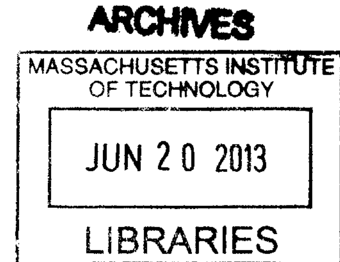
The Micro-Implications of a Disintegrating Social Contract: Public Pension Funds and Community Investing in New York City

By

Nicole A. Salazar

B.A. Visual and Environmental Studies
Harvard University, 2007


ARCHIVES
MASSACHUSETTS INSTITUTE OF TECHNOLOGY
JUN 20 2013
LIBRARIES

Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements for the degree of

Master in City Planning

At the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

June 2013

© 2013 Nicole A. Salazar. All rights reserved.

The author hereby grants to MIT permission to reproduce and distribute publicly paper and electronic copies of this thesis document in whole or in part in any medium now known or hereafter created.

Author ______________________________
Department of Urban Studies and Planning
May 23, 2013

Certified by ______________________________
Associate Professor J. Phillip Thompson
Thesis Supervisor
Department of Urban Studies and Planning

Accepted by ______________________________
Associate Professor P. Christopher Zegras
Committee Chair
Department of Urban Studies and Planning

The Micro-Implications of a Disintegrating Social Contract: Public Pension Funds and Community Investing in New York City

By

Nicole A. Salazar

Submitted to the Department of Urban Studies and Planning
On May 23, 2013 in Partial Fulfillment of the
Requirements for the Degree Master in City Planning

ABSTRACT

Public pension funds are increasingly investing in cities. On the one hand, this appears as a positive development, as an organization traditionally based on exclusionary membership shares its benefits with the larger society. On the other hand, that this is occurring in the context of a disintegrating social contract could be a troubling feature, where private citizens are subsidizing their communities in the absence of state support.

The Merriam-Webster dictionary defines "social contract" as "an actual or hypothetical agreement among the members of an organized society…that defines and limits the rights and duties of each." The past thirty years in U.S. history have seen a drastic deterioration in the tacit social contract binding the State, Capital and Labor. Transformations affecting these three actors have re-shaped their interactions and bargaining power.

Through a discussion of the Varieties of Capitalism and Institutional Change literatures, the first objective of this paper is to make the case that community investing by pension funds is an institution (broadly defined) that has emerged in part because of the historic-economic forces driving the disintegration of the social contract: financialization, neoliberalism, and the decline of the labor movement. The second objective of this paper is to address the following research questions at the city level: What is the relationship between community investing by pension funds and the changing roles of Capital, Labor, and the State? How, in turn, does the design and organization of these institutions impact their ability to influence this relationship?

This research finds that pension fund capitalism in New York City may both blunt and obscure the impacts of the weakened social contract. The pension funds could possibly strengthen the position of labor and increase benefits to communities if they incorporated opportunities for learning and capacity building into their programs.

Thesis Supervisor: J. Phillip Thompson
Title: Associate Professor of Urban Politics

Acknowledgements

The completion of this project would not have been possible without the help of many people, to whom I owe my deepest thanks and gratitude: Firstly, my advisor, Phil Thompson, who has been a source of intellectual inspiration throughout my time in graduate school. I thank him for his interest and support in this project. I am also grateful to my reader, Larry Beeferman, for his participation in this effort. I would also like to thank the many individuals who spoke with me about their work and experiences, especially Kathy Martino, Mike Musuraca, and Richard Conley. I learned tremendously from our conversations, and am grateful for their time and insights.

To my partner, Victoria, who worked through many of these ideas with me and took the time to read and edit my work -- but whom I thank above all for inspiring and challenging me every day in countless ways. To my roommate and friend, Justice, for our late night conversations, and for being a tireless model of the scholar warrior. And to my family, for whom "thank you" does not begin to cover it. Their unconditional love, support and encouragement make everything possible.

Author's Note

I have learned a great deal in the process of writing this thesis. To that end, this document serves as some testament. I have made my best effort to draw honest connections and make useful insights. However, the learning curve has been steep and the time limited. Any errors and shortcomings in the pages that follow are my responsibility alone, and not a reflection on any of the individuals who participated in this project.

Table of Contents

Chapter 1: Introduction

1.1 Introduction........ 6
1.2 Methodology........ 9
1.3 Thesis Organization........ 10

Chapter 2: Literature Review

2.1 Introduction........ 12
2.2 Varieties of Capitalism........ 12
2.3 Institutional Change........ 16
2.4 Pension Narrative: Social Protection and Institutional Change........ 20

Chapter 3: Anatomy of a Disintegrating Social Contract

3.1 Introduction........ 25
3.2 Financialization and the Role of Capital........ 25
3.3 Neoliberalism and the Role of the State in Cities........ 28
3.4 The Weakened Labor Movement and the Role of Labor........ 33
3.5 Consequences........ 36

Chapter 4: Community Investing by Pension Funds

4.1 Introduction........ 38
4.2 The Size and Scope of Public Pension Plans........ 39
4.3 Fiduciary Duty and ERISA........ 40
4.4 Economically Targeted Investments (ETIs)........ 42
4.5 Pension Fund Governance........ 45
4.6 Intermediaries and Community Partners........ 46

4.7 Municipal Unions and Beneficiaries....47
4.8 Alternative Models of ETIs.... 47
4.9 Ambiguities in ETIs....50

Chapter 5: New York City Case: Public Pension Funds and Community Investing

5.1 Introduction....51
5.2 Overview....52
5.3 Governance....53
5.4 Municipal Unions and the Fiscal Crisis of 1970s....55
5.5 Affordable Housing ETI Programs (1980s-today)....59
5.6 Green Apple Bonds....66

Chapter 6: Analysis of the New York City Case

6.1 Introduction....73
6.2 The Turn Towards Community Investing....73
6.3 Defining Objectives and Evaluating Collateral Benefits 75
6.4 Defining Stakeholders and Success with Affordable Housing ETIs....77
6.5 Alternative Approaches to Engagement....79
6.6 Research Questions Revisited....80

Chapter 7: Conclusion

7.1 Conclusion....85
7.2 Prescriptions....86

References....91
List of Interviews....97

Chapter 1
Introduction

1.1 Introduction

Public pension funds are increasingly investing in cities. On the one hand, this appears as a positive development, as an organization traditionally based on exclusionary membership shares its benefits with the larger society. On the other hand, that this is occurring in the context of a disintegrating social contract could be a troubling feature, where private citizens are subsidizing their communities in the absence of state support.

The past thirty years in U.S. history have seen a drastic deterioration in the tacit social contract binding the State, Capital and Labor, resulting in an erosion of social protections, the privatization of risk, and a rise in inequality. Key trends including financialization, neoliberalism, and the decline of the labor movement have initiated transformations that reshape the interactions and bargaining power of these stakeholders, while also increasing ambiguity around the definitions and limits of their roles.

Critically, one aspect of eroding protections has resulted in the responsibilities for eroding protections and investment in the public good as being increasingly passed down from the federal level to local governments. Exacerbated recently by the Great Recession and the Sequester, many cities and municipalities operate under "crisis budgeting" conditions. As of 2012, some 300 municipalities are thought to be in default on their debts (Peck 2012). Services, infrastructure, and social programs, particularly those that support the poor, are the most vulnerable expenditures at the local scale. But for cities that count themselves lucky, some need is being met by facilitating private investment into these areas.

Through evolving norms and power structures, these trends have an impact on debates around inequality, welfare, and the meaning of prosperity, among others. While recognizing the impossibility of encompassing all of these aspects, this paper focuses on a single development that is inextricable from changing roles of these key players and the trends driving them: the rise of "Labor-Capital" (pension funds). At year-end 2011,

retirement assets of all sorts totaled 17.9 trillion dollars in the United States: State and local government retirement plans totaled 3 trillion dollars, and private sector defined benefit plans totaled 2.4 trillion dollars (Investment Company Institute 2012).

Pension funds are at the crossroads of these challenges. The defined benefit pension plans that constitute labor-capital are vestiges of political battles for social protections won in earlier generations. The size and scope of these funds have grown dramatically since they were first introduced, owing in part to financialization and the boom of the stock market in the 1980s and 1990s. As some of the largest pools of capital on Wall Street, pension funds also represent a potential new lever for influence for the weakened labor movement.

These trends have thus created a perfect storm for cities, labor, fund managers, and city or local officials who have an interest in re-directing some of labor's capital towards community financing needs. Some public pension programs have embraced "targeted investing" programs, in which a small percentage of funds' portfolios are allocated for projects that have social or economic "collateral benefits" for the city or region where they are based, while also achieving risk-adjusted market rate returns on investments. In New York City, the policy explicitly targets "market gaps" – the borderland of inefficient markets.

The stake of pension funds in the economy is so extensive, management theorist Peter Drucker, a man the Wall Street Journal has said "can see around corners," provocatively declared in *The Unseen Revolution* (1976): "If 'socialism' is defined as 'ownership of the means of production by the workers' – and this is both the orthodox and the only rigorous definition – then the United States is the first truly 'Socialist' country.'" Of course, as the WSJ also pointed out, this is a "very special kind of ownership" in which workers have "little or no control" (L. H. J. Clark 1976).

In the years since this exchange, pension funds have only grown larger. The pull of control over pension fund assets, in which Capital, Labor, and the State each have a stake and a claim, is developing in real time. Gordon Clark (2000) rechristened "pension fund socialism" as "pension fund capitalism," due to the persistence in governance and investment decision-making by a technocratic financial management class, along with the

ascension of finance-governance more broadly. Clark argues that the retreating power of nation states position pension funds as the only likely source of investment that will sustain the urban fabric in the United States in the 21st century. He writes:

> When I refer to urban fabric, I mean urban infrastructure of all kinds, including housing, transportation, water and sewerage services, small and medium-sized enterprises, etc. In other words, I include the entire mix of public and private activities that make urban life possible. This is an element hidden in many governments' privation programmes (Clark 2000, xi).

In pension fund capitalism, the decision-making process and agency of stakeholders in community investing programs is critical to how needed investment may be addressed in the coming years.

There are two kinds of stories that can be told about pension fund investing in community development and what it could mean for the labor movement and communities. First, community development investments by labor pension funds echo enduring but strained notions of popular solidarity. These projects extend some of the "exclusive-benefit" of pensioned workers to the communities where they live and work. These efforts re-create a version of the social contract, where different segments of society participate in a form of mutual assistance. Furthermore, community investing by pension funds could provide unions with a new lever of political strength in cities.

Alternatively, community investments by labor pension funds could serve to obscure the disintegration of the social contract. By investing in communities, pension funds are subsidizing the other "invisible" members of society: firms and government. As risks that were previously shouldered by the state are shifted onto individual actors or sectors of civil society, the real costs of functioning and upgraded public infrastructure (once rendered tangible to residents and businesses through taxes) are hidden from view. In this version of the story, pension fund investment in cities represents the further retreat of a residual welfare state.

Through a discussion of the Varieties of Capitalism and Institutional Change literatures, the first objective of this paper is to make the case that community investing

by pension funds is in some way a response to the pressures associated with the disintegration of the social contract. Then, by digging into the conversations, questions, and motivations of local actors and institutions close to these programs in New York City, to address the following questions at the city level: What is the relationship between community investing by pension funds and the changing roles of Capital, Labor, and the State? How, in turn, does the design and organization of these institutions impact their ability to influence this relationship?

This paper does not attempt to make determinative conclusions regarding these questions, but to explore and suggest potential hypotheses through the discussion of the New York case, raising possible implications.

1.2 Methodology

The primary sources of this research include archival research and semi-structured interviews. The documents reviewed include press releases, financial reports, news bulletins and archives, and public agenda materials from investment meetings. The interviews conducted are with individuals who have first hand knowledge of the public pension fund system in New York City, the creation or implementation of community investing initiatives, or the operations and decision-making concerns of relevant stakeholders. Primary subjects were approached due to their official positions or proximity to these topics. These include individuals and personnel within the pension fund system, at the office of the Comptroller, and at partner institutions. Subsequent interviews were pursued based on recommendations or insights that emerged from the earliest conversations.

The focus of the discussion and analysis of the New York City case will be on three instance of community investing in the city. First, the purchase of municipal bonds by the pension funds during the fiscal crisis of the 1970s. This was a time in which bankruptcy loomed large and the City was "on its own", a reality punctuated by the blunt headline declaring the president's non-commitment: "Ford to City: Drop Dead."[1] This is followed by a discussion of the programmatic collaboration between the pension funds

[1] Front Page. *New York Daily News,* October 30, 1975

and city's housing agencies to finance the preservation and construction of affordable housing. The program has its origins in the burnt out neighborhoods of the 1970s, a period in which the City became the largest de-facto landlord in the five boroughs. And finally, a discussion of a recent proposal from the Comptroller's office called Green Apple Bonds. The bonds would expedite the renovation of hundreds of city school buildings suspected of containing toxic chemicals in their construction materials. Labor – teachers, school staff, and tradesmen – is deeply invested in the work needing to be done in the schools. The discussion looks at the potential role of the pension funds in relation to this interest.

Case Selection

The decision to limit this paper to a study of only one city is due to the constraint of time on a master's thesis. However, two shadow cases are also presented to demonstrate alternatives: the Canadian Labour Sponsored Investment Funds (LSIF) and the AFL-CIO Housing Investment Trust (HIT). New York City is a natural choice for observing the interactions of labor and the investment industry up close, because of the concentration of industry and the importance of finance. Financial talent easily circulates: from Wall Street, to pension boards, consultancies, and city government. Presumably, this mobility provides such talent with an opportunity to exercise their expertise in the most financially sophisticated environment available.

The public pension fund system in the city is among the most highly funded in the nation, and has a track record of community investing that is free from some of the publicized failures in other states. New York City (and State) is also among the most highly unionized localities in the country, meaning it does not constantly face the political pressure besetting pension funds in some other states, such as the withdrawal of collective bargaining rights.

Finally, an additional element that makes NYC an interesting case lies in its potential to illustrate some of the dynamics at the heart of the social contract transformations and increasing inequality observed in the last three decades. Specifically, the focus on affordable housing in a city with a luxury real estate market draws out some

of the tensions embedded in the changing relationship among the State, Capital, and Labor.

The New York City Retirement Systems (NYCRS) is composed of five separate pension funds, each with independent investment-making ability. Each has a unique board structure and separate teams of consultants. The Systems also work with a range of community, lender, and public partners. Research for this paper focused primarily on the largest fund, the New York City Employees Retirement System (NYCERS), and key partners including the Community Preservation Corporation (CPC), the office of Housing, Preservation and Development (HPD), and the office of the Comptroller. Generalizations that are made within the paper are based on my understanding of these relationships, guided by the pre-existing research.

It is also necessary to note that "community investing" is a loose term. For my purposes, it is inclusive of any instances in which pension fund capital is deployed with some active consideration of spillovers, or desired impacts in a targeted geography.

1.3 Thesis Organization

This paper is organized into seven chapters. Chapter 1 sets the stage with an introduction, methodology, and outline of the organization behind the narrative. Chapter 2 briefly reviews the Varieties of Capitalism (VoC) and Institutional Change (IC) literatures, in order to frame the argument of the paper. Chapter 3 presents the socioeconomic and historical context in which this discussion is situated: the disintegration of the social contract, examined by way of the comingling trends of financialization, neoliberalism, and the decline of the labor movement. Chapter 4 consists of a discussion of community investing by pension funds, including an overview of the legal, investment, and management systems in which it is embedded. The chapter also includes two shadow cases of alternative approaches to community investments. Chapter 5 presents the New York City case, drawing from both pre-existing and original research. Chapters 6 analyzes the public pension fund experience in New York, connecting scales and making the city case relevant to the wider macro context. Finally, in Chapter 7, the paper concludes with prescriptions.

Chapter 2

Literature Review

2.1 Introduction

In order to argue that the social contract in the United States has been eroded, it is first necessary to introduce a framework for understanding how the social contract is constructed, as well as a framework for understanding how structural relationships can change. This chapter presents the Varieties of Capitalism (VoC) and Institutional Change (IC) literatures for these purposes. This chapter also introduces in more depth "pension fund capitalism" (Clark 2000) as a distinct brand of capitalism now emerging in the United States and the United Kingdom. In order to illustrate these concepts, the chapter ends with a narrative accounting of the erosion of retirement security in the U.S. via the mechanisms introduced by the literature.

2.2 Varieties of Capitalism

The Varieties of Capitalism literature characterizes structural variation between advanced industrial capitalist democracies. The foundational literature outlines typologies of Welfare Regimes, which describe "the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation" (Esping-Andersen 1990, 23). Put another way, the Welfare State apparatus is what shields individuals and families from experiencing the un-fettered force of capitalism.

This literature builds upon a Polanyian view of the modern state as developing hand-in-hand with the development of modern markets. Specifically, a view of the State as being necessary to mitigating the harsher effects of the commodification of labor, land, and money – the "fictitious commodities" which "subordinates the substance of society itself to the laws of the market" (Polanyi 1944, 71). Therefore, the role of the Welfare State is to ask "how can the fictitious commodities be contained, and at what scale?" (Burawoy 2012).

Esping-Andersen's (1990) formative work on the typologies of Welfare States was a break from past conventions, in which overall spending was the dominant lens through which to measure the robustness of welfare programs (Huber and Stephens 2013). The variations are based on who is covered, the basis of coverage, the organization of provision, and the value system reflected. For example, the basis of coverage may be requirements of citizenship, employment, or by means testing; and the organization of provision may be managed through publicly or privately funded or provided schemes. The basic typologies are: Social Democratic (Sweden and Norway), Corporatist-Statist (continental Europe), and Liberal Welfare (Anglo-American),[2] which range from most-to-least generous, in that order. They appear to reflect value systems of solidarity and redistribution on the one hand, and individual responsibility and market reliance on the other. The Social Democratic welfare system embraces universal coverage and public provision, while the Liberal-Welfare systems are tightly controlled and dependent on private actors.

Table 2.2: Welfare Regime Types

Welfare Regime Type	Who is covered?	On what basis?	How?	Value System
Social Democratic	Universalism (everyone)	Citizenship (more recently residence)	Public Provision	Solidarity and equality. The role of the state is to counter-act market forces
Corporatist-Statist (Conservative)	Universalism, but with different coverage under different programs	Employment Categories	Publicly funded, private provision	Catholic doctrine of harmony. The state should keep people out of poverty but not change the social order.
Liberal Welfare	Partial or residual coverage with different benefits	By need/means testing	Publicly provided or financed	Individual responsibility and efficiency. The state should rely on market forces to prevent destitution.

Source: Huber and Stephens 2005

[2] In later research he expanded from three to five types, but these three still represent the primary divisions.

The US system of social protection since the postwar period has been a "three-legged stool" of individual savings, public programs, and employer-sponsored supplemental supports, including healthcare benefits and retirement (Harkin 2012). Thus, labor relations and the structure of labor markets are particularly relevant in the United States for preserving safety nets.

Later strands of the VoC literature have introduced the concepts of the "production regime" (Soskice 1999) and the "finance-governance regime" (Gospel and Pendleton 2003). These frameworks are useful for understanding how the relationships between Labor, Capital, and the State within the market context are structured. Production regime types describe variation with regards to economic coordination. At one extreme are the coordinated market economies (CMEs), which have high levels of coordination at the industry or sub-industry levels. CMEs include Germany and the countries of northern Europe. Coordination is present in areas including labor force training, technology sharing, product standards, labor-relations, and bank-industry relations. The result is a stable pattern of economic governance.[3] At the other end of the spectrum are the Liberal Market Economies (LMEs), such as the United States. LMEs are distinguished by their complete lack of coordination. There is no coordination of labor demand, and no coordination between industry and finance. The result is a less predictable "free market" economy.

