb, Consultant on Capital Markets
Heather Gavin, Trustee, OPSEU Pension Trust
THE TOP 24: UNION CONTROL?

Funds with no union or employee representation:
- BCE Inc.
- CN Rail
- GM of Canada
- Canadian Pacific
- Air Canada

THE TOP 24: UNION CONTROL?

Funds with little or no representation from the in-house union:
- Ontario Hydro
- Ontario Pension Board
THE TOP 24: UNION CONTROL?

- Funds with no joint trusteeship
- 50% employee and retiree representation:

OMERS
Alberta Local Authorities

THE TOP 24: UNION CONTROL?

Funds where Unions are recognized but only in an advisory capacity:

- B.C. Municipal
- B.C. Public Service
- B.C. Teachers
- Nova Scotia Public Service
THE TOP 24: UNION CONTROL?

Jointly trusteed funds where Unions and the employer are equally represented except that the employer retains the chair:

- CBC

THE TOP 24: UNION CONTROL?

Jointly trusteed funds where Unions and employers are equally represented, with a legislated chair:

- Quebec Public Employees
- Hydro Quebec
- Quebec Teachers'
THE TOP 24: UNION CONTROL?

Jointly trusteed where the affiliated Union and the government are sponsors, with an independent chair:

- Ontario Teachers' Board of Trustees

THE TOP 24: UNION CONTROL?

- Jointly trusteed fund
- Union and employer equally represented
- Government trustee selection on union recommendation
- Trustee selection of chair and vice chair

- Alberta Public Service Pension Plan

Board of Trustees

Chair/Vice Chair (rotating)
THE TOP 24: UNION CONTROL?

- Jointly trustee fund
- Union and employer equally represented
- Union trustee selection
  trustee selection of chair
  and vice chair (rotating)

- OPSEU Pension Trust
- HOOPP
- CAAT Plan