Gospel and Pendleton (2003) contributed the finance-governance regime to these analyses, in part as a response to the advent of financialization in the Anglo-American economies that they felt was not fully reflected within the existing VoC literature. They argue that finance plays a key role in labor-management relations and firm decision-making. Specifically, that "the nature of finance and governance in Anglo-American systems pressurizes managers to place shareholder interests above those of labor" (Gospel and Pendleton 2003, 565) and suggest that outcomes including declining job security, decreases in recalls from layoffs, and reductions in job tenure, are directly related to the rise of shareholder value (Ibid, 568).

[3] Japan and South Korea also have a version of CMEs, called group coordinated market economies, where the coordination is the same but occurs at the level of firms or groups of firms across industries.

They describe two types of systems, the "Market-Outsider System" and the "Relational-Insider" system. Market-Outsider systems are characterized by large and active equity markets in which equity holdings are relatively dispersed, there is a high level of secondary trading, and large firms are publicly traded. In this system, corporate governance is indirect and there are costs associated with coordinating shareholders. Within this regime, a Shareholder Value approach to governance leads to a preference for the maximization of short-term earnings and the use of share price as a key performance indicator. The Relational-Insider Systems, by contrast are characterized by a concentrated system of ownership, in which inter-corporate shareholding is common, and loan providers tend to have equity stakes in the companies they lend to. Shareholders (bank and other firms) have a direct involvement in governance, and in some cases, Labor is also legally required to have board-level representation. These co-governance systems (Germany, Japan) produce long-term decision-making preferences by stakeholders predicated on a deeper knowledge of the firm or industry and long-term interest in its wellbeing (Huber and Stephens 2005).

Clark contributes "pension fund capitalism" as a distinct typology (2000). Only the Anglo-American economies are grappling with pension fund capitalism, owing in part to the more extensive public safety nets in other countries (thereby making such plans irrelevant) as well as to their more tightly regulated banking systems (impeding the explosive growth due to a booming stock market). He posits that the substantial pools of capital represented by pension plans are the critical vehicles through which the public sphere will be maintained and improved in these economies for years to come. This is true not only because of the rise of labor-capital, but also because of the retreat of the state.

> [If] the urban fabric of the Anglo-American countries is to be sustained and enhanced, pension funds are the obvious and only likely sources of new investment over the coming years of the twenty-first century. When I refer to urban fabric, I mean urban infrastructure of all kinds, including housing, transportation, water and sewerage services, small and medium-sized enterprises, etc. In other words, I include the entire mix of public and private activities that make urban life possible (Clark 2000: ix).

The structural features of pension fund capitalism include the centralized nature of financial decision-making compared to the decentralized nature of urban governance; the centrality of the trustee as a core institution of this system, with pursuant principal-agent problems (Ibid, 36); and a presupposition of exclusive concern with pension-beneficiaries as opposed to the general population. One concern Clark raises in his discussion is the challenges presented by growing inequality in these countries. As DB pension funds largely represent middle-class workers, to what extent will the poor be excluded from the types of investment-decisions made by pension funds in cities?

Implicit in Clark's discussion of pension fund capitalism is an internal debate regarding the relationship between the structural features of this system and rational choice. For example, Clark emphasizes the role of the trustee and decision making on the part of the pension fund as key to countering the potentially compounding structural challenge of inequality in relation to middle-class workers as the "exclusive beneficiaries" of pension funds. Clark's analysis suggests a need for a literature that examines the role of decision making in creating or sustaining change. To a limited extent, this paper aims to begin to address these concerns through an exploration of possible hypotheses based on pension fund capitalism research in a single city.

For the purposes of this paper, the VoC literature is a valuable resource in that it presents a snapshot of the structural relationships between Labor, Capital, and the State, and some possible implications. In summary, we see that the U.S. system of social protection is largely reliant on the structuring of the private sector. At the same time, it lacks the economic coordination that would insert predictability into these arrangements. Furthermore, we see the centrality of finance in governance in firms, and can speculate as to the implications for the role of finance in urban governance.

2.3 Institutional Change

While formal safety net policies have remained largely intact despite conservative attacks over the last several decades, social protections have been undermined and risks have been privatized through less visible shifts in policy, by means of labor market changes, and other pressures. What is unaccounted for in the VoC literature is an

understanding of how systems change or evolve, for they are in fact dynamic relationships. The kinds of pressures and feedback loops created in each system will necessarily shape the political-economic landscape in the years to come.

The Institutional Change literature introduces some of the mechanisms of change. The concepts explored in the literature can begin to answer the question of how we arrived to the contemporary condition of an eroded social contract, as well as provide us tools for understanding how stakeholders might influence change in the system in the future. The literature sheds light on how institutions – not only units of organization but also the norms, customs, and laws that govern their interactions, and policies, transform. Moving beyond a view of change as occurring only as a result of outside (exogenous) shocks to a system, which can trigger a radical response (such as a policy overhaul), more recent strands of the literature suggest that serious transformation can also occur by subtle, gradual, and often overlooked mechanisms.

The austerity politics that have overtaken Europe in recent years are perhaps a useful counterpoint. In Greece and Spain, for example, we have seen economic shocks trigger political upheavals and overhauls of safety net programs. While debt-ceiling standoffs and self-imposed "deficit-cliffs" have begun to replicate some of the austerity politics of Europe stateside, many forms of social protection in the U.S. have already been seriously undermined through less obvious means. Several of the erosions of the social contract have occurred by "subterranean" mechanisms (Hacker, 2004). Again, this suggests that countering these pressures could also possibly occur through concerted and thoughtful actions by embedded stakeholders. The next chapter will discuss the constraints and opportunities within the pension fund industry's pursuit of community investing.

A vast portion of scholarship agrees that institutions are primarily the artifacts of political struggle, and owe their persistence to increasing returns to power[4]. In this strand of literature on institutions, absent exogenous shocks, institutional logic will be reproduced across different domains even when inefficient (Scott 1995), owning in part

---

[4] This is the case even with institutional economists and proponents of transaction costs such as North, who sees institutions not as a reflection of efficiency, but as the outcome of imbalances in bargaining power by different actors over time.

to the embedded preference controlling actors have in maintaining the status quo. Institutional resilience is further found via the isomorphism of social reproduction that governs informal and non-codified conventions that permeate institutions of all kinds.

While they do not dismiss these approaches, Mahoney and Thelen (2010) argue that "path-dependent lock-in" is in fact rare, indicating that institutions must also change through internal processes. Thus, institutions are not completely bounded by self-reproduction. The endogenous mechanisms of change they draw attention to can lead to institutional transformations that may occur incrementally, but to great overall effect. They suggest researchers may have overlooked these mechanisms because "gradual or piecemeal changes often only 'show up' or 'register' *as* change if we consider a somewhat longer time frame" than is characteristic of the literature (Mahoney and Thelen 2010, 2). They do not discount the power-distributional dynamic, but rather draw attention to how it operates.

The value of institutions, as theorized by the institutional economics approach set by North (1990) is that they reduce transaction costs through addressing uncertainty: effective rules or norms are signals that introduce predictability into rational choice outcomes. At the same time, political scientists point out that not all uncertainty can be eliminated, as all rules have some inherent ambiguity. As such, the "soft spot" for incremental changes are opportunities to exploit ambiguities within institutions (Mahoney and Thelen 2010, 14). These soft spots exist in-between rules and interpretation, and interpretation and enforcement. The actors interpreting rules may be also different than those who designed them, leaving room for reinterpretation by misinterpretation. The advent of new contexts for rule-application, not anticipated by the original designers, can also create ambiguity. The power-resource dynamic can therefore animate changes internally, within the contested spaces of ambiguity.

There is a facial contradiction between the interpretation by many scholars that the United States since the 1970s is an example of welfare state resilience (given the conservative attacks on its programs), and an argument based on the disintegration of the social contract. Hacker (2004) lays out the conventional story and its failings, drawing on the mechanisms of institutional change described above, which he further describes as a

set of "decentralized and semiautonomous processes or alteration *within* existing policy bounds" (Hacker 2004, 244).

Pierson (1994) has offered a framework for conceptualizing welfare state retrenchment which includes the conventional proxy of the evaluation of expenditures, as well as a less-studied focus on the restructuring of benefits programs ("programmatic retrenchment") and the shifting power of coalitions ("systemic retrenchment") that may lead to changes in the future (Ibid, 14–17). Within this framework, the US welfare state has perhaps proven resilient considering the political attacks that have been levied against it by the conservative right.

Hacker counters that there are also three "everyday forms" of retrenchment – drift, conversion, and layering – what are often overlooked contributors to change. These forms of retrenchment have undercut social protections despite the endurance of the formal welfare state apparatus. *Drift* refers to the consequences of the shifting context of policies, such as increasing social risks, which can result in a growing mismatch between a policy and its intended effect. Drift may appear apolitical, but absent a policy correction, the status quo is equivalent to programmatic retrenchment. Borrowing from Thelen (2003), Hacker also offers the mechanism of *conversion*, which can be internal changes to policies that are made within the bounds of any legal structure that might govern them. Finally, he introduces *layering*, which is the creation of a new policy without the elimination of the old.

Many of the programs of the welfare state apparatus in the US, such as Social Security, Medicare, and unemployment insurance, presumed protections against risk that were socialized to a certain extent in the private sector. However, via the mechanisms of change described above, these protections no longer hold.

> Although public social policies have indeed largely resisted the political and economic onslaught of recent decades, efforts to update them to changing social risks have failed (drift), their ground-level operation has shifted in directions at odds with their initial goals (conversion), and new policies that subvert or threaten them have been put in place (layering). The result has been a significant erasing of U.S. social protection, despite the absence of many dramatic instances of policy reform" (Hacker 2004, 256)

In other words, even if the welfare state appears to some as resilient given the political pressures that have been lobbied against it, the shifting political economy underneath this "resilience" – resulting in the privatization of risk, the downloading of responsibilities to local actors, and rising inequality – amounts to several decades of corrosion to social protection.

All of these mechanisms of institutional change rely on ambiguities–unintended, de-facto, or even subversively introduced. Embedded actors can take advantage of ambiguity in rules and policies, or surrounding their own roles, for their own interest. Depending on the power dynamics, they could also lose ground to other stakeholders who are better positioned to take advantage of these opportunities.

2.4 Pension Narrative: Social Protection and Institutional Change

This section will provide a brief history of retirement security in United States, which is to a certain extent an accounting of how the structural expectations between Labor, Capital, and the State have shifted via the mechanisms of institutional change described above. This narrative also introduces an important tension that is relevant to the discussion of community investing by pension funds. Namely, that the relationship between organizations predicated on exclusive benefit has limits, as to the extent to which perceived interests overlap with a more inclusive base, and capacity to fight for protections that can be extended to a broader public.

The federal Social Security Act was passed in 1935, as part of welfare state expansion following the economic and social shock of Great Depression. The program is funded through a progressive payroll tax paid both by employees and employers. Compared with the old-age insurance programs in other countries, the provision is relatively weak. Nonetheless, Social Security today remains the primary source of income for many elderly Americans. In 2011, thirty-one percent of Americans were dependent on Social Security alone (Investment Company Institute 2012).

Following World War II, union leaders had wanted to campaign for an expansion of Social Security on the principle that universal retirement benefits are the best insurance against poverty in old age. However, the social solidarity of the New Deal era

was eroding quickly, making an expansion of Social Security politically unattainable. At the 1946 CIO convention, held a few weeks after mid-term elections that ushered in a conservative Congress, president of the United Auto Workers, Walter Reuther, announced that retirement benefits would become part of the collective bargaining agenda (Cobb 2012, 31). Achieving a secondary pension through corporate-sponsored plans was believed to be the only politically feasible approach to achieving retirement security for workers, thus abandoning the broad social agenda.

Reuther led the UAW in a militant round of contract negotiations with Ford, Chrysler, and General Motors in 1949-1950. He argued that regular workers were entitled to the same type of pensions that already existed for executives. While the automakers called it socialism, Reuther called it a double standard. He explained the argument in strong terms in a speech in 1961:

> The trouble is that industry operates on the basis of these double economic and moral standards. They say to the worker when he is too old to work and too young to die, "You cannot have security in your old age": that is reserved for the blue bloods, only the ones who were smart enough to pick the right grandfather before they were born. They can have security, but if you live on the wrong side of the railroad tracks you are not entitled to it (Reuther and Christman 1961).

Rounds of negotiations and strikes culminated in the "Treaty of Detroit," in which the union agreed to a five-year, no-strike contract with GM that included a liberal corporate-sponsored pension provision. The deal is regarded as a transformative agreement in labor-management relations in the United States, in part because of the retirement benefits secured. Thousands of US companies agreed to similar contracts in the years following the deal.

In the 1950s, the industrial unions were at their most powerful. Although the employer-sponsored benefits they won were not universal, the security they provided reached a broad swath of Americans, as many Americans were union members. Following the expansion of the welfare state after the Great Depression, supplemental retirement secured through employers marked the next major expansion of the welfare state. It was deeply intertwined with the structure of the labor market (production regime).

Critics of the GM-UAW deal at the time raised concerns that in bargaining for employer-sponsored welfare, organized labor was permanently abandoning the fight for a broader social agenda (Cobb 2012, 47). Reuther responded that by tying benefits to employers, the agreement would generate employer support for expanding government provisions in the long term. This has not proven to be the case. What Reuther did not anticipate was that the structure of the workforce would itself change, thereby largely pulling the rug out from underneath this system without any formal undoing.

A critical difference between the pre-existing corporate pension plans and those introduced by the Treaty of Detroit opened the door for the rise of pension capital on Wall Street. The earlier agreements, which typically covered only management employees, invested pension assets only in government securities. The GM-UAW agreement in 1950 changed this. Charles Erwin Wilson, then president of General Motors, devised of a twist to the management structure of the plans. He proposed that professional managers be hired to manage the pension trust. These professionals would be permitted to manage the trust as they saw fit, including investing the deferred wages and employer contributions into corporate equities (Blackburn 2002: 63). At the time, the full implications of this change could not be foreseen, as financialization had not yet reshaped economic structure.

Employer-sponsored defined benefit pension plans remained the norm for many Americans through the 1970s. In the DB structure, the responsibility associated with meeting entitlements lies with the employer, but the risks are pooled. These risks include the ups and downs of the market, as well as the number of years workers live into retirement. In the DB structure, the long time frame and broad participation of workers balances the risk between those who die prematurely and those who live to be very old.

The late 1970s saw the introduction of a new section of the IRS tax code, section 401(k). The law was originally conceived as an opportunity for managers and executives to supplement their personal savings, as it provided a tax-break for deferred wages. In 1980, a benefits-consultant in suburban Philadelphia found employers could also use the code to qualify salary reductions to workers as a tax-deferred contribution to employee retirement plans (Frontline 2013).

Today, most new retirement plans are "Defined Contribution" (DC) plans. These include 403(b) plans, 457 plans, and employer-sponsored DC plans such as 401(k) plans, and other Individual Retirement Accounts (IRAs). Young workers are more likely to have one of these types of plans than a DB plan (ICI 2012). In these plans, only the annual contribution of the employer is pre-determined. A principal difference between these kinds of plans is how risk is shared between the employer and employee. These are risks associated with longevity (of the employee), inflation, disability, regulation, and investment. One pension system describes the difference between them as saying, "[with DB plans] the amount [of allowances] is governed by formulas stated in the law, not the condition of the stock market on the day you retire" (NYCERS website 2013). In other words, risks are not pooled, so each individual who relies on an IRA is subjected to the full machinations of the market, and face a gamble as to whether or not they will outlive their savings. It is also critical to note here that private sector defined benefit pension plans are insured by the government (through the Pension Benefit Guaranty Corporation).

The defined contribution plans are favored not only by employers but also by financiers, for a number of reasons. Individual retirement accounts generate a high number of management and brokerage fees, boost individual demand for equities (which raises equity prices), and foster an "investor identity" amongst households, which generates political support for the policies favored by large financial interests (Palley 2007, 23). Nonetheless, 92 percent of Americans believe there is a retirement crisis because of the break down of the pension system (Harkin 2012, 2). There is a $6.6 trillion deficit between what people have saved and what they should have saved by this point. Over half of Americans have less than $10,000 in retirement savings (Ibid 2012, 1).

Defined benefit plans in the private sector are concentrated in the industries that fought for them in the postwar period, and also in the public sector. Principally, the kinds of plans that engage in community investing discussed in this paper are DB plans. The largest non-federal pension funds in the United States are all public pension trusts. The largest corporate plan, sponsored by General Motors, is ranked seventh overall ($117.81 billion).

The mechanisms of institutional change introduced in the previous section are visible in this story. The exogenous shocks to the economy opened the door for welfare state expansion, but it has been the subtler mechanisms that have substantially eroded protections. For example, the introduction of the 401(k) as a new policy in addition to the existing system demonstrates how *layering* can work to erode existing policies without dismantling the old over a very short time frame. Throughout this narrative, ambiguity has presented stakeholders with opportunities to change the course of events. The introduction of professional managers, for example, is an example where subtle rule change presented an opportunity for actors to change their roles.

As mentioned, the power-dynamics between stakeholders can determine who is best positioned to take advantage of ambiguities and new opportunities as they arise. The following chapter explores the pressures that have been levied against the political-economic structure in the United States for the last thirty years. The reliance on the private sector for social protections, as well as the production-regime of the US has made the social contract particularly vulnerable to these developments.

Chapter 3
Anatomy of a Disintegrating Social Contract

3.1 Introduction

This chapter looks at three important trends that partially account for the disintegration of the social contract in America over the last thirty years. These trends have reshaped the responsibilities and interactions of Capital, Labor, and the State, and have introduced new areas of ambiguity into their respective roles. These trends are financialization, the decline of the labor movement, and neoliberalism. While acknowledging that these trends cannot encompass the totality of transformative developments, they are nevertheless a useful starting point to begin to unpack the evolving political economy, and the nature of the pressures on the system. More importantly, they provide the context through which community investing by pension funds can be understood as a product of these pressures.

3.2 Financialization and the Role of Capital

Financialization refers broadly to the increasing importance of finance in all aspects of American society. As a process, it operates through changes in the structure of financial markets, changes in the behavior of non-financial firms, and through changes in economic policy. These changes have resulted from both the intended and unintended consequences. Financial elites and institutions have gained greater influence over policy through this process, further driving and deepening financialization.

Outcomes of financialization include high household and corporate debt, rising income inequality and the detachment of wages from productivity gains, and slow economic growth, observed throughout the major industrialized countries since 1979, and particularly in the United States (Palley 2007). While mainstream economists attribute these ailments to discrete factors including the erosion of labor unions, globalization, and skill-biased technological change, others charge that these analyses fail to appropriately

connect these features as part of the "new economic configuration," defined by financialization (Palley 2007, 12).

Although the existence of financialization is widely accepted, the breadth of its touch can make it difficult to quantify. Krippner (2005) provides an approach to empirical accounting. First, she defines financialization narrowly, as a pattern of accumulation, "in which profits accrue primarily through financial channels rather than through trade and commodity production" (Krippner 2005, 174). Since the 1970s, there has been a five-fold increase in the ratio of profits generated through financial as opposed to productive activities, *by non-financial firms*. And in the early 2000s, the ratio of profits accruing to the financial sector, as a share of the US economy as a whole, was three to five times higher than it was in the 1960s and 1970s. These findings support the notion that financialization is occurring and give some sense as to its scale. By 2007, before the financial crisis, fully 40 percent of all corporate profits in the US economy went to the financial sector (Stiglitz 2012, 28). This research suggests that much of the activity-centered and sector-based research, undertaken to explain more visible trends in the economy, is missing an important piece of the puzzle.

The precipitating causes of financialization are multiple and intertwined, having to do both with economic conditions as well as politics. The shock of the oil crisis in 1973, followed by stagflation (high inflation coupled with low growth), opened the door politically to changes in monetary policies (Tomaskovic-Devey and Lin 2011). An unlikely political coalition emerged. Consumer advocates, concerned by the diminishing values of household savings, joined with firms in lobbying for the deregulation of interest rates.

The deregulated interest rates, along with increased global competition, created a climate in the 1970s in which it became more attractive for non-financial firms to invest profits into Wall Street rather than in the productive capacities of their businesses. As a result, firms shed productive activities and re-organized around financial management. They also moved some production overseas, facilitated by, among other developments, the advent of container shipping in 1968 and improved and expanded communications networks. At the same time, this discussion cannot be separated from a changing productive structure where the relative importance of services goes hand in hand with

shifts to maturity in product life cycle of many traditional manufacturing industries (Vernon 1966).

Changes in monetary policy were accompanied by serious changes to financial regulatory policies. Prior to the 1970s, the predominant regulation of the finance industry was the Glass-Steagall Banking Act of 1933. The purpose of the legislation was to regulate risk. Specifically, it did this by preventing industry concentration and limiting speculation. The repeal of Glass-Steagall began tepidly in the 1960s with a reinterpretation of certain provisions. It then picked up steam in 1978 with the Supreme Court decision in *Marquette National Bank of Minneapolis vs. First Omaha Service Corporation.* In that decision, the court ruled credit card companies could legally re-charter in states without usury laws, thereby circumventing them. This was followed by broad legislative repeals in 1980, 1994, and 1999 (Tomaskovic-Devey and Lin 2011, 7).

Collectively, these repeals removed all prohibitions on interstate banking, blurred the distinction between commercial and investment banking, and allowed for the merger of different types of financial institutions. Fees-for-service and complex financial instruments, designed to capture income from an influx of institutional investors and foreign capital, proliferated in this system. To make matters worse, the regulatory agencies meant to oversee it were not overhauled to reflect these substantial changes (Tomaskovic-Devey and Lin 2011, 8).

These changes did not proceed at the same pace with the same result everywhere. Countries such as Germany and Japan dealt with growing competition and rapid changes through an approach favoring labor, but in the U.S. a different view took hold. The "Share-holder Value" approach discussed in the VoC literature now guides decision-making, characterized by an emphasis on short-termism and quarterly performance (Gospel and Pendleton 2003). In order to meet these goals, "finance CEOs," whose compensation packages were tied to company performance in the stock market, increasingly populated boardrooms rather than industry professionals (Tomaskovic-Devey and Lin 2011, 28). Among non-financial firms, the manufacturing sector led the way in this trend (Krippner 2005).

An aspect of financialized decision-making has been not only the separation of ownership (shareholders) from management, but also the fissuring of the relationship

between workers and their employers (Weil 2014). Large employers increasingly do not directly employ their workforces. Instead, employment has been transferred to a network of smaller subcontracted firms, part-time workers, and contract workers. These patterns in corporate governance have exerted a downward pressure on wages, benefits, and workplace safety, as responsibilities and liabilities are also off-loaded. These changes in the labor market also make organizing efforts on the part of unions more difficult.

The advent of financialization explains the introduction of finance-governance regimes, as the VoC literature alone does not account for the shifting balance of power in firm behavior. Critically, the role of Capital in decision-making is dramatically increased via these processes. Financial profits are driving firm behavior, which has negative consequences for Labor, and arguably for the State. Upheavals in the labor market have undermined security and predictability for workers both at the workplace and in retirement.

3.3 Neoliberalism and the Role of the State in Cities

At the end of 2012, most cities across the country face constrained budgets and declining revenues. The financial crisis and the collapse of the housing market continue to haunt city finance officers. According to a survey of cities conducted by the National League of Cities, 2012 represents the sixth year in a row of continuously declining revenues. At least 7 of 10 survey respondents cite service costs, health benefit costs, pension costs, and infrastructure demands as negatively effecting city budgets. At least half of respondents also cite declining levels of federal and state aid, and a declining tax base (Pagano, Hoene, and McFarland 2012, 5).

In order to respond to the fiscal pressures, the most common reaction among cities to boost revenues has been to increase fees for service (43%), increase the number of fees (23%), and to increase the property tax rate (22%). In order to cut expenditures, cities have made cuts to the municipal workforce (48%), delayed or cancelled capital projects (33%), cut spending for parks, libraries, and recreation programs (25%), cut human service spending (21%), or cut education spending (19%). The Bureau of Labor Statistics reports that 650,000 local government employees have lost their jobs since 2008 (Ibid, 6).

More recently, the across-the-board federal budget cuts known as the Sequester is also cutting into federal aid that goes to cities. According to Mark Paige, the Budget Director of New York City, the city will face a loss of 800 million dollars due to the cuts. These cuts were not incorporated into the 2013-14 budget, suggesting a looming budget gap. According to Paige, the cuts will affect Sandy reconstruction aid ($500 million), Medicaid funding for city hospitals ($75 million), city housing financing ($60 million), plus another $200 million spread across other city agencies (Durkin 2013). While the above numbers describe the current climate in cities and how financial officers respond to their current constraints, they tell us little about the trends in city budgets over a longer time frame.

Constrained budgets have always been a feature of American municipalities, partially owing to the organization of the federal system, and the requirement that municipalities and states maintain balanced budgets (the federal government can operate on a deficit). However, in the last few decades the federal government has pulled back from investing in cities and has reduced aid, advocating instead for a greater role for the private sector. Scholars have called these changes in state provision and approach to economic development "post-Keynesian urbanism" (Hodson and Marvin 2010), "austerity urbanism" (Peck 2012), and "neoliberal urbanism" (Peck, Theodore, and Brenner 2009), characterized by the rhetoric of inter-urban competition, "leaner" governance, privatization, and market-based approaches to urban investment.

The evolution of neoliberalism from philosophy to urban phenomenon has happened in stages over half a century. It has its roots in the Austrian school of economics. FA Hayek warned against the dangers of inflation caused by excessive government intervention, and argued for a hands-off policy and a self-regulating market. In the 1970s, the Keynesian-welfare state was perceived to be in crisis. Fiscal crises in cities, stagnating growth with high inflation, took place as urban uprisings broke out around the country. Proponents of neoliberalism, such as economist Milton Friedman, argued that inflation was due to government intervention and mismanagement, which could have been avoided by relying on markets instead. Keynesianism began to lose favor in conservative policy circles, and by the 1980s, neoliberalism gained traction with the advent of the administrations of Margaret Thatcher in the United Kingdom and

Ronald Reagan in the United States. These governments made the idea of liberating the market from state interference into a raison d'être for their administrations.

The primary focus of Reagan's urban policy was to eliminate or reduce all federal spending on urban programs. Such programs were viewed as insulating cities from market forces, thereby making the national economy less competitive. In Reagan's first budget, the urban programs were cut by over 36 percent (Barnekov and Rich 1988, 4). For housing in particular, the federal government had already drastically cut back on investments in affordable housing in the 1970s. President Nixon had put a moratorium on new federal housing starts in 1973, ostensibly to conduct an evaluation of federal housing policy. However, after the moratorium was lifted the following year, federal housing policy never recovered, particularly in the area of commitments to rental housing. By the mid-1980s, federally subsidized housing starts were lower than at any other time since the end of WWII (Botein 2007, 805). Cities were told to compete for private investment.

> A city had to take stock of itself, understand the technological and market forces that were acting upon it, and capitalize on its competitive advantages...The end of dependency on federal funds was expected to stimulate community self-reliance and unleash a massive increase in voluntarism and private philanthropy" (Barnekov and Rich 1988, 2–4).

Any uneven development that might result in some neighborhoods or regions as a result of this approach was not important. The president-elect of the National league of cities described the first budget as "a blueprint for surrendering American's cities" and accused the federal government of going "AWOL" (Peterson and Lewis 1986, 11).

While the administration rhetorically encouraged private investment in cities, there were no proposed policies to actualize this support. The federal strategy was simply to cut back. Unsurprisingly, the urban poor, who were most reliant on federal programs, felt the impact of these cuts most harshly. Cities and states adjusted municipal budgets to cover some of the budget shortfalls where possible. However, under budget pressure and encouraged by the government, many localities turned to privatization to cut costs or remove cost burdens. During this period, privatization mostly took the form of private provision and public financing.

By the early 1990s, the limits of "shallow neoliberalism" were apparent. "Market failures" were everywhere in US cities. While deregulation was the stated objective of the free-market agenda, in practice, achieving this aim in light of market failures meant "disciplinary forms of state intervention in order to *impose* versions of market rule and, subsequently, to manage the consequences and contradictions of such marketization initiatives" (Peck, Theodore, and Brenner 2009, 51). Through this conflict between utopian free-market ideals and practical governance, the "rollout" phase of neoliberalism was initiated in the 1990s, typified by the "Third Way" policies of Bill Clinton and the "Washington consensus." New forms of institutions, often labeled private-public partnerships, have become increasingly important to urban initiatives, by redirecting private capital to fill "market gaps." Whereas the failures of the rollback policies could have signaled a reversal of disinvestment, perversely, they triggered a further attack on the state instead, deepening the marketization of problem solving.

The local-urban expression of neoliberalism is also characterized by decentralization, and a shift towards economistic urban governance, in which a political "urban growth regime" a mix of business, financial, and political interests, direct the "entrepreneurial" city (Harvey 1989). In the case of infrastructure, and other areas once squarely within the domain of government, "the state has displaced responsibility for its financing and provision to the financial sector (its institutions and decision making systems)" (Clark 2000, 17). According to a 2010 Congressional Budget Office report, federal infrastructure spending peaked at 3.1 percent of GDP in the 1960s, and the federal share of public spending on infrastructure peaked in the late 1970s.[5]

The decrease in federal investment is not the result of a decrease in need. In President Obama's State of the Union address after winning re-election in 2012, he addresses the broad need for national infrastructure investment with a question: "Ask any CEO where they'd rather locate and hire: a country with deteriorating roads and bridges, or one with high-speed rail and internet; high-tech schools and self-healing power grids (Obama 2013). He goes on to propose a "Partnership to Rebuild America" that attracts private capital to upgrade critical infrastructure, including ports, pipelines, and schools. In US politics, it has become commonplace that even policies that appear as progressive

[5] This CBO report focused exclusively on water and transportation infrastructure.

on the surface, such as infrastructure investments, are now designed as an incentive to the private sector rather than as direct federal investment, and promoted with the rhetoric of economic competition. The positioning of financial markets and institutions as mediator for achieving public investment is viewed as technocratic, and therefore largely apolitical.

In some regard, New York City has been the bellwether of this trend. In the 1960s, New York City embodied the social democratic politics that would be swept aside by neoliberalism. This included the embrace of a strong welfare state at the local level, progressive taxation, and a strong role for labor in the governing Democratic Party.

> It can be hard today to imagine what it was like to live in a city that provided such a rich range of social services, ones that made possible a uniquely democratic urban culture. The city had nineteen public hospitals in 1975, extensive mass transit and public housing, public daycare and decent schools. The municipal university system—the only one of its kind in the country—provided higher education to all, free of charge. Rent stabilization made it possible for a middle class to inhabit the city (Phillips-Fein 2013).

The 1970s fiscal crisis in New York City would be used to dismantle the social-democratic urban governance regime and usher in a new era of neoliberal urbanism that continues to this day.

The ambitious development plans of the current three-term mayor, billionaire Michael Bloomberg, perhaps exemplify this approach. Over the course of twelve years in office, the Bloomberg administration has pursued "entrepreneurial strategies" of governance, including corporate managerialism, urban branding, and support for mega-development. Many finance and corporate managers entered the administration, formally participating in government for the first time. The Bloomberg administration has also adopted "heavy-handed strategies of urban ordering," such as stop-and-frisk policing (Brash 2012). The technocratic and managerial interventions, urban marketing, and micro-managed approach to social issues typify neoliberal urbanism.

Meanwhile, at the behest of the powerful finance, real estate, and insurance industries (FIRE), broad swaths of the City have been up-zoned, unleashing market pressure on industrial or mix-used neighborhoods. Decades in the making, working class

jobs supported by light manufacturing have being pushed further away from the city center or out of the city altogether, to make room for the growing white-collar sectors that have been privileged in city development plans since the 1960s, before the "deindustrialization" of the 1970s (Fitch 1993). Most recently, a surge of super luxury condominium developments are driving up land prices, distorting the real estate market. Rafael Viñoly, the architect of what will be the tallest residential tower in the Western hemisphere at 85 stories, told the *New York Times,* "There are only two markets, ultraluxury and subsidized housing" (Bagli 2013).

It is also important to underscore here how cities like New York City are unique in that most municipalities do not have the same access to private sector capital and investment interest. Even so, it's notable that the New York City metro-area has the highest rate of inequality of any city in the country (Dennis and Myers 2011), suggesting that this approach to economic development does not distribute benefits equally.

The objective here is not to paint a strictly black and white picture, where social and economic benefits can never be achieved through neoliberal strategies. The goal is simply to draw attention to the mobilization of private capital and private-sector actors into formal governance, to underline the appeal by leadership to be perceived as managerial and technocratic rather than political, and to show how financial acumen has moved into a more central position with urban governance.

3.4 The Weakened Labor Movement and the Role of Labor

Up until the 1970s, approximately 1 in 3 workers in the United States was a member of a union. Today, unions represent less than 7 percent of the private-sector workforce. Public sector union density is higher at 37 percent, for a combined unionization rate of 12 percent nationally. Union membership among African-American workers is slightly above the national average at 13 percent, and below the national average for all other minority groups. Among immigrants, unionization rates are very low. Only 5 percent of immigrants who arrived in the US after the year 2000 are union members. Among non-citizens, only 6 percent are union members. Nationally, more than

half of all union members work in three industries: educational services, healthcare and social assistance, and public administration (Milkman and Braslow 2012).

The decline in union density has been attributed to several factors. Most prominent has been the contraction of the manufacturing sector (driven in part by financialization). Manufacturing has traditionally been a strong industry for private-sector unions, unlike the service sector, where unions have historically been weak. Low-wage workers in many services – such as those found in janitorial or retail jobs– are notoriously difficult to organize, due to the nature of their jobs and the vulnerability of the workforce. The aforementioned fissuring of the workplace, mentioned earlier, also contributes to the challenges of organizing low-wage workers. Contract workers and temporary workers are not employed directly and are therefore afforded fewer legal protections.

The decline in union density has meant a decline in political power for labor nationally. In the post-war period, labor activism played a leading role in the expansion of the middle class and progressive social policies. The persistence of some of these programs is largely a reflection of this historical labor power rather than a reflection of current politics (Clark 2000, 52). In the United States, labor does not have a privileged role in coordinating with firms or the state on matters of production or welfare provision (like the CMEs discussed in Chapter 2). France, like the United States, is only seven percent unionized in the private sector. However, contracts negotiated within any industry are automatically spread throughout that industry. Clearly, this creates very different outcomes for workers despite lower union density. Labor unions in the United States "are just one interest group among others," decreases in union density are devastating for labor power (Béland 2001, 154)

Organizing is the only path to achieving political relevance through numbers. Amidst these economic pressures, and the evidence of continual decline provided by the data, it is difficult to imagine unions achieving anywhere near the same density as they had in the post war years anytime soon. Despite the visibility of these trends, for years unions failed to respond with serious organizing drives. Instead, they retreated into the posture of "business unionism" in which they principally concerned themselves with the re-negotiations of current contracts and the bureaucratic administration of benefits

(Goldfield 1987). In the last decade, major frictions have erupted in the labor movement over the role of organizing, as well as around social and political policies. These fractured responses have further undercut the labor movement at the national level.

Adding to the effects of this economic churning have been legislative attacks on the collective bargaining rights of public sector workers, the expansion of so-called Right-to-Work laws in traditionally union states (Michigan became the 24th state with such laws on the books in 2012), and aggressive demands for concessions from unions by employers, among other factors. The turning point for employer tolerance of unions was the 1981 standoff between President Reagan and the air-traffic controllers union that culminated with the firings of over eleven thousand workers. In this economic and political environment, maintaining union density requires massive organizing campaigns, and counter-acting the overall decline would require far more extensive efforts.

The struggling labor movement has begun to turn towards strategies outside of organizing as means to build power. These strategies have been characterized as falling primarily into two camps: “Value-Added Unionism” (VAU) and “Social Movement Unionism” (SMU) (Nissen 2003). In the VAU approach, union leadership attempts make gains for workers by cooperating closely with management on achieving productivity gains or other management objectives. With this “value-add” proposition, the reasoning goes, management will be more likely to cooperate around the needs and interests of workers.

SMU theorists believe unions have lost touch with their “movement” roots, and that a renewal of the labor movement will only come through organizing with, and on behalf of, other social movements (such as for immigrants’ rights). This approach is largely political rather than economic, as the target of campaigns is more often than not a legislative rather than workplace victory. Also called “community unionism, ” this view sees local institutions such as worker centers at the heart of a renewed labor movement (Fine 2005). Both directions have managed to achieve some gains for workers in particular instances and places.

As noted in the early pages of this paper, other writers have focused on pension funds as a focal point for political and economic leverage for labor unions in the years ahead (Drucker 1976; AFL-CIO 1980; Clark 2000; Fung, Hebb, and Rogers 2001; among

others). Labor-Capital strategies have evolved along two paths. The first is primarily concerned with shareholder activism and corporate governance. The second looks to community investing or targeted investing by pension funds.

It is important to note here that the interest on the part of labor in how their pension funds are invested did not arise primarily out of a desire to create positive secondary benefits with prudent investments. Rather, it came from a strategic concern that pensions were being invested in ways counter-productive to the long-term interests of workers. In the late 1970s, the AFL-CIO formed a Committee on the Investment of Union Pension Funds, which then commissioned the first labor-sponsored study on the subject of union investing. Writing in 1980, the Committee Chairman John Lyons summarized their findings:

> The committee's report found that pension funds are invested in companies which are among the most anti-union, export workers' jobs to low-wage countries, ignore workers' needs for health and safety protection and in other ways hinder rather than help workers in the achievement of their most basic and legitimate objectives (AFL-CIO 1980).

Therefore, in some ways labor-capital strategies are a defensive response to the pressures and shortcomings of financialization, which has a negative impact on workers in several dimensions.

3.5 Consequences

The trends discussed in this chapter– financialization, neoliberalism, and the decline of the labor movement– have exerted considerable pressure on the social contract in the United States over the last thirty years, and these ideas and processes have transformed the roles and expectations of Capital, Labor, and the State. As explored in Chapter 2, the organization of American capitalism has made it particularly vulnerable to these pressures.

Community investing by pension funds is an outcome of this churning. Financialization has made large pension funds possible and contributed to the unraveling of social protections once provided by the construction of the labor market. The roll back

of government investments and the rise of neoliberal urbanism has set cities on the hunt for new sources of capital and increasing shortfalls. Finally, the declining power of labor has made the search for new levers of power, particularly financial levers, ever-more relevant.

The question therefore becomes to what extent embedded actors and stakeholders within the new institutions of community investing by pension funds might be able to control this lever and build power. Additionally, it is worthwhile to ask to what extent this approach can adequately address the needs of the most marginalized communities who are most vulnerable to the negative impacts of these changes and therefore have the most to gain or lose in cuts to city services and receding social protection.

Chapter 4
Community Investing By Pension Funds

4.1 Introduction

In previous chapters, I have illustrated that the roles of Capital, Labor, and the State, as well as the willingness of these stakeholders to participate in the social contract, have been eroding. The historic-economic pressures on the political economy of cities have also produced an interest in community investing by pension funds, on the part of labor as well as local governments and financial managers. Community investing is a broad phrase that might encompass a swath of investment programs and policies. At minimum, community investments must in some way target investments within the particular geography of plan beneficiaries. Some funds have policies or programs in place that extend financing or investment opportunities to individual retirees, or local small businesses, while some focus more diffusely on programs that concentrate a portion of plan activities within a plan's city, state, or region.

Unfortunately, all stakeholders' interests in community investment projects are not necessarily aligned. There is a potential tension between the more narrowly defined interests of the pension funds and their middle class or working class beneficiaries and a social agenda that is more broadly interpreted, that accounts for the needs and rights of the poor, unemployed, and otherwise vulnerable, as well as the local government which also has budget gaps and investment priorities to consider. There is also a tension between the interests of Capital in extracting fees and maintaining control, and a labor-policy agenda that looks to both secure workers' retirements while also taking control of investments.

How these tensions are resolved, or will be in the future, is dependent on how ambiguities in the current framework are identified and how stakeholders manage to respond to them, or conversely, the repercussions of overlooked ambiguities. As discussed in Chapter 2, ambiguities are the "soft spots" for creating change. And so, while pension fund capital is an increasingly integral component of the political economy

of American cities and regions, the exact role or responsibility of pension funds in this system is not fixed, but rather evolving. This chapter lays out the parameters of community investing by pension funds in broad strokes. The fault lines that will determine how stakeholders' influence is reflected in these programs is determined by how ambiguity surrounding expertise, fiduciary law, and prudence, are addressed or pursued, and the extent to which stakeholders have agency or interest in implementing new policies, structures, or protocols.

4.2 The Size and Scope of Public Pension Plans

At year-end 2011, retirement assets in the U.S. of all types totaled 17.9 trillion dollars. State and local government retirement plans totaled 3 trillion dollars, and private sector defined benefit plans totaled 2.4 trillion dollars (Investment Company Institute 2012). This is a tremendous amount of wealth. By way of comparison, the total US GDP for the entire year of 2011 was less than this, at just under 15 trillion dollars total (World Bank 2013).

As of 2012, there are 3,400 state and local pension systems in the United States, covering over 27 million employees and beneficiaries (GAO 2012). The average funded level of these plans in 2012 was 74.9 percent, according to the National Conference on Public Employee Retirement Systems, the largest trade association of public sector pension funds, and the vast majority (90%) of full-time public employees participate in defined-benefit plans (NCPERS 2012). According to the Government Accountability Office, most public pension plans are sufficiently funded to meet entitlements through the next decade.

Principally, the kinds of plans that engage in community investing discussed in this paper are defined benefit plans. The largest non-federal pension funds in the United States are all public pension trusts. The largest corporate plan, sponsored by General Motors, is ranked seventh overall ($117.81 billion).

Table 4.2: Largest Public Pension Trusts in the United States

Rank	Name	Assets (USD billion)
1	California Public Employees' Retirement System (CalPERS)	244.75
2	California State Retirement System	155.74
3	New York State Common Retirement Fund	150.11
4	Florida State Board of Administration	134.35

Source: Pensions and Investments 2012

The New York City Retirement Systems (which is composed of five separate funds) collectively manages $122 billion dollars as of year-end 2012. The NYCRS will be discussed further in the case study of the next chapter.

While community investing can take different forms, some public pension funds have adopted explicit targeted strategies. In most cases, these programs amount to allocations of no more than 2 percent of assets to these programs. Given the massive size of these trusts, this could potentially be equal to 60 billion dollars nationwide if all state and local plans adopted them.

4.3 Fiduciary Duty and ERISA

Can a pension fund serve two masters? This question begins a recent article that takes a skeptical view of community investing by pension funds. While "seekers of capital" see pension funds as "plum to bite," cautions the author, "*Those assets already have a mission*" [emphasis added] (Pensions & Investments 2012). The author is concerned that meeting entitlement payments to retirees is jeopardized by investment strategies that take secondary considerations, such as local economic development and urban revitalization into account. In financial terms, the author is concerned that community investing simply cannot achieve risk-adjusted market-rate returns.

Pension Funds are first and foremost trusts to safeguard the deferred wages of workers for retirement. As previously stated, retired workers are dependent on their pensions, often as their primary or only source of income in old-age. Mismanagement of funds poses a risk not only to dependent retired workers, but also to current and future workers whose benefits could be affected by the political ramifications, as well as taxpayers who might be liable to pay for these entitlements if the trusts are underfunded.

Fund trustees have a fiduciary duty– a legal obligation– to plan beneficiaries. The primary legislation that governs pension fund investing is the Employee Retirement Income Security Act (ERISA) of 1974. The act codifies a four-rule "prudent man standard of care" that includes compliance with the principles of (1) exclusive benefit, (2) prudence, (3) diversification, and (4) plan document (ERISA Section 404(a)(1)). While ERISA technically only regulates private pension funds, it is commonly referenced with regards to public pensions and for common law jurisdictions internationally (Hebb and Zanglein, 2).

The exclusive benefit clause requires fiduciaries to act only in the interest of the plan beneficiaries for the purposes of providing benefits and limiting administrative costs. The prudence clause stipulates that a fiduciary shall discharge his duties with "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use" (ERISA Section 404(a)(1)(B)). Portfolio diversification is a risk-management strategy that guards against large losses by over-reliance on any single investment or asset class[6], and the "plan document" rule simply codifies that fiduciaries must also comply with other plan rules, so long as they do not contradict ERISA. Additionally, the fiduciary cannot engage in self-dealing or other prohibited activities.

Public pension funds are also not subject to the reporting and funding requirements stipulated for private sector defined benefit plans under ERISA. Many State and local governments follow the Generally Accepted Accounting Principles (GAAP) standards set by the Governmental Accounting Standards Board (GASB), an independent organization. These standards are not federal law, and the GASB does not have any enforcement authority (GAO 2012, 6). However, some individual states do have laws that stipulate the accounting and audit GAAP standards.

---

[6] Modern Portfolio Theory (Markowitz 1952) actually calls for diversification along investments whose returns are not correlated, but this has been reinterpreted to mean diversification across asset classes and geographies.

4.4 Economically Targeted Investments (ETIs)

Community investing broadly can include a swath of programs or policies that have a local or regional objective as a partial consideration. Some form of geographic targeting might be unofficial policy in some pension funds, while others have active strategies as part of their alternative investment portfolios or through Economically Targeted Investment (ETI) programs (Hebb and Beeferman 2008). Twenty-nine states have official ETI programs (Hoffer 2004). Within the investment industry, ETIs might also be classified as investments in "domestic emerging markets" or as "double bottom line" investments (Strandberg 2006). However, they are distinct from so-called "social investing," which would not prioritize fiduciary obligations.

Economically Targeted Investments (ETIs) are not an asset class, but rather an approach to investing that says once fiduciary duty has been fulfilled, corollary social or economic benefits resulting from an investment may be considered. These benefits are explained as the externalities or spillovers from the investment itself: the apartment units of an affordable real estate development, for example, are a positive externality. As would be the jobs created in the construction of the housing, as well as the boost to the tax base of the municipality. In addition to affordable housing, investments in venture capital, infrastructure, and local redevelopment can be classified as ETIs.

As mentioned, these benefits are secondary to fiduciary obligations of achieving risk-adjusted market rate of returns. There are generally two forms of arguments made by funds that practice some form of community investing or ETI. These are (1) the recognition that all investments have collateral impacts, and therefore should be considered in order to maximize benefits to a city or region, and (2) an inefficient markets argument seeks to address "market gaps," investment opportunities that exist but are are overlooked due to "a shortage of qualified investors, contracting rigidities, and information asymmetries" (Watson 1994, 74), or in housing specifically because of redlining, discrimination, or the absence of a secondary market (Sundén and Munnell 1999, 5).

ETIs have never been prohibited under ERISA. However, the approach Department of Labor regulators have taken to scrutinizing ETIs has been inconsistent

over time. During the administration of President Jimmy Carter, an "all things being equal" test guided ERISA compliance, meaning that as long as two investments were comparable in terms of risk and return, then secondary considerations could be weighed when choosing investments. Nonetheless, the DOL during this period subjected ETIs to higher scrutiny than other investments and took a litigious posture towards funds that engaged in ETIs.

The DOL appointees under Reagan and Bush senior set the tone for their administration's approach towards ETIs. The Reagan administration was more supportive, while the Bush administration was more conservative (Hebb and Zanglein, 7). The head of the DOL's office on Pension and Welfare Benefits Program under Reagan, Robert Monks, introduced the notion of pension funds as "universal owners," essentially stating that pension funds, do to their size, *are* the market, not just investors acting within it (Ibid, 10).

During the Clinton administration, ETIs were embraced as a preferred source of investment for local economic development. Under the leadership of Secretary of Labor Robert Reich, the DoL released two interpretive bulletins early into Clinton's first term that made explicit that ETIs do not violate the "exclusive benefit" or "prudence" rules of ERISA so long the investments are commensurate with the risk-return profiles of other possible investments. The second of the two bulletins addressed the legality of pension funds participation in proxy voting. Speaking before the Joint Economic Committee of Congress, Secretary Reich made clear that his department would not only tolerate ETIs but also encourage them.

> Pension funds -- their dollars reaching 900 times to and from the moon -- are positioned like no other force in the American economy to raise incomes and spark new jobs. Just as owners of a substantial stake in a single company must take a patient, far-sighted view of their investments, pension funds, recognizing their status as the "owners" of much of the economy, can benefit most from similar long-term thinking (Reich 1994).

The favorable approach towards ETIs was dialed back in the administration of George W. Bush at the urging of the US Chamber of Commerce who lobbied heavily for a more restricted policy. An interpretive bulletin issued by the Bush administration in 2008

(2008-1) stresses "financial return" as having precedence over "non-economic" factors. The bulletin lays out several specific scenarios in which ETIs would not be permissible. After review, Hebb and Zanglein concluded that IB 2008-1 "has amounted to a change of tone rather than a change of substance" towards ETIs (23).

A series of high profile failures in the 1980s drew political attention to public pension fund ETIs, which were re-dubbed "politically targeted investments" by their opponents (Clark 1999, 4). In these instances, "standard investment rules" were not practiced, and poor decisions were made (Strandberg 2006). Some examples appear frequently in the literature. These anecdotes are mentioned both by critics who claim ETIs are unjustifiably risky as well as by supporters of ETIs to argue that fund managers have learned from past mistakes.

In the 1980s, the Alaska Retirement Systems invested $263 million in non-guaranteed home mortgages, 35 percent of which were in Alaska, motivated in part by an interest in the benefits of homeownership to individuals and families. However, the real estate market in Alaska crashed in 1985, and one-third of the in-state loans became non-performing (Sundén and Munnell 1999, 6). The Kansas Public Employees Retirement System invested directly in several local businesses and real estate ventures, including a steel mill that closed down, and a Savings & Loan that became insolvent (Ibid: 6). In 1990, the Connecticut public pension fund bought a 47 percent stake in a distressed local firm, Colt Firearms, that later closed down, and the Pennsylvania public pension system similarly invested $70 million in an in-state Volkswagen auto-plant that closed (Hagermann, Clark, and Hebb 2005).

These early failures with ETIs demonstrated to fund managers the benefits of standard portfolio strategies, as well as demonstrated the benefits of limiting exposure through co-investing, and the necessity of oversight. According to some researchers, these failures are representative of "first-generation" ETI policies that have since been substantially improved with programmatic approaches that prioritize financial review (Hagermann, Clark, and Hebb 2005). This argument suggests that similar levels of exposure and loss would be unlikely to recur.

Other supporters of ETIs have made the additional argument that these examples are simply anecdotal and are not representative evidence. Such anecdotal evidence is not

similarly applied to other failures in the market, suggestive of a double standard of scrutiny. Former Assistant Secretary of Labor, Olena Berg, used the example of IBM in 1994, which had just gone through a downsizing, to ask, "Is the recent experience with IBM a reason not to invest in equities?" (Williamson, Imbroscio, and Alperovitz 2002, 180) In any event, industry studies in the 1990s concluded that fund managers had learned from past errors and had set up procedures to further limit risks associated with ETIs. They further found that risks had been over-stated, as only 2 percent of pension fund assets were invested in ETIs on average (Sundén and Munnell 1999, 9).

4.5 Pension Fund Governance

There is no standard governance model across all public pension funds. An industry journal has identified four governance models that are most common. These are (1) an integrated investment and pension administration with a single fiduciary board, (2) a separate pension and investment administration with a single fiduciary board, (3) a separate pension and investment administration with separate boards, and (4) a single fiduciary (Controller) who manages investments, with a separate pension administration that has its own board or multiple boards (Funston et al. 2013).

A board of trustees will typically be supported by executive management, functional staff, and contracted service providers (Regan 2012). The board may be a mix of political appointees and elected or appointed representatives of plan participants. The size of boards varies widely, but eight members is the average size (Mitchell and Hustead 2001, 8).

There are a host of responsibilities pertaining to the proper management of pension funds. These include risk management and asset allocation, the hiring of advisors and consultants, setting the investment strategy and policies, selecting appropriate benchmarks, stakeholder relations, shareholder advocacy, regulatory compliance, due diligence, oversight and audits, fiduciary training and development, and benefits administration. Poor governance can negatively impact a fund. Common challenges for governance include a mismatch between responsibilities and decision making power, a lack of clarity surrounding board committee structure and reporting, or a mismatch of

skill sets to responsibilities. These problems can be exacerbated by frequent trustee turnover.

In a political environment where pension benefits are scrutinized regularly by politicians and in the media, pension boards are also responsible for managing the reputation of their funds. One element of this is to communicate to the public when state or local officials are not meeting their employer contributions. Such "pension holidays" as they are called can lead to the underfunding of trusts, which ultimately hurts both beneficiaries and taxpayers, and lead to a negative perceptions of the municipal unions.

4.6 Intermediaries and Community Partners

Investment intermediaries ("investment vehicles") are the bridge between large institutional investors and the targeted investments they wish to support. Bridging this divide is often an issue of scale, as pension funds have large amounts of capital to invest, and the community investments they may wish to support tend to be of a smaller size. These organizations facilitate the locating, screening, processing, and managing of investments at the ground level, often working closely with local community partners or individuals. High transaction costs and adequate local information are some of the barriers to community investing, which investment intermediaries mitigate.

The relationship between community partners and the investment intermediaries, as well as between the intermediaries and the fund, can lead to different kinds of impacts at the community level. Whereas a contractual or ownership model initiated by a community partner can "hold the greatest promise for unlocking value for institutional investors in communities" (Steiger, Hebb, and Hagerman 2007, 3), most public pension funds work with fund managers who aggregate investments. Some investment intermediaries can be non-profits, but others are for-profit banks or investment houses with asset class expertise in areas such as real estate or venture capital. Most public pension funds have not developed this sort of expertise in-house.

4.7 Municipal Unions and Beneficiaries

Municipal unions have a dual role in advocating for both retirees as well as future workers. This can present a potential conflict of interest, for example if a state or local government is making budget cuts. However appointed labor representatives to pension boards or advisory councils have the exclusive responsibility of representing the interests of plan beneficiaries. These representatives may be directly elected by the membership or appointed by union leadership. Many public pension funds are multi-employer funds, in which case only representatives from the largest municipal unions may have board representation. The literature on the role of municipal unions in influencing pension funds is scarce.

The individuals covered by public pension plans are employees of state and local governments. They are employed in areas such as elementary and secondary schools (6.9%), protective services (2.4%), higher education (2%), health (1.4%), transportation (0.8%), libraries, housing, and community development (0.8%), finance and administration (0.8%), public welfare (0.5%), utilities and waste management (0.5%), and environment and recreation (0.4%), among other sectors (McNichol 2012).

Over the last thirty years, the number of employees in government service has stayed relatively flat despite increases in population, from approximately 59 per 1,000 workers in 1980 to 61 per 1,000 in 2011. These workers earn middle class salaries, but 4-11 percent less than their counterparts in the private sector (Ibid).

4.8 Alternative Models of ETIs

Canadian Labor Sponsored Investment Funds (LSIFs)

In the early 1980s, Canada experienced a national employment crisis. The trade union movement in Quebec attributed this job crisis to a lack of available capital for small and mid-sized firms, without which firms could not grow and hire more workers. The Quebec Federation of Labor (FTQ) pushed politically for the establishment of a new investment fund that would use members' retirement savings for this purpose. In 1983,

legislation was passed to establish the Solidarity Fund with the FTQ as sole sponsor (Hebb and Mackenzie 2001, 129).

The primary purpose of the SF, as written in the legislation, is to create and sustain jobs in the local economy by investing in companies with less than $50 million in assets. Additional goals are achieving financial returns to shareholders, and the facilitation of cooperation between labor and management. The FTQ appoints ten of sixteen board members, and plays an advisory role in the appointments of the remaining six. The SF is responsible for soliciting investments from workers, and the government facilitates these contributions with tax credits for contributions and penalties for early withdrawals (Ibid, 130).

Labor Sponsored Investment Funds (LSIFs) modeled on the SF have formed a network called the LSIF Alliance. These funds all engage in several practices that help them reach their goals. This includes "social audits," in which firms seeking capital are assessed in areas such as sustainability, worker safety, and labor-management relations. In the spirit of transparency and accountability, the firms must also open their books to employees. The LSIF staff then leads employees through a two-day workshop in which workers learn to assess and evaluate the financial health of their firms. Additionally, firms are required to open savings accounts for their employees. LSIF representatives may also sit on the board of firms in which they invest (Ibid, 132).

These LSIFs have also built regional investment networks, premised on the idea that managers who are closer to communities are better positioned to evaluate potential investee firms. The FTQ for example operates seventeen regional funds.

In contrast to the legislation passed in Quebec and most Canadian provinces, the Ontario legislation did not stipulate a single labor sponsor. This distinction has proven critical. These funds, nicknamed "rent-a-unions," are managed by professional financiers and only have loose affiliations with labor unions that are paid a fee to sponsor the fund. Their boards are not controlled by labor, as is the case with the LSIF Alliance boards. As of 1998, researchers have found that the LSIFs that focused on collateral benefits out-performed those that did not (Ibid, 142).

AFL-CIO Housing Investment Trust

A notable model from the private sector is the AFL-CIO Housing Investment Trust (HIT). HIT was first registered with the SEC in 1981, replacing its predecessor the Mortgage Investment Trust (MIT). HIT is an investment company that is internally managed, and has over 350 different investors, including public pension funds. The HIT currently has over $4.66 billion in assets under management according to its public website. And as of year-end 2012, the HIT claims its portfolio has out-performed its benchmark, the Barclays Capital Aggregate Bond Index, for twenty consecutive years. The HIT specializes in fixed-income financing related to real estate development or preservation, including construction loans, permanent financing, fixed or floating rate forward commitments, and secured bridge loans.

The HIT's primary object is to achieve market rate, risk-adjusted returns on investments. The secondary objective is to build housing and generate union jobs in construction and other related fields. According to it's website, the HIT has financed over 105,000 units of housing and created 70,000 jobs over the course of its lifetime.

The HIT has a 100% union requirement on the construction projects that it finances. In order to facilitate this goal, the HIT provides labor-relations services to developers. These include assisting developers to find local contractors, facilitating negotiations with local trades councils, assessing project budgets, and assisting contractors in accessing union-sponsored apprenticeship training. The HIT also facilitates pre-job meetings between contractors, unions, and management. These meetings help all parties identify potential disputes or conflicts in advance, reducing potential delays once work begins, making costs more predictable. In areas of the country where there is lower union density, the HIT staff will also work with the borrower and the contractor to work out project-specific agreements to cover workers on any given project. While development deals outside of HIT can also have union workforce requirements, other financiers don't offer the services provided by HIT to facilitate meeting those union requirements.

4.9 Ambiguities in ETIs

The range of research on Economically Targeted Investments (ETIs) presented in this chapter suggests that there are many sources of ambiguity within the ETI programs of pension funds. Some of these are inherent to pension management more generally, and some are specific to the targeted investments. The individual trustees and boards charged with governance and investment policy should be the backbone of ETI policy. How these actors interpret and respond to the following ambiguities, and the agency they feel within their roles to do so, ultimately determines their degree of bargaining power as trustees or representatives of different stakeholders.

The identification of potential collateral benefits or "market gaps" is taken for granted in much of the research on ETIs. The exact formulas for deciding what constitutes "affordable housing," for example, appears extraneous to ETI policy. The next area of ambiguity is the law surrounding ETIs. As we've seen, both interpretations of the law as well as enforcement approaches have varied based on the preferences of appointees within the Department of Labor. The swing of approaches illustrates the endogenous change models of institutions discussed earlier. The relationship between pension funds and the investment industry more generally is another area of ambiguity. The selection of professional managers and some interpretations of fiduciary duty push pension fund management to model itself on for-profit investment companies. While this is the trend, it is not necessarily codified or required for pension funds to model their behavior in this way, although again, enforcement and interpretation ambiguities surrounding regulation or expectations may influence these decisions. There are also political ambiguities surrounding pension benefits and how the public, as well as government, may attack or undermine those benefits.

Chapter 5

New York City Case:

Public Pension Funds and Community Investing

5.1 Introduction

In this chapter I will present my research on community investing by the public pension funds in New York City. The objective of the case study is to address some of the questions raised above regarding how the bargaining power of relevant stakeholders, as well as institutional design and policies, translates into decision-making and agency within community investing programs. Furthermore, to address the question of how the pressures associated with the disintegration of the social contract – financialization, neoliberalism, and a weakened labor movement – might complicate or otherwise impact stakeholders and their objectives.

First, I will present an overview of the System: it's structure and a recent failed attempt at structural reorganization. The focus of the discussion and analysis will then turn to three instances of community investing in the City. First, the purchase of municipal bonds by the pension funds during the fiscal crisis of the 1970s, when the City was on the verge of default. This is followed by a discussion of affordable housing ETI programs, a programmatic collaboration between the pension funds and city housing agencies that began in the early 1980s and is ongoing. And finally, a discussion of a recent proposal from the Comptroller's office called Green Apple Bonds. The bonds would expedite the renovation of hundreds of city school buildings suspected of containing toxic chemicals in their construction materials. Labor is deeply committed to seeing this work completely on the expedited timeline. The discussion looks at the potential role of the pension funds in relation to this interest.

5.2 Overview

New York City Retirement System (NYCRS)

Hundreds of thousands of workers in New York City are employed by government or quasi-public agencies. These workers are represented by dozens of municipal unions, which in turn negotiate benefits for their workers. Their retirement assets are managed by five pension funds, which are collectively known as the New York City Retirement System (NYCRS). The System currently has $120 billion dollars under management, according to the office of the Mayor.

Each fund has its own board and board structure, and makes independent investment decisions. Trustees are a mix of elected and appointed city officials, and labor representatives, with differently weighted votes. The Comptroller of the City of New York, an elected citywide official, is the custodian and primary investment advisor to the funds. The Comptroller also hires the Chief Investment Officer (CIO) for the funds. The five funds are: The New York City Employees Retirement System (NYCERS); the Teachers' Retirement System (TRS); The New York City Police Pension Fund Subchapter 2 (POLICE); New York City Fire Department Subchapter 2 (FIRE); and the New York City Board of Education Retirement System (BERS).

In October of 2011, Comptroller John C. Liu, a democrat, and Mayor Michael Bloomberg, an independent, along with Labor representatives, announced a plan to overhaul management of the systems. A press release from the Mayor's office at the time promoted proposed reforms as necessary to "depoliticize" and "professionalize" an "antiquated," "complex," and "inefficient" system, and ultimately to cut costs (PR-383-11 2011). Any change to the Funds' management structure ultimately requires approval from the state legislature.

The proposal would consolidate management of the five funds under a single investment advisory board, supported by a full time staff. The Bureau of Asset Management (BAM) would be moved out of the Comptroller's office and reorganized as an independent investment entity. A Chief Investment Officer, who would be appointed by the new board for a fixed term (not to coincide with citywide elections), would run the

newly organized operation. Currently, the five boards have separate teams of investment consultants, at a cost of about $400 million annually (Greenhouse 2011). The new operation would purportedly streamline costs by $1-2 billion by cutting the need for separate consultancy teams and bringing more experienced "industry professionals" in-house (with more attractive salaries).

Soon after the proposed reforms were announced, key stakeholders announced in a letter to the New York Times that they had not been briefed on the proposal: John Samuelson is president of the Transport Workers Local 100, and Gregory Floyd is president of the Teamsters Local 237, both men sit on the board of NYCERS. Four borough presidents, along with the Public Advocate, also raised questions about the proposed changes. The proposals were dropped in July of 2012.

5.3 Governance

The New York City Employees' Retirement System (NYCERS) is the largest of the public funds, with over $40 billion in assets under management. The fund manages benefits for over 300,000 employees, both active and retired. NYCERS is a multi-employer plan. In addition to the City of New York, participating employers include the NYC Transit Authority, MTA Bridges & Tunnels (MBTA), the NYC Housing Authority, the NYC Health & Hospitals Corporation, the City University of New York, the NYC School Construction Authority, the Municipal Water Authority, and others. Some of the diverse employees covered by NYCERS listed on the plan website include clerical workers, accountants, social workers, corrections officers, and sanitation workers.

The NYCERS Board of Trustees is composed of eleven members, who are a mix of appointed, elected, and labor officials. The appointed representative is the Chairperson, who is appointed by the Mayor. The Elected officials include the Comptroller, the Public Advocate, and the five borough presidents. The three labor representatives are appointed by the heads of the three largest unions covered under NYCERS. These are AFSCME District Council 37, the Transportation Workers Union Local 100, and the Teamsters Local 237. The borough presidents each share one vote

between them. All other members have one full vote, for a total of seven votes on the Board. Trustees on the NYCERS board are not subject to term limits.

When a new trustee is appointed or elected to the board, the Comptroller's office provides them with a general orientation to the fund and its investments. It is then up to the board member to meet with the various hired consultants, or pursue additional research or education to become oriented to the investments process (Musuraca 2013).

The public agenda for NYCERS investment board meetings shed some light on the decision making process and the tone of the board. A review of these documents for the year 2012 provides an overview of the regular activities and functioning of the board.

A monthly performance overview led by Chief Investment Officer and Deputy Comptroller Lawrence Schloss is the only regular feature of these meetings. Prepared handouts guide the review process on economic and market indicators, a review of the asset allocation and classification of fund investments, and a breakdown of managers' performance as compared to their respective benchmarks. In the process of this review, trustees may ask questions of the CIO or the general consultant (the firm Callan).

In addition to the performance review, the board regularly engages in educational presentations (by both internal and external actors), proposals for modifications to the Investment Policy Statement (IPS), internal audits and accounting (performed by consultants), quarterly ETI performance reviews, and other agenda items. In 2012 these included a review of the fund's procedures to solicit emerging managers and a review of the evaluation process for foreign equity investments. The board engaged with educational presentations on infrastructure investing, bank loan investing, and a review of the ethics and compliance procedures. Three organizations that advise institutional investors on issues of sustainable and responsible investing were invited to make presentations to the board, including CERES, PRI, and the CFA institute. A theme throughout these presentations is the financial prudence of ESG (Environmental, Sustainability, and Governance) criteria, as opposed to "values" (Davis 2013).

In January of 2013, the board addressed two divestment proposals by trustees in the wake of the Sandy Hook massacre in Newtown, Connecticut. The Public Advocate's office and the office of the Bronx borough president each introduced resolutions proposing divestment from gun manufacturers following financial review of such an

action. The language in each proposal emphasized the financial over other concerns, despite the clear (but unmentioned) political statement embedded in such a decision. The Bronx borough president's proposal stated that, "...public outrage...and legislative proposals...pose a significant risk to the market value of investments in companies manufacturing assault weapons..." The Public Advocate's office echoed the sentiment stating, "The horror of the Sandy Hook Elementary School shooting...may have an adverse effect on investments." The board voted to adopt one of the resolutions and initiate a financial review of such a decision, with the understanding that a negative impact on the fund performance would impede a decision to invest.

The above language is illustrative of the tone that permeates the NYCERS board meetings. Even in this instance, where trustees addressed a resolution with embedded political connotations, the discussion (both written and spoken) was structured around fiduciary compliance.

5.4 Municipal Unions and the Fiscal Crisis of 1970s

At the height of the fiscal crisis in New York City in 1975, the municipal unions effectively bailed out the city through investments of their pension funds. At the time, the city was on the verge of bankruptcy. President Gerald Ford had refused to extend federal aid to the city absent strict conditions, leading to the famous Daily News headline on October 30th of that year, which read simply, "Ford to City: Drop Dead." It was a time of deep uncertainty for all stakeholders in the city's financial health.

Emergency institutions and authorities were established. Governor Hugh Carey created the Municipal Assistance Corporation (MAC), and later the Emergency Financial Control Board (EFCB), with appointed members to oversee city finances. The EFCB also had the authority to reject the mayor's budget proposals and any contract agreements. In order to avoid default, a new financing package would be necessary, and so the MAC and EFCB turned to "institutions with a substantial stake in the municipal government's solvency" to negotiate a deal, including the municipal unions, the State, and the commercial banks (Shefter 1992).

Many of the power brokers in the city blamed the fiscal crisis on the poor and working class. A public official relations from the MAC board told one reporter that the underlying cause of the crisis was "the fucking blacks and Puerto Ricans" who "use too many city services and...don't pay any taxes" (Fitch 1996, vii). Other officials at the time backed this narrative (in less blunt and racist terms), and also spread the blame to include the costs of city workers' wages and pensions. The municipal unions were powerful in the years before the crisis, and strikes were held on a number of occasions. In addition to labor unrest, racial tensions flared in 1964. The Harlem Race Riot of that year, six days of upheaval instigated by the police shooting of a fifteen year-old boy, was the precipitating event for urban rebellions that swept across the country that summer. These social concerns put pressure on city leadership to keep expenditures high.

However, it was not these social dynamics that were responsible for the depth of the fiscal crisis. New York City began running budget deficits in 1961. The city used poor accounting and budgeting practices, and financing gimmicks, and circumvented the state requirement that political subdivisions run a balanced budget. The city was underfunding the pensions, writing checks late, using capital funds for operating expenditures, using overly optimistic revenue forecasts, and borrowing heavily from the short-term money market (Dunstan 1995). The borrowed funds were not only to pay for expenditures, but also to support a construction boom, pushed by the powerful FIRE (finance, insurance, and real estate) industries. New York City experienced the greatest building boom in its history –30 million square feet of new construction – in 1969. Accounting for half of all short-term borrowing in the country at that time, New York City borrowed three billion dollars to make long-term mortgages to developers. No other city in the country was doing this at the time. A report issued by the Securities and Exchange Commission in the aftermath of the crisis faulted the city's poor financial management, the ratings agencies, and also the underwriters of city debt. Merril Lynch and six of the other largest banks underwrote $4 billion in debt in 1974-75, despite obvious concerns, earning commissions while at the same time reducing their own holdings of city paper (Dunstan 1995, 7).

There were many stakeholders who had something to lose if the city defaulted. Governor Rockefeller was considering a presidential run, and he was concerned that a

bankruptcy at the city level would wreck havoc on State finances. The underwriters had invested twenty percent of their equity in city debt, and there was uncertainty as to when or how bondholders would be repaid in case of default. European leaders were concerned the crisis would spillover into the international banking system. President Ford was concerned a bailout for the city from the federal government would set a bad precedent. With all of these concerns and interests in play, stakeholders participated in multiple rounds of negotiations, debt restructuring, and procedural overhauls that with time would restore investor confidence in New York City.

City employees were also on the frontlines of these negotiations. Cutbacks early on in the crisis included the loss of twenty-five thousand jobs, the deferral or elimination of wage increases for many city employees, and a reduction in take home pay (Shefter 1992). Financial advisors had made clear to Mayor Beame that cuts to city expenditures would need be not only "cosmetic," but also painful (Ferretti 1975). The period leading up to the pledge to invest pension capital in city bonds was marked by further threats of layoffs, wage freezes, and wage cuts. Nonetheless, initially, the municipal unions rejected the suggestion of a pension fund infusion into the city's coffers. The *New York Times* in July of 1975 quotes the leader of DC 37 as stating simply, "if the city defaults, it defaults." The teachers' union president, Albert Shanker, was more direct: "We would rather see the city default. That way everybody would be affected, bankers, utilities, oil companies, and not workers alone" (Clines 1975). City officials and their financial advisors, including the banks, pressed on the unions to reconsider. As the *NYT* wrote at the time, this pressure was exerted via the threat of uncertainty: "The corporation board will press upon them this morning…an explanation of default, what happens to their contracts, how bankruptcy might impact their contracts" (Ferretti 1975).

The situation was sufficiently dire that former NYCERS trustee Mike Musuraca recounts the urgency of the moment with a simple story: Mayor Beame held up two press releases that his office was preparing for possible release the next morning. One read simply, the "City is bankrupt," and the other, "City pension funds have agreed to buy MAC bonds." Under pressure, the municipal unions agreed to invest up to forty percent of their pension fund assets in MAC bonds (Shefter 1992, 136). The existential threat to their contracts, and potentially to future bargaining rights "pressed" upon them, was

significant in changing the tune of the negotiations. Albert Shanker referred to this heavy pressure lobbied against the unions as "bailmail" (Clines 1975). Speaking about his own reluctance to permit the New York State pension funds to purchase city debt, the State Comptroller referred to the bonds as "moral obligation" bonds (New York Times 1976).

The municipal unions used the opportunity to gain whatever political leverage they could. According to Musuraca, the decision was political as well as practical, as the deal gave the unions "a seat at the table," with which they could pressure the city into "adopting wage freezes instead of cuts, attrition instead of layoffs" and so on. Negotiations went late into the night in October of 1975. The City and the union leadership claimed the discussions hinged on the structure and strength of the bond instruments, but other reports claimed the teachers' union refused to proceed without commitments that their contracts wouldn't be further weakened (Clines 1975). The initial agreement was for the unions to invest three billion dollars in city securities over three years. The unions "cleverly" arranged the dates of the investments to coincide with contract negotiations (Spear 2002, 91), further leveraging their position as creditor.

Despite the atmosphere of pressure, the financial investment by the municipal unions, combined with the cooperation of union leadership in the negotiations, meant that the largest unions played a role in negotiating the terms out of the crisis, while the City Council and minority groups were excluded (Spear 2002, 92). The municipal unions' leadership engaged in coalition bargaining to reach these agreements with the city, state, and the banks. This provided cover for the union leadership from the rank-and-file who might have otherwise protested against the cuts and alterations to contract promises. If the leadership across the unions presented a unified message, it was believed, then membership was more likely to support the decisions. This strategy worked as far as protecting the political interests of the municipal unions. However, it also meant that labor voiced no serious challenges to the politics of retrenchment and austerity that disproportionately impacted the poor, and enabled a rightward turn in city politics that persists today (Ibid). Spear (2002) further argues that the experience of the fiscal crisis entrenched a culture of top-down and undemocratic decision making within the most powerful municipal unions.

5.5 Affordable Housing ETI Programs (1980s-today)

Despite averting bankruptcy, the 1970s and 1980s was a rough period for New York City. Many neighborhoods, especially in the outer boroughs, were suffering from severe disinvestment. Throughout this time, property owners in "burned out" parts of the city routinely abandoned their properties to tax foreclosure. As the Housing Preservation and Development (HPD) agency took ownership of hundreds of thousands of such parcels, the City became the largest de-facto landlord throughout the five boroughs. It was in this context that Comptroller Harrison Goldin conceived of a targeted investment strategy for the public pension funds that is today the Economically Targeted Investment (ETI) program. The original objective of the program was to finance the rehabilitation of the HPD properties and to facilitate bringing those properties back onto the tax rolls.

The stated policy objective of the ETI program, according to Bureau of Economic Development's page on the website, is to seek " investment opportunities that are not only expected to deliver risk-adjusted market rates-of-returns for NYCRS, but also to generate collateral benefits to the City. ETIs are designed to address market inefficiencies by providing capital or liquidity to under-served communities and populations City-wide." The collateral benefits generated may be social or economic. They include affordable housing and non-predatory mortgages, jobs in construction and related fields, the appropriate leveraging of public subsidies, and the revitalization of neighborhoods (Martino 2008). Since the program began, close to $2 billion dollars have been invested through ETI programs in New York City (ETI website 2013).

Owing in part to the programs origins with the HPD property dispositions, and in part to the relative predictability of fixed-asset financing, affordable housing financing has been the cornerstone of the ETI programs. Over the course of several decades, these have included the Ginnie Mae Red Lined Neighborhood Aid Program, the Public/Private Apartment Rehabilitation Program (PPAR), the SBA 7a Program, Project Home, investments in the AFL-CIO Housing Investment Trust, a Revolving Loan Fund with the Community Preservation Corporation (CPC), the Access Capital Strategies program, and investments in the Erasmus Private Equity Fund (Martino 2008).

ETIs are administered by the Bureau of Economic Development, under the purview of the Comptroller. The five public pension funds have each allocated 2 percent of their portfolios to ETIs. Financially, the ETIs have historically out-performed their benchmarks. As of June 2012, the one-year return for the ETI portfolio was 7.09% compared to the custom benchmark of 6.41%, and had a ten-year return of 6.31% compared to 5.48% (ETI website 2013).

As the largest fund in the system, NYCERS plays a leading role in providing capital for ETIs. As of January 2013, the actual allocation of the fund in ETIs was 1.2 percent, or $520.9 million (NYCERS 2012). This discrepancy is common across the funds. The bottleneck in reaching the 2 percent goal is partly due to the challenge of finding appropriate investments as well as the amortizing nature of a large piece of portfolio which pays down and prepays (Martino 2013). Obstacles to expanding the ETI program, as identified by the ETI office, include false perceptions about ETIs (that they are below market rate), too few consultants, the difficulty of creating customized benchmarks, and the lack of a reliable method for measuring collateral benefits (Martino 2008).

One of the principal affordable housing financing programs is the Public Private Apartment Rehabilitation (PPAR) program. Through PPAR, the pension funds provide forward commitments at fixed interest rates to provide permanent, long-term mortgages for multi-family buildings that have units that will remain affordable for the long term. Since inception, over $800 million has been invested through this program providing financing for the preservation of new construction of nearly 31,000 apartment units (PPAR website 2013). These investments have financed projects throughout the five boroughs. Historically, a majority of projects have been in Manhattan (32%), followed by the Bronx (30%), Brooklyn (29%), Queens (9%), and then Staten Island (0%). More recently a majority of funded projects have been in the Bronx (38%) (NYCERS 2012).

The pension funds work with eight for-profit and non-profit lenders in the PPAR program. These include the Community Preservation Corporation (CPC), JP Morgan Chase, Neighborhood Housing Services, Bank of America, Citibank Community Development, Carver Federal Savings Bank, NCB Capital Impact, and the Low Income Investment Fund.

A recent project funded through the PPAR has been the long-term financing of the Jose de Diego Beekman Houses. The NYCERS and POLICE pension funds extended a $19 million, 30-year, fixed-rate mortgage to the development. The Beekman Houses are a complex of thirty-eight building in Mott Haven, a low-income neighborhood of the Bronx with an AMI of $20,286 (city-data website 2012). The vast majority of the tenants in the Diego Beekman Houses (roughly 95%) receive federal subsidies (Parks 2012).

The development were seriously distressed in the 1980s and 1990s and went into tax foreclosure. At that time, the department of Housing and Urban Development took over the property. However the houses remained under poorly managed private management until 2003, when the tenants formed a Mutual Housing Association (MHA) and bought the buildings from HUD for eighty dollars. The MHA secured financing through Bank of America for needed maintenance and repairs. The $30 million dollar construction loan was then converted to a permanent loan at an interest rate of 7.19%. However, it was never Bank of America's intention to service the loan over the long term. Rather, they looked to sell the loan in a secondary market to an investor as a securitized product. After the financial collapse, interest rates dropped very low. When Bank of America was looking to sell the MHA loan, MHA instead chose to refinance through the pension funds at 4.19% interest, which was a better rate than offered by any of the commercial lenders (Ibid). The mortgage is now serviced through the Community Preservation Corporation for the pension funds.

The Community Preservation Corporation (CPC) is a key partner of the pension funds, participating in multiple aspects of the ETI affordable housing programs. CPC is one of eight lenders in the PPAR program, and services many of the pension fund loans originated originated by CPC, and by other lenders. The pension funds have also participated in the CPC revolving loan fund, a line of credit with 70 total lenders, mostly banks.

CPC is a nonprofit bank that specializes in financing the rehabilitation of existing multi-family properties or the construction of new properties with low or moderate-income tenants, principally in and around New York City. The pension funds collectively have $666.2 million in commitments to the PPAR/CPC program, and a current investment of $30 million in the Revolver (Martino 2013). Based on demand, the CPC is

in the process of requesting an additional 200 million dollars for that program. The CPC credits the pension fund financing with the creation or preservation of 25,240 units of affordable housing since the program's inception in 1984. The CPC reports it has delivered 55 million dollars annually to the pension funds in the last four years (Community Preservation Corporation 2012).

The average loan size for CPC is relatively small, at 3 million dollars, for properties with 20-40 apartment units. Richard Conley, Senior Vice President and Chief Credit Officer at CPC, says the small landlords that CPC works with would have trouble securing construction loans from the large commercial banks, especially for rehabilitation work of owner-occupied properties.

> Most banks don't make renovation loans– maybe a gut renovation on a vacant building. Certainly, Chase, and the larger banks that have CRA, Bank of America, they would. But they also shy away from doing properties that are occupied. We do both (Conley 2013).

The 1977 Community Reinvestment Act (CRA) was passed by congress to curb the discriminatory practice of redlining by commercial lenders, who for decades would routinely, as a matter of policy, not extend credit to African American neighborhoods throughout the country. The law stipulates that in order to receive Federal Deposit Insurance Corporation (FDIC) insurance, banks must extend credit to borrowers in all areas where they are chartered. Regulators evaluate banks for CRA compliance, although strict criteria that must be met do not exist. The passage of the CRA roughly corresponds to the start of the ETI office in New York City. The convergence of CRA (which in this instance resulted in banks making construction loans) and the City's and State's establishment of aggressive affordable housing missions (which resulted in large subsidies, tax breaks for owners and developers and mortgage insurance) created conditions for the Funds, with their long term investment horizon, to invest in the mortgages at market rates. This was a de facto public/private partnership that spurred the revitalization of the City's neighborhoods. The Funds' impact has been largely unheralded and is difficult to measure (Martino 2013).

The CPC was founded in 1974 at the initiative of David Rockefeller, then chairman of Chase bank. Rockefeller pulled together 30 banks into a consortium to create

a risk-sharing pool for banks to invest in low-income areas and meet their CRA requirements. Over time, the consortium has grown to 70 banks. They extend a 500 million dollar line of credit to CPC, and are then paid back by the take-out loans from the pension funds.

Since the 1970s, some of the commercial banks who are a part of the consortium have become direct competitors to CPC, as they have set up their own community development divisions and developed in-house expertise for local lending in under-served markets. The CPC has adjusted their business-model somewhat. "We are more inclined now to have the smaller borrower, the non-profit borrower, the riskier borrower. There tends to be more hand holding" (Conley 2013). However, it's still a relatively small group of banks operating in this area.

Critical to most of the affordable housing ETIs made by the pension funds are state and federal financing. Loans made by the pension funds have a 100% guarantee from the State of New York Mortgage Agency (SONYMA). This insurance significantly mitigates any risk to the pension funds. In the case of the CPC program described above, the pension funds have taken zero losses over the course of its three decades of operation. Losses that SONYMA has taken through the program are less than one percent (Community Preservation Corporation 2012).

In addition to working with the pension funds and SONYMA, the CPC also utilizes other city and state financing programs for some of its projects. These include J-51 tax abatements, the 421a program, and HOME funds. "Feasibility really is reliant on public subsidy…for a product that is going to be affordable" (Conley 2013).

While the pension funds provide capital to CPC for their joint programs, CPC is the entity that works with property owners, reviews loan applications, provides construction loans for rehabilitation or new housing, applies to SONYMA for insurance, navigates other city or state financing options, inspects properties annually for violations, and services the long-term loan for the pension funds.

Those familiar with the ETI program of the pension fund believe it has been incredibly successful overall. It has largely achieved its initial goal of disposing of HPD properties, while also achieving collateral benefits, such as the financing of affordable housing and the creation of construction jobs. The pension fund boards receive quarterly

reports from the Bureau of Asset Management (BAM) providing updated accounting of the investments made by the ETI office. For the PPAR program, for example, these include breakdowns by borough and by lender of the dollars invested, the number of loans financed, and the number of housing units financed. The housing units are separated into "LMI" (low-moderate income) and market-rate columns. This breakdown provides both a quarterly snapshot as well as a historical comparison. The by-borough breakdown is typical across ETI programs.

Investments in the AFL-CIO Housing Investment Trust (HIT) are also presented by borough. The HIT has a range of investment programs that are relevant to New York City and to union members. Since 2002, the HIT has made $791 million in investments in multifamily housing in New York City. It has also set up a home loan program with a bank lender, HIT Home, in which union members and municipal workers, including NYCRS members, had lower closing costs and a cap on fees. The program ended in 2012. HIT supplies the pension funds with stats on how many System members receive loans through the program (For example, 44% of NYCERS members who received home loans through the HIT live in Brooklyn). The BAM report does not include any data on total loans requested or reviewed, an overview of commercial lending activity in these boroughs, or a breakdown by neighborhood or census tract. The report does not cite how the LMI category is conceived– whether it is based on AMI, tenant income, public subsidy involved in the project, or another factor.

There is a consensus among those familiar with the ETI program's history that the program has helped to "stabilize" and "revitalize" neighborhoods, although definitions of these terms are not fixed. It is also acknowledged that pension fund financing, while intending to rehabilitate affordable housing for current neighborhood residents, has contributed to gentrification in some neighborhoods, such as in Harlem. This has been an unintended consequence (Martino 2013) but also perceived as beyond the scope of intervention possible by a financial institution operating in free markets (Conley 2013). While the underwriting provided by CPC can stipulate affordability requirements for the properties with which they are directly working, the advent of investment on one block can spur private investment nearby.

The business of creating and preserving affordable housing in New York City is complex. New York has both the largest public housing authority in the country as well as some of the most expensive luxury housing in the country. New York City is the only large American city that has rent control and rent stabilization laws. Nonetheless, there is still an affordability crisis in the city. According to US Census Data, the percentage of New Yorkers paying "unaffordable"[7] rents has risen steadily since 1970. In 2010, 48.7 percent of city residents pay unaffordable rents as compared to 28.5 percent in 1970.

Affordable housing policies, particularly throughout the Bloomberg administration, have focused on market-based solutions such as "inclusionary zoning," in which developers of market-rate and luxury housing are given subsidies or density bonuses if they designate 20 percent of their units as affordable. The definitions of affordability vary, and are sometimes as high as 120 percent AMI. Some critics say Bloomberg's housing policies have fallen short, particularly in the wake of the financial crisis and collapse of the real estate market. Mario Mazzoni, the lead organizer of the Metropolitan Council on Housing, criticized the approach, saying "the priorities that the Bloomberg administration has put on development of new construction as a solution to affordable housing has been the wrong emphasis… you cannot build yourself out of the affordable housing crisis" (Gross 2009). The Community Preservation Corporation and other non-profit developers in the city have been criticized by some housing advocates for financing luxury developments in gentrifying neighborhoods, in addition to the affordable housing preservation work that they do. Even with the affordability set-asides, these developments can drive up the costs of neighboring units (Ibid.)

The involvement of rank and file membership in the direction or program priorities of the ETI office is minimal or non-existent. It is unlikely that pension fund members are aware of the ETI program, unless they have learned of its existence through the media or an occasional pension newsletter. Interviewees suggest that union membership is principally concerned with the financial health of the fund and the security of their retirement benefits, rather than the investment activities themselves. While District Council 37 had a formal pension committee for a period of several years, the

[7] "Unaffordable" is commonly defined as households paying more than 30% of income on rent.

discussions of the committee were informal and not integrated formally into the decisions or role of the trustee (Musuraca 2013). Pension funds in other states have reported an increased interest on the part of members in regards to targeted investments (Hebb and Beeferman 2008).

Under the leadership of Comptroller John Liu, repeated efforts have been made to publicize the investments of the pension funds in affordable housing and construction throughout the city. Comptroller Liu has held press conferences with residents and trustees in order to announce the financing deals for projects such as the Jose de Diego Beekman Houses, as well as issue press releases. These efforts have been picked up and circulated in the local press.

5.6 Green Apple Bonds

In December of 2012, Comptroller Liu announced a proposal to expedite much needed investments in critical but ailing city infrastructure: the city's 772 public school buildings suspected of containing dangerous toxins in their building materials. The issuance of Green Apple Bonds would finance renovations as well as cost-saving retrofits in targeted schools by 2015 – six years ahead of a current plan unveiled by the City's Department of Education in 2011. The DOE timeframe has been criticized by the Environmental Protection Agency as taking too long, and is at the center of a recently filed lawsuit by citizen advocates against the City (Press Release 12-12-133 2012).

The existence of PCBs in the city's older schools is a serious health hazard. Fluorescent light fixtures and window caulk installed prior to 1979 were made with Polychlorinated Biphenyls (PCBs), a known carcinogen that has since been banned. Older, leaking lighting ballasts release the chemical into the air, where they may be inhaled, and pose a fire risk. In addition to a range of dangerous health effects, including cancer and serious non-cancer effects on the body's immune, reproductive, nervous, and endocrine systems, recent studies by the EPA suggest exposure to PCBs can cause learning deficits– a finding of particular concern for pregnant teachers (PR12-11-129 2012, 4).

In addition to addressing the health and safety concerns of removing PCBs from city schools, there are environmental and energy savings, and community benefits, associated with the expedited remediation and retrofit plan. The DOE is the agency that consumes the most energy citywide. Cost savings associated with the new timeline are estimated at $339 million saved in energy bills, and emissions reductions of 1.4 million metric tons of carbon less released into the atmosphere through 2021. The remediation and retrofit work will require three thousand new jobs, mostly in construction(Press Release 12-12-133 2012).

Green Apple Bonds, if issued, will raise an estimated $407 million dollars. As of yet, no buyers for the bonds have been announced, as the Mayor's office has yet to approve their issuance. However, candidates include a range of institutional investors, including the public pension funds. The United Federation of Teachers, SEIU, and the New York City Labor Council are some of the labor voices that have expressed support for Green Apple Bonds on behalf of their members: school teachers, facilities maintenance staff, and workers in the building trades. Pension fund trustees and advisors who manage retirement assets have yet to publicly comment on the bonds one way or the other.

Polychlorinated Biphenyls (PCBs) were manufactured by the Monsanto Company from 1929 until 1976 when they were banned under the Toxic Substances Control Act (TSCA). Throughout the decades of their production, PCBs were incorporated into hundreds of industrial and commercial products. In school buildings, PCB oils can be found most readily in in the lighting ballasts of many older fluorescent light fixtures, and in caulking paste (used to insolate windows and doors). The EPA provides health-based guidelines on permissible levels of PCBs, based on a reference dose of exposure of no more than 20 Nano grams per kilogram per day. The acceptable concentration in manufactured materials including light ballasts and caulk are 50 ppm (Enck 2012)..

The high levels of PCBs in schools put not only children, but also teachers, and school staff at risk. PCBs are classified as a "persistent bio accumulative toxin" which means they build up in the body overtime, rather than pass through the system. This is a particularly salient fact in regards to the schoolchildren who spend their entire kindergarten through high school years in the public school system, and the teachers and

staff who spend decades of their careers in these facilities. While much of the conversation surrounding PCBs in schools focuses only on the classroom, these materials are also commonly in the hallways, lounges, cafeterias, and other building areas.

Under the Toxic Substances Control Act (TSCA), there is no requirement for schools (or other agencies or property owners) to test for suspected PCBs. Only once PCBs have been discovered above the legal limit does regulation mandate a remediation response within three days. This leaves the burden of demonstration testing to concerned parties, rather than those who own or operate facilities.

The first concerns over PCBs in schools were brought to the attention of the EPA by a concerned parent. In 2004, Dr. Daniel Lefkowitz of Westchester, NY read an article about the use of PCBs in older building materials and suspected they might be present at his son's school. He conducted his own sampling and alerted the regional office of the EPA (Region 2). A lengthy process ensued, but his school district addressed the contamination. PCBs have since been found in schools across the country including in Connecticut, Massachusetts, Texas, and Washington. In New York City, the issue first became a public story in 2008 following investigations by the NY Daily News (Burke and Egbert 2008). However, the full extent of the contamination nationally is unknown.

Speaking about New York City, the Chief of the Pesticides and Toxic Substances Department of EPA Region 2, John Gorman, called TSCA a "don't look don't tell statute" when describing the limits of the regulation's reach.

> [New York City] is happy to sit back and say 'anyplace that you want to go in and sample, we will take care of it within 72 hours. But, if you're not going to come in and sample it, we're not going to take the sample.' (Gorman 2013)

In 2011, the EPA conducted a random sample test of lighting ballasts in ten schools throughout New York City. They found that 113 of 145 light fixtures tested above the regulatory limit. The results were a wake up call to the seriousness of the problem. PCBs in city schools are now a top priority for Region 2 of the EPA.

New York City has the largest school system in the country, and the older facilities are ageing. The pilot inspections undertaken by the EPA revealed many lighting ballasts in school facilities that were still in place although they were well beyond their

useful lifetime. According to manufacturers of the lighting ballasts, the lifespan of these fixtures should be ten to fifteen years. However, many lighting ballasts were found by EPA to date from the 1970s or earlier. Ballasts were found dating from the 1950s, and suspected older ballasts lack labeling to identify the exact vintage (Ibid). While the older light fixtures might appear to be functioning, they have a higher likelihood of leaking. A dozen incidents of visibly leaking ballasts were reported in the first four months of 2013, including an incident in Staten Island where PCB oils leaked onto the arm of a ten year old while she was seated in class. These incidents under-represent the extent of the overall problem, as not all faulty ballasts leak visibly, and proper determination of their safety requires inspection and sampling.

To properly remove and remediate PCBs from school buildings requires trained and qualified cleanup contractors who know how to dispose of the toxins according to appropriate regulation. The work is also somewhat variable. Many of the light fixtures in the public schools are attached to ceiling tiles that contain asbestos, or have asbestos-coasted wiring– another banned substance that, once exposed, requires remediation. While the light ballasts and caulk are the primary sources of PCBs, over time, other materials, such as wall paint, may have absorbed PCBs through the air. In these cases, once the primary sources are removed, the secondary sources begin to off-gas their stored PCBs to maintain the chemical equilibrium in the air. Follow up testing and further remediation might then also be necessary (Gorman 2013).

Cleanups and renovations will require school buildings, or sections of school buildings, to shut down for days or weeks at a time. The associated costs of cleanup therefore include the expense of new light fixtures and building materials, lab costs for testing of contamination before and after cleanup, labor costs, and the costs of relocating students and staff. As schools are frequently used for other community purposes during after-hours and throughout the summer, there is no window of time in which some relocation will not be necessary.

New York City released its remediation plan, the "Comprehensive Plan to Increase Energy Efficiency and Environmental Quality at Schools" in February 2011. The plan targets 740 schools, 179 of which are deemed high priority due to visibly leaking ballasts at the sites. The City plans to finance the work using municipal bonds,

which is the standard public financing procedure for capital projects, including school construction. The plan lays out not only the remediation work to be completed, but also the upgrading of boilers and other energy systems in the buildings to conserve energy, limit pollution, and lower costs. The City has hired five energy service companies (ESCOs) to undertake the retrofitting work, which will be overseen by the School Construction Authority (SCA). Critics argue that the City's 10-year timeline is too long. Green Apple Bonds has emerged as the most publicly visible alternative for financing a faster remediation.

Among those present at the November 30 2012 press conference with Comptroller Liu to announce Green Apple Bonds were vocal opponents of the Mayor's "unacceptable" and "unnecessary" timeline (Liu), including representatives of labor constituencies. Among those represented were the United Federation of Teachers, the Building and Construction Trades Council of Greater New York, the NYC Central Labor Council, 32BJ SEIU, and I.O.U.E. Local 891.

In their remarks, the labor representatives emphasized the health and safety of school children first and foremost, as well as the health and safety of teachers and staff. Vincent Alvarez, President of the New York City Labor Council, also delivered the message that the "workforce is ready to do the job" on an expedited timeline.

The UFT has been pursuing the PCB issue for several years. The union has been conducting meetings with politicians and other officials at both the city and state levels, as well as educating their members about the issue. The UFT's position is that PCBs cause an immediate health risk to their members and should therefore be addressed as quickly as possible. The delegate assembly of the UFT passed a resolution in January supporting the issuance of Green Apple Bonds, which was announced to all its members through their website and newsletter. However, the UFT would support any financing mechanism that could facilitate faster remediation, not only Green Apple Bonds.

Green Apple Bonds are targeted municipal bonds for green projects. While the initial application for the bonds is to remediate and renovate school buildings, the Comptroller's office believes there will be a market for the bonds for other types of green projects going forward, not only from investors with a track record in socially responsible

investing, but also from more traditional investors who purchase NYC municipal debt. In developing such instruments, New York City could also be a model for other localities.

The Green Apple Bonds proposal was conceived of in the Comptroller's office, drawing on the skills and expertise of staff in various departments, including the Bureau of Public Finance, the Bureau of Asset Management, and the policy bureau. Many of the staff members in the Comptroller's office have prior professional experience in the financial sector. The Comptroller's office spoke to many local, state, and national stakeholders in advance of announcing the plan. The period of design and consultation took approximately three weeks.

The Green Apple Bonds program was inspired in part by another initiative, the Capital Acceleration Plan, which was announced by the Comptroller's office in 2012 and has since been embraced by the Mayor and City Council. The CAP expedites infrastructure projects that have already been approved, on the premise that borrowing to finance these projects now, at historically low interest rates, will save the City money in the long term and create jobs in the near term.

The CAP proposal emphasizes the dangers to competitiveness associated with the deterioration of infrastructure, and highlights that other countries are spending a higher percentage of GDP on infrastructure than the United States. New York City has "substantial shortfalls between budgeted funds and the amounts needed to bring all City assets into a state of good repair," a problem because "competition between cities—for talent, investment, and corporate locations—is only going to get stronger" ("Capital Acceleration Plan: Creating Jobs Today by Improving Tomorrow's Infrastructure" 2012). Quoting a report by the Economic Intelligence Unit, the plan proposal further notes: "There is a clear correlation between overall city competitiveness and physical capital…physical capital is a prerequisite for competitiveness" (Ibid, 2).

It is possible that the pension funds would be among the institutional investors who would purchase Green Apple Bonds. However, the success of the bonds does not rely on their purchase by the pension funds. Historically, the funds have demonstrated less interest in tax-free bonds than higher-yielding taxable bonds, which would suggest that Green Apple Bonds are unlikely to be an addition to the public pension funds' portfolio (Martino 2012). According to limited available transcripts from the investment

meetings of the five funds, it does not appear that any conversation in relation to the bonds have occurred at the board level.

The Comptroller has a dual role in issuing municipal debt and as advisor to the pension funds. However, personnel from these offices are quick to point out that the two roles are independent, a distance maintained by the separate bureaucracies that support these functions. The pension funds and municipal unions also subscribe to an "iron wall" policy between investment policies and issues of policy (Hoffman 2013).

Chapter 6

Analysis of New York City Case

6.1 Introduction

The first objective of this paper has been to make the case that community investing by pension funds is one institution (broadly defined) that has emerged as a result of the historic-economic pressures that have driven a disintegration of the social contract over the last thirty years. Additionally, to address the following research questions via a discussion of community investing in New York City: What is the relationship between community investing by pension funds and the changing roles of Capital, Labor, and the State? How, in turn, does the design and organization of these institutions impact their ability to influence this relationship? By considering decision-making and bargaining power amidst uncertainty, we can assess the capacity, limits, and willingness of these actors on a local-city scale to resist growing inequality, the privatization of risk, and to meet the investment needs of cities and communities through community investing efforts.

6.2 The Turn Towards Community Investing

In New York City, community investing by public pension funds emerged largely out of expediency. A fiscal crisis– compounded by closed credit markets and federal withdrawal– forced open the door for city managers and municipal union leadership to consider and negotiate the terms and conditions for which the public pension funds would be used for the purchase of municipal bonds.

During the crisis, the relationship between city officials and the municipal unions and pension trustees was fraught with tensions. Ultimately, it was the labor-trustees (as opposed to the other members on the board) who pushed back on the proposal. That the municipal unions were pressured to step back from their original position of indifference towards default is significant. City managers, aided by their financial advisors,

successfully recast the fiscal crisis as an existential crisis for the unions. In this context, city workers were faced with a triple-threat of pressures: the cost of their contracts and pensions were blamed for contributing to the crisis, their jobs and benefits were cut in order to demonstrate fiscal responsibility to the banks, and their pension trust was used as lender of last resort.

Times of "crisis" inevitably create uncertainty. This uncertainty can insert additional ambiguity into the roles and expectations of stakeholders, and be exploited by those actors in more privileged positions. The fiscal crisis of the 1970s was one such time, which has since been repeated in many municipalities around the country, and on the national stage. The banks probably benefited the most from the negotiations that were made. The city, with commitments to meet expenditures for operating expenses, had to resort at least partially to maneuvering to please the banks. Within this calculus, it is the poorest residents of the city who are squeezed the most. They are most reliant on city services and have the least representation.

For the municipal unions, the gains of participating in the financing scheme appeared to union leadership as a relative victory. Despite having had to agree to some cuts and sizeable risk, the unions saw this move as a way to secure certainty and avoid the threat of losing their bargaining rights. Thus, given union membership density today relative to other parts of the country, this may have proven a long-term strategic win for New York's labor movement. At the same time, the costs of these compromises are uncertain, and they raise the question of what would have happened to city workers had they not had their pension funds as a lever of negotiating power.

However, it is also possible that by participating in the austerity response to managing the crisis, the municipal union leadership ignored any dissent that may have been felt among the rank and file, and largely abdicated any responsibility for the poorest residents who were most harshly impacted by cuts to services. With their backs against the wall, the municipal unions did not push to secure a broader policy agenda but rather used their leverage to secure some degree of protection for the exclusive benefit of their members, or perhaps more narrowly, the interests of union leadership.

The 1970s fiscal crisis did prove a turning point for city politics. As discussed in Chapter 3, the crisis was used to dismantle many of the social-democratic policies that

existed at that time at the local level. To some extent, it can be seen as a negotiated victory for the pension funds. Their involvement in helping to bring the city out of the crisis may have served as a bulwark against starker cutbacks aimed at public sector workers. However, the 1970s experience also demonstrates how financial crises can be used as a wedge to separate the interests of working and middle class professionals represented by the union and the further marginalized.

6.3 Defining Objectives and Evaluating Collateral Benefits

The objectives and policies that direct the public pension funds' ETI programs originate in government offices or with their investment partners, not with the municipal unions. The prime example is the centrality of housing finance to the ETI efforts. The ETI office was created largely to facilitate the disposition of HPD properties, a process that has been ongoing for decades. Affordable housing finance has been established as the core competency of the ETI office in part because of this early mandate.

Critically, the State does assume much of the risk through the SONYMA guarantee program, which has been instrumental in the success of the programs in achieving risk-adjusted market rate returns. The ETI staff and its partners are experts at leveraging not only SONYMA, but a variety of state and city financing programs necessary for the development and financing of low and moderate income housing in New York City. These programs illustrate the success of a programmatic collaboration between the pension funds and the city to facilitate such investments.

The pension funds (trustees and staff) do not engage closely with determining the parameters of how collateral benefits are defined or evaluated with their ETI programs. While ETIs are reviewed quarterly at the board level, the level of detail assessed provides no clarity, for better or for worse, on the impacts of investments on the neighborhood level. Determinations of what collateral benefits are achieved is largely left to intermediaries, and to the underwriting requirements associated with different public financing programs associated with a given project. This is not to say that the requirements are insufficient, but only that the pension funds do not currently consider any deeper analysis of these outcomes as within their purview.

The limitations of this approach when considered in relation to the objective of collateral benefit is a de-facto delegation of evaluation or analysis of collateral benefits to community partners, investment intermediaries, or outside researchers. While NYCERS and its partners have participated in academic projects around their work, these projects have not been systematic. Moreover, the interest of researchers has guided the projects, rather than an agenda set by the municipal unions, the ETI office, or the intermediaries. While communities that stand to benefit from the financing are presumably stakeholders in the success of the programs, their representation at the board level or visibility in the reporting data is largely absent. It is unclear who, if anyone, is responsible or accountable to neighborhood level impacts.

The constraints of fiduciary duty are used to justify this arms-length engagement with collateral benefits. The assumption is either that such concerns would detract from the necessary primary concern of financial returns, or that a deeper engagement would be considered "political" and therefore run afoul of legal constraints. It is not clear therefore whether this is a self-imposed distancing, a legally necessary separation, or a limitation of capacity (staff or financing). Arguably, this ambiguity undermines the ambition of the ETI program.

A stated objective of the ETI program is to address market gaps within the city. There is a question left open as to what degree they are filling gaps versus subsidizing capital. Conversations with HPD staff suggest that if the pension funds were to disengage with affordable housing finance, other lenders would still fill the gap in today's housing market (still utilizing public subsidy). If the ETIs in some instances are displacing capital that would have been otherwise provided by another investor, then the fund is presumably not achieving its objective to maximum impact. However, examples such as the Diego Beekman Houses illustrate that while the Mutual Housing Authority could have found another mortgage, the rates would have been higher than that secured by the pension funds. The lower rates go far in securing affordability for the low-income residents of the development over the long-term. As such, the quality of impact associated with working with the pension fund may still surpass that of other lenders.

The discussion of the Green Apple Bonds initiative illustrates plainly both the success of pension fund fiduciaries in creating an "iron wall" between pension policy and

political interests, as well as the potential frustration for an organization that has a real interest in a policy getting off the ground, potentially the capital to finance it, but no leverage by way of their financial muscle to influence the adoption of the policy. These funds can be used for investment projects with an agenda (if achieving market-rate returns), but not the agenda of the municipal unions, only that of city agencies and their development partners. As such, the capacity for ETIs to address specific interests of workers is limited to what can be achieved programmatically.

The Green Apple Bonds further illustrate the process of public finance innovation. Currently, similar innovation does not come out of the ETI office, but rather through other branches of the Comptroller's office or development partners. It is possible to ask what it would look like if the pension funds and the municipal unions developed internal capacity to develop their own proposals.

6.4 Defining Stakeholders and Success with Affordable Housing ETIs

The construction and preservation of affordable housing is a policy objective that illustrates a potential mismatch between the interests of different stakeholders. Stakeholders might have a different definition of affordability, and different ideas of what affordability should look like in a given neighborhood. As such, the interests of the pension funds as a financial institution, the interests of plan beneficiaries as city residents, the interests of other low and moderate-income residents in the city, and the interests of the city as established through the housing and development agenda of the administration may be in tension.

For example, the objective of the city to expand the tax base will not necessarily overlap with the interests of low-income residents who face possible displacement by gentrification. Increasing affordable housing in a low-income neighborhood can lead to the displacement of poorer residents (depending on how affordability is conceived), and spur private development, further increasing market pressure on some communities. Such patterns have been evident in Harlem and in neighborhoods of north Brooklyn, where CPC has been active.

A recent report by the Association for Neighborhood and Housing Development, Inc. (ANHD) on the affordable housing policies of the Bloomberg administration unpacks some of these discrepancies. The goal of the New Housing Marketplace (NHMP) plan is the creation of 165,000 affordable units. The ANHD report is a first evaluation of the program that goes beyond this single metric to consider some additional indicators: geography, unit size, detailed affordability, community impact, length of affordability, and amount of public subsidy spent. The report has found that a majority of the affordable housing units created under the plan are in fact unaffordable to a majority of the households in the neighborhoods where they are built (ANHD 2013, 4).

Furthermore, the broad labels of low-, moderate-, and middle-income used by the city are misleading. There is a mismatch between true median incomes by neighborhood and the AMI formula used for city subsidy established by HUD. From 2005-2010, the actual New York City median income was only 76.4% of the official AMI levels (ANHD 2013, 28). As a result, the majority of the affordable housing created excludes truly low and moderate-income residents. For FY2009-2011, a third of all "affordable" units produced under the NHMP were available to New Yorkers making the median income or more (ANHD 2013, 24).

Due to the close collaboration between the pension funds and city agencies, and the arms-length approach to collateral benefits pursued by the pension funds, the degree to which ETIs can succeed in increasing affordable housing in the city is currently limited by the degree to which city programs themselves are adequately addressing housing needs in the city. That almost 50 percent of New Yorkers are paying unaffordable rents, compounded by the limitations outlined by the ANHD report, would suggest these programs are falling short. Again, this is not to say that the ETI programs have not succeeded in the creation or preservation of affordable units. Rather, to underscore that as affordable housing is a collateral benefit, rather than an explicit policy or framework developed in relation to definitions of need, the pension funds do not directly engage with these tensions but rather leave it to the investment intermediaries and city housing policy advocates to address and debate.

The board of trustees of NYCERS (like many other public pension funds) is composed of actors who all have dual responsibilities. Elected and appointed officials

have responsibilities as fiduciaries as well politicians with diverse constituents, and the municipal unions have responsibilities to both retired and current workers. To the extent that the interests of current and retired workers align, and the interests of city workers and other residents overlap, these stakeholders are on common ground. However, there is a tension between the more narrowly defined interests of the pension funds, their workers, and communities that has been insufficiently addressed.

6.5 Alternative Approaches to Engagement and Capacity Building

The rank-and file membership of the municipal unions in New York City are not regularly engaged or informed about the community investments of the pension funds as policies. The relationship between the pension fund and the beneficiaries is one that centers on benefits and services. It appears that members are likely only aware of the affordable housing financing programs as far as programs exist that extend financing to workers, or if investments are publicized by the Comptroller's office or discussed in the press.

The arms-length relationship between the municipal unions' membership and the pension funds contrasts with the direct engagement demonstrated by the Labor Sponsored Investment Funds (LSIFs) in Canada. The approach of these organizations to collateral benefits is to incorporate building capacity and learning into their process. As discussed in chapter 4, if a firm seeks LSIF funding, the LSIF staff will direct workers, not employers, through a financial analysis workshop in which they evaluate the financial health of the firm. Furthermore, by appointing LSIF members to the boards of some companies, the LSIF approach creates institutional relationships that will be ongoing into the future.

In the case of the HIT, the fund leverages its expertise to create new jobs and facilitate collaboration between workers and their employers. The labor-relations service that the HIT offers demonstrates to developers the benefits to project outcomes of working with union workers. By offering this service as part of their role as financiers, the HIT has a built in value-added benefit that increases the likelihood that a developer

will seek HIT financing in the future. The HIT also builds capacity among local labor councils when operating in geographies that less union representation.

Both the LSIF and the HIT closely monitor and the outcomes produced by the investments, and can result in ongoing relationships with firms that may be institutionalized (via board participation or future contracts). The approach of these funds to financing therefore is to not only achieves risk-adjusted market rate returns, but also to leverage financial muscle to incorporate learning and capability building so that via a dynamic process, broader capacity can evolve over time.

6.6 Research Questions Revisited

What is the relationship between community investing by pension funds and the changing roles of Capital, Labor, and the State? How, in turn, does the design and organization of these institutions impact their ability to influence this relationship?

The present narrative has partly answered the first of the above questions by portraying the relationship between these actors and institutions as a complicated one. But what affects what? So far, it appears that it is pressures associated with the disintegration of the social contract, by changing the roles of Capital, Labor, and the State, that has shaped community investment by pension funds. Indeed, this is one possible interpretation of this story, explored below in the macro-implications. But the clues picked up from the implementation process running from design to outcomes could also suggest effects going the other way. By noting the structure and evolution of organizational aspects in community investments by New York pension funds, the story addresses the second question and raises possible implications of this relationship.

Macro-Implications: Labor Picks Up the Slack From A Breaking Social Contract

The existence of pension fund capitalism is an outcome of a transformed political economy. The size and scope of the funds, and the increasing interest in community investments are results of financialization and the diminished role of the State. While we see the potential for labor-capital to be a source of leverage for a weakened labor

movement, which has historically been dependent on union density for power, we also see that a range of facially apolitical constraints attenuates this leverage. Moreover, this raises the question of whether Labor is being pushed to justify its existence by stepping in and aiding communities, as State funds retreat. If this is indeed the case, in effect it would constitute a subsidization of other members of the social contract (Capital and the State), at the expense of the interests of Labor union members.

Another aspect of this issue is that within the current political paradigm, technocratic finance-governance approaches to decision-making are perceived as being independent from political influence. At the same time, the dependence on professional financial managers, along with expectations that pension funds mirror the returns and practices of the investment industry more broadly inherently privilege the preferences and limitations of these actors and systems. This gradual intrusion of the technocratic rituals of the financial industry into public pension funds betrays a growing isomorphism meant to infuse institutions with an appearance of professionalism and efficiency. Yet, pretending that these practices remove politics from the equation would be far-fetched.

Finally, while capital flows in the public sector should arguably be oriented around need, pension fund capitalism, in the neoliberal context, privileges market-based solutions to need-based problems. Within affordable housing finance, the city has moved away from the construction of public housing and towards market-based interventions. However, as discussed previously, these programs are not doing as much as they potentially could to address the crisis of affordability in the city.

Institutional Design: Goals and Outcomes

To explore the relationship between community investing by pension funds, on one hand, and the changes taking place around the roles of Capital, Labor, and the State, on the other, it is necessary to put the aforementioned macro-implications in a more specific context. To accomplish this, this research has explored elements of pension fund capitalism in New York, in more micro areas covering institutional design, goals, and outcomes.

Key elements of the design of institutions and programs include how goals are set, and the processes by which they are achieved and evaluated. In New York City, it

appears that community investing by the pension funds is organized around the interests and agenda of city agencies, rather than the interests or concerns of the municipal unions (this does not mean that the municipal unions do not also share these concerns, but are not the driving force in their adoption as objectives). An example mentioned earlier illustrates the conditions around the pursuit of affordable housing in the city from the late 1970s. With HPD as the biggest landlord in the city, it became necessary to bring those properties back onto the tax rolls. As a result, the Comptroller began ETIs to channel some of that capital into reinvestment in these properties. Thus, it was city initiative, with pension fund support, that drove these investments. The ongoing discussions around Green Apple Bonds may reinforce this interpretation, if only by producing a counterexample. In that case, although workers are interested in seeing these interventions take place, they do not have the political leverage to make them happen. While the Comptroller backs the initiative, the Mayor does not, which significantly reduces the likelihood that Green Apple Bonds will see the light of day. In the end, all public financing decisions are very much politically driven, and the concerns of unions are, at best, a secondary consideration.

Evaluating Outcomes

The current ETI programs have channeled significant amounts of capital into disinvested neighborhoods, and have contributed to preserving affordability for many New Yorkers. However, the outcomes of the investments, in terms of collateral benefits, are not currently subject to a rigorous evaluation. That there is not additional accountability and transparency surrounding the collateral benefits is due to several factors. It is a result of the ambiguity of the mandate regarding social objectives, which are secondary to financial returns; a result of depending on financial intermediaries to facilitate investments and design programs; and the result of not having a formalized community review mechanism.

Processes and Building Capacity

The relationship between Capital, Labor and the State, and the community investing programs by the pension funds is dynamic. Not only are these actors impacting

the pension funds, and the design and goals of their community investing programs, but these institutions also have the potential to feed back into this relationship to influence it as well. By taking advantage of the processes by which community investing programs are evaluated, implemented, and designed, the pension funds can work to direct their impacts and affect the evolving relationships in the political economy.

Despite being a key stakeholder, the municipal unions don't currently have much capacity to direct how these funds could be invested, without raising concern that they are politicizing these investments. Municipal union capacity is constrained somewhat by outside pressures such as the legal ambiguity around ETIs, by political pressures, and by isomorphic pressures to imitate the industry. In a political climate that is generally hostile towards labor, and increasingly suspicious of defined benefit pension plans, it is possible that pursuit of such approaches would hasten the dismantling of the system altogether. These are serious concerns that cannot be ignored. However, absent taking steps to increase their leverage and bargaining power within these institutions, the evolution of pension fund capitalism will achieve little for labor over the long run. Labor may subsidize the state and capital through these programs without building power, and given the current trajectories, this puts labor in a diminished position over the long term.

Without conceding any amount of due diligence on the financials, there is a gap between current and potential capacity on the part of the municipal unions– to be a source for new ideas, needs assessments, and investment vehicles that can both achieve market-rate returns while also considering questions such as building labor power. In order to close this gap, pension funds need to look to the processes by which programs are implemented and evaluated to seek opportunities to build capability among their members and their allies. Paying attention to processes will create program designs resulting in institutionalized relationships.

Overall, this research has hypothesized that the relationship between community investing by pension funds and the trends affecting Labor, Capital, and the State is multidimensional and appears to run both ways. That is, from these trends affecting the way in which pension funds engage in investment, to this phenomenon further entrenching the trajectories of Labor, Capital, and the State in a disintegrating social contract. The latter point would appear to be reinforced by an investment process that

does not involve the workers, either in decision-making, or other capability creation. Having called attention to these issues, the final section will provide some policy recommendations to strengthen capability creation and improve transparency. This narrative raises hypotheses about the ambiguity of this story and its implications for the future of labor bargaining in the hopes of informing a more balanced path to community investing by pension funds.

Chapter 7

Conclusion

7.1 Conclusion

This paper has looked at the advent of community investing by public pension funds in the context of a disintegrating social contract. I have argued that such investments are a new institutional player in the political economy of cities that sits at the nexus of three key trends, or pressures, that serve as both backdrop and catalyst to the rise of labor-capital: financialization, neoliberalism, and the decline of the labor movement.

These trends have exerted a downward pressure on labor, in particular, and laid the groundwork for community investing by pension funds to emerge from the institutional ambiguity arising from the shifting responsibilities and roles of capital and the state over this period. Public pension funds seeking to achieve financial returns while also providing social or economic benefits to their regions appear to be a mechanism by which labor's role as stakeholder in society could take on a new shape previously absent from US political economy, which is one of structural, more so than political, influence within a finance-governance regime at the local or regional level.

However, the case in New York highlights the degree to which pension funds are limited by the financial and legal structures in which they are embedded, are dependent on local government for direction and collaboration, and are vulnerable to the interests of the state and of capital even when presumably they are in a position of relative power. Meaning, the ambiguity that permeates this institutional role remains a point of vulnerability absent further institutionalized norms.

One possibility is that fund investments in cities present an opportunity for labor to make deliberate efforts towards a structural relationship with capital and the state that in some way may balance the diminishing strength of the movement by the numbers and militancy alone. However, absent a long-range vision for this role or further institutional commitments and accountability, pension fund capital is vulnerable to being subsumed

into the machinations of the investment industry writ large, and achieves ambiguous social returns for labor and for communities.

The discussion of community investing and public pension funds in this paper has been limited to the case of New York City. New York is unique both in the strength of the public sector labor movement as well as in its close proximity to Wall Street. While the real estate market in the city is arguably distorted, the public pension funds in New York should also have access to the most sophisticated means to counter these pressures via market mechanisms. Other cities and states have neither the interest from private capital nor necessarily the proximity to investors. As such, a decentralized reliance on pension fund capitalism to fill market gaps or make up for a lack of public investment on a macro scale is even more ambiguous.

7.2 Prescriptions

This research paper has been more successful at positing hypotheses about institutional relationships rather than making definitive determinations as to the success or failures of particular programs. The following prescriptions are reflective of this approach, as they do not pretend to correct for failures on the part of actors or institutions, but rather suggest that attention to these domains could perhaps reconfigure the expectations or structural relationships between stakeholders.

• Define and Assess Collateral Benefits

The public pension funds have shied away from defining, assessing, or evaluating at a deeper level the community impacts of their targeted investment policies, or questioning what those objectives could be. This is a missed opportunity.

By abdicating responsibility for evaluating these programs, the pension funds are missing an opportunity to identify limitations and therefore to address them. Internal social audits are necessary for the development of policy positions. If the pension funds (or the municipal unions, or community groups with support of the pension funds) had policy recommendations for how to achieve improved outcomes with affordable housing

programs, for example, they could either use their financial leverage to lobby changes to city policies, or begin to implement some of those recommendations programmatically into their lending.

For example, the evaluation of affordable housing policies under the Bloomberg administration conducted by the Association for Neighborhood and Housing Development is a model for the kind of insight a social audit can achieve. While acknowledging the positive impacts of the New Housing Marketplace plan, ANHD unpacks its limitations, and offers a range of practical recommendations for how those policies could be improved. One of these recommendations is to institute a Real Affordability Index. The RAI goes beyond a simple metric of "units created" to incorporate other indicators including the depth of affordability, length of affordability, location, household size, and community impact. The RAI therefore provides a transparent understanding of social return on investments.

The ETI programs of the public pension fund could be a leader in adopting the RAI for its own evaluations. By achieving a better understanding of which investments in the ETI office currently have the greatest social impact, the pension fund could programmatically shift their community investing focus in affordable housing towards those that provide the most benefit. They could also then potentially pressure the city agencies they work with to do the same.

- **Research and Transparency**

As the above example makes clear, research is a necessary element of not only understanding community investing, but also for improving existing programs or designing new ones. Increasing transparency and the quality and quantity of publicly available data will improve the ability of researchers to understand what impact ETIs are having on communities, as well as the better understand the comparative advantages of partnering with different lenders. Developing internal research capacity, or establishing long-term partnerships with research institutions is one way that the information flows surrounding ETIs may be improved. In New York City, a partnership with ANHD around affordable housing is one such example.

As pension funds and their financial managers play an increasing role in urban governance, these institutions should look to emulate the transparency standards of public service rather than the secretive example of the financial industry. While New York City generally has made a push towards moving a lot of data online, the records of pension fund investment meetings are inconsistently archived. Ground level data investments are also not made public, precluding the kind of analysis on collateral benefits that may otherwise be undertaken by interested parties and made public. Much of the data used in the ANHD report was accumulated through FOIA requests. The pension funds could lead by example and establish data-sharing relationships with researchers.

• Increase Collaboration and Coordination

Public pension funds are members of organizations such as the Council of Institutional Investors, and do collaborate on shareholder resolutions and other governance initiatives. The same concern for collaboration and coordination should be extended to efforts at community investing. Pension funds should deepen their commitment to coordination and collaboration with a variety of actors, including community partners, research institutions, and other pension funds. The objective of such collaboration should be to share research, but also to develop capacity to evaluate and design investments.

A shortcoming of pension fund capitalism is the uneven distribution of resources and capacity in different sectors, and in different regions. Pension funds should more actively engage the question of how to appropriately work across scales within different geographies, and partner with each other to achieve identified social objectives while not sacrificing fiduciary obligations. The creation of new investment vehicles may facilitate such objectives, akin to the AFL-CIO HIT or the LISFs in Canada. Unlike with partnerships with private-sector investors, these companies could pursue specific collateral benefits and develop capacity to do so without sacrificing fiduciary obligations.

Many public pension funds already participate in joint funds, but rather than cultivating the investment expertise in-house, they are paying fees to financiers manage their resources. A recent article in *Rolling Stone* describes a hedge fund manager who not

only manages hundreds of millions of dollars for public pension funds, but is also on the board of an organization that campaigns against defined benefit plans. While investment companies like Heartland Capital Strategies, founded in the 1990s by the AFL-CIO and the Steelworkers exist, such expertise should be systematically replicated so that region-specific knowledge across asset classes is readily available by investment firms with labor stakeholders.

New investment vehicles or coordinating bodies could also begin to expand the reach of ETIs and make them more effective by pooling resources and risk across geographies. While most public pension funds limit their community investment allocations to 2 percent, that number could be increased if additional capacity to create investments in different asset classes and in different regions were developed.

• Increase Labor Awareness and Participation

The engagement of the rank-and-file union membership is necessary if community investing is ever to become a project of building labor's capacity to understand and influence finance and to set an investment agenda that is truly reflective of their members interests and needs. While municipal trustees are on the board, there is no regular or institutionalized system by which regular members may advise or react to investment decisions. These trustees are appointed by union leadership rather than voted on directly by members, further isolating the trustee from the membership. The municipal unions could approach their pension funds as a vehicle by which to increase the financial capacity of their members and increase their participation in financial governance. The approach of the LSIFs is to build financial literacy while also achieving positive benefits. Pension funds could provide opportunities for more members to learn and become involved.

Conducting needs surveys of members, providing regular updates directly to members regarding ETIs, and institutionalizing advisory pension committees are a few approaches that might improve the engagement of workers in the management of these funds. Increasing worker education regarding investing and financial oversight would strengthen workers' ability to participate effectively.

• Reclaim a Broad-Based Social Agenda

The budget strain on cities, coupled with political pressures and private sector unraveling of worker security, puts municipal unions permanently on the defensive. In this context, as the protections of the public and private sector workers are weakened, the relative security of city workers may appear to some unjustifiable and uncompetitive. For example, the defined benefit pension plans of municipal employees provide a level of security that most workers, even those with retirement plans (usually 401ks), can't quite imagine. The political agenda of the municipal unions increasingly takes a progressive community-unionism approach that seeks to build coalitions with communities, and seeks to educate and build power around broad social objectives including immigration reform, the protection of social security, and other reforms.

The pension funds are an opportunity for the municipal unions to illustrate what these partnerships look like when there is also financial leverage in place. The currently accepted finance-governance regime that organizes and directs a lot of private capital into the development agenda of the city is viewed as technocratic and apolitical. For labor to stake out a claim that a labor-finance-governance regime is possible or desirable, the community investments pursued by the pension funds, and the transparency and evaluation that they bring to bare on these policies could potentially reframe how municipal unions are viewed in the city by the public, and the nature of the relationship between labor and capital in particular.

References

AFL-CIO. "Investment of Union Pension Funds." AFL-CIO Committee on the Investment of Union Pension Funds, 1980.

ANHD. "Real Affordability: An Evaluation of the Bloomberg Housing Program and Recommendations to Strengthen Affordable Housing Policy." Association for Neighborhood And Housing Development, Inc., 2013.

Bagli, Charles V. "Boom in Luxury Towers Is Warping New York Real Estate Market." *The New York Times*, May 18, 2013, sec. N.Y. / Region.

Barnekov, Timothy K., and Daniel Rich. *The Reagan Legacy and the Politics of Urban Disinvestment*. Strathclyde Papers on Planning no. 12. Glasgow: University of Strathclyde, Centre for Planning, 1988.

Béland, Daniel. "Does Labor Matter? Institutions, Labor Unions and Pension Reform in France and the United States." *Journal of Public Policy* 21, no. 2 (2001): 153–172.

Blackburn, Robin. *Banking on Death, Or, Investing in Life: The History and Future of Pensions*. Verso, 2003.

Botein, Hilary. "Labor Unions and Affordable Housing: An Uneasy Relationship." *Urban Affairs Review* 42, no. 6 (July 1, 2007): 799–822

Burawoy, Michael. "The Color of Class Revisited: Four Decades in the Life of Zambian Miners." Presentation to MIT/DUSP, Massachusetts Institute of Technology, October 5, 2012.

Burke, Kerry, and Bill Egbert. "Probe Urged after News Finds Toxin in School Buildings." *New York Daily News*, April 8, 2008, sec. Education.

Capital Acceleration Plan: Creating Jobs Today by Improving Tomorrow's Infrastructure. Capital Acceleration Plan. New York City Comptroller's Office, May 2012.

Clark, Gordon. "Contested Terain: Republican Rhetoric, Pension Funds, and Community Development." *Urban Geography* 20, no. 3 (April 1, 1999): 197–225.

Clark, Gordon L. *Pension Fund Capitalism*. Oxford Geographical and Environmental Studies. Oxford ; New York: Oxford University Press, 2000.

Clark, Lindley H. Jr. "Speaking of Business: The Other Drucker." *Wall Street Journal*. June 28, 1976, sec. 1.

Clines, Francis X. "Teachers' Pension Reported Resisting Loan to M.A.C. Cash Is Needed Today Teachers Bar 150-Million Loan to City." *New York Times*. October 17, 1975, sec. The Week In Review.

Cobb, J. Adam. "From the Treaty of Detroit to the 401 (k): The Development and Evolution of Privatized Retirement in the United States." The University of Michigan, 2012.

Community Preservation Corporation. "NYC Pension Funds: SONYMA Insured Mortgage Fixed Income Investment Program." Power Point Presentation, 2012.

Davis, Chris. "Sustainable Investing: Incorporating ESG Issues into Investment Decisions." Ceres Investor Programs, NYCERS Board Presentation, January 2013.

Dennis, Vanessa, and Justin Myers. "Which Cities Have the Biggest Gaps Between Rich and Poor?" *PBS Newshour The Rundown*, October 26, 2011. www.pbs.org/newshour/rundown/2011/10/which-cities-have-the-biggest-gaps-between-rich-and-poor.html.

Dunstan, Roger. *Overview of New York City's Fiscal Crisis*. California Research Bureau, California State Library, March 1, 1995.

Durkin, Erin. "City Budget Director Mark Page Says Federal Cuts Will Hit City for $800 Million, Could Create Huge Budget Gap." *New York Daily News*, March 4, 2013.

Enck, Judith. "PCBs in Lighting Fixtures in Schools." Power Point Presentation, US EPA Region 2, June 2012.

Esping-Andersen, Gösta. *The Three Worlds of Welfare Capitalism*. Princeton University Press, 1990.

Ferretti, Fred. "Beame and M.A.C. Agree on 3 Moves to Avert a Crisis." *New York Times*. July 21, 1975, sec. The Week In Review.

Fine, J. "Community Unions and the Revival of the American Labor Movement." *Politics & Society* 33, no. 1 (March 1, 2005): 153–199

Fitch, Robert. *The Assassination of New York*. London: Verso Books, 1993.

Fung, Archon, Tessa Hebb, and Joel Rogers. *Working Capital: The Power of Labor's Pensions*. Cornell University Press, 2001.

Funston, Rick, Keith Johnson, Randy Miller, and Mark Barrott. "Public Pension Fund Governance: Alignment of Responsibility with Authority." *Pensions & Investments*. Accessed May 10, 2013.

GAO. *State and Local Government Pension Plans*. Report to Congressional Requesters. Government Accountability Office, March 2012.

Goldfield, Michael. *The Decline of Organized Labor in the United States*. Chicago: University of Chicago Press, 1987.

Gospel, Howard, and Andrew Pendleton. "Finance, Corporate Governance and the Management of Labour: A Conceptual and Comparative Analysis." *British Journal of Industrial Relations* 41, no. 3 (2003): 557–582.

Greenhouse, Steven. "Bloomberg and Liu Seek to Merge 5 City Pension Plans." *The New York Times*, October 27, 2011, sec. N.Y. / Region.

Gross, Courtney. "Affordable Housing Not Included." *Gotham Gazette*, October 2009.

Hacker, Jacob S. "Privatizing Risk Without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States." *American Political Science Review* 98, no. 2 (2004): 243–260.

Hagermann, L., Gordon L. Clark, and Tessa Hebb. *Pension Funds and Urban Revitalization, New York Case Study: Competitive Returns and a Revitalized New York.* Working Papers in Employment, Work and Finance, 2005.

Harkin, Sen. Tom. *The Retirement Crisis and a Plan to Solve It.* US Senate Committee on Health Education Labor & Pensions, 2012.

Harvey, David. *The Urban Experience.* Baltimore: Johns Hopkins University Press, 1989.

Hebb, Tessa, and Larry Beeferman. "US Pension Funds' Labour-Friendly Investments." In *Alfred P. Sloan Foundation Industry Studies Conference*. Boston, 2008.

Hebb, Tessa, and David Mackenzie. "Canadian Labour-Sponsored Investment Funds: A Model For U.S. Economically Targeted Investments." In *Working Capital: The Power of Labor's Pensions*, 128–157. Cornell University Press, 2001.

Hebb, Tessa, and Jayne Zanglein. "Economically Targeted Investing: Changing of the Guard." Carleton Centre for Community Innovation, n.d.

Hodson, Mike, and Simon Marvin. *World Cities and Climate Change: Producing Urban Ecological Security*. Maidenhead; New York: Open University Press, 2010.

Hoffer, Doug. *A Survey of Economically Targeted Investments: Opportunities for Public Pension Funds*. A Report for the Vermont State Treasurer And the State Retirement Boards, February 16, 2004.

Huber, Evelyne, and John D. Stephens. "Welfare States and the Economy." In *The Handbook of Economic Sociology*, edited by Neil J. Smelser and Richard Swedberg, 552–574. Second edition. Princeton and Oxford: Princeton University Press; New York: Russell Sage Foundation, 2005.

Investment Company Institute. *Investment Company Fact Book.* 52nd ed. Investment Company Institute, 2012. icifactbook.org.

Krippner, Greta R. "The Financialization of the American Economy." *Socio-Economic Review* 3, no. 2 (May 1, 2005): 173–208

Mahoney, James, and Kathleen Ann Thelen. *Explaining Institutional Change: Ambiguity, Agency, and Power.* Cambridge; New York: Cambridge University Press, 2010.

Markowitz, Harry. "Portfolio Selection." *The Journal of Finance* 7, no. 1 (March 1, 1952): 77–91.

Martino, Kathy. "Economically Targeted Investments." Power Point Presentation, The City of New York Office of the Comptroller, June 10, 2008.

McNichol, Elizabeth. "Some Basic Facts on State and Local Government Workers." *Center for Budget and Policy Priorities* (June 15, 2012).

Milkman, Ruth, and Laura Braslow. *The State of the Unions 2012: A Profile of Organized Labor In New York City, New York State, and the United States.* The Joseph S. Murphy Institute for Worker Education and Labor Studies and the Center for Urban Research, CUNY, 2012.

Mitchell, Olivia S, and Edwin C Hustead. *Pensions in the Public Sector.* Philadelphia: University of Pennsylvania Press, 2001.

Regan, Julian. "Best Governance Practices for Public Retirement Systems." National Conference of Public Employee Retirement Systems, March 2012.

NCPERS, and Cobalt Community Research. *The NCPERS 2012 Fund Membership Study.* National Conference on Public Employee Retirement Systems, 2012.

Nissen, Bruce. "Alternative Strategic Directions for the U.S. Labor Movement: Recent Scholarship." *Labor Studies Journal* 28, no. 1 (March 1, 2003): 133–155.

North, Douglass C. *Institutions, Institutional Change, and Economic Performance.* Cambridge; New York: Cambridge University Press, 1990.

NYCERS. *NYCERS Performance Review.* Distributed at NYCERS Investor Meeting, January 24, 2012.

NYCERS. *Monthly Report*, January - September 25, 2012.

NYCERS. *2012 Annual Report*, New York City Retirement System and New York City Public Employees' Group Life Insurance Plan, June 30, 2012

New York Times. "Levitt Now Considering the Use of Pension Funds to Save Four State Agencies: Seeks Borrowing Change And Bankers' Aid First." *New York Times*. January 21, 1976.

Obama, Barack. *State of the Union Address*. US Congress, Washington D.C., 2013.

Pagano, Michael A., Christopher W. Hoene, and Christina McFarland. *Research Brief on America's Cities*. National League of Cities, September 2012.

Palley, Thomas I. *Financialization: What It Is and Why It Matters*. Working papers//The Levy Economics Institute, 2007.

Peck, Jamie. "Austerity Urbanism: American Cities Under Extreme Economy." *City* 16, no. 6 (2012): 626–655.

Peck, Jamie, Nik Theodore, and Neil Brenner. "Neoliberal Urbanism: Models, Moments, Mutations." *SAIS Review* 29, no. 1 (2009): 49–66.

Peck, Jamie, and Adam Tickell. "Neoliberalizing Space." *Antipode* 34, no. 3 (2002): 380–404.

Pensions & Investments. "An Impulse to Help." *Pensions & Investments*, December 24, 2012.

Peterson, George E., and Carol W. Lewis. *Reagan and the Cities*. The Urban Insitute, 1986.

Phillips-Fein, Kim. "The Legacy of the 1970s Fiscal Crisis." *The Nation*, April 16, 2013.

Pierson, Paul. *Dismantling the Welfare State?: Reagan, Thatcher, and the Politics of Retrenchment*. Cambridge, England; New York: Cambridge University Press, 1994.

Polanyi, Karl. *The Great Transformation*. Boston: Beacon, 1944.

PPAR website. "Public Private Apartment Rehab Program." Accessed May 10, 2013. http://www.comptroller.nyc.gov/bureaus/ed/PPAR.shtm.

Press Release PR-383-11. "Mayor Bloomberg, Comptroller Liu and Labor Leaders Announce Agreement in Principle to Reform Pension Investment Governance and Management." Office of the Mayor, October 27, 2011.

Press Release 12-11-129. “Comptroller Liu Proposes Innovative ‘Green Apple Bonds’ to Make Public Schools Environmentally Safe and Energy Efficient.” Office of the New York City Comptroller John C. Liu, November 30, 2012.

Press Release 12-12-133. “Green Apple Bonds Are Building Momentum.” Office of the New York City Comptroller John C. Liu, December 12, 2012.

Reich, Robert B. *Testimony of Robert B. Reich Secretary of Labor Before the Joint Economic Committee United States Congress*, 1994.

Reuther, Walter P, and Henry M Christman. *Selected Papers of Walter P. Reuther*. New York: Macmillan, 1961.

Scott, W. Richard. *Institutions and Organizations*. Thousand Oaks: SAGE, 1995.

Shefter, Martín. *Political Crisis-fiscal Crisis: The Collapse and Revival of the New York City*. Columbia University Press, 1992.

Soskice, David. “Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 1990s” (1999).

Steiger, Anna, Tessa Hebb, and Lisa hagerman. “The Case for the Community Partner in Economic Development.” Federal Reserve Bank of Boston, 2007.

Stiglitz, Joseph. *The Price of Inequality*. Penguin Books Limited, 2012.

Strandberg, Coro. “Community Investing For Pension Funds.” Power Point Presentation presented to Canadian Pension Funds on Community Investing/ETIs, Canadian CED Network, 2006.

Sundén, Annika, and Alicia Munnell. “Investment Practices of State and Local Pension Funds: Implications for Social Security Reform.” *Boston College Center for Retirement Research Working Paper* no. 1999–01 (1999).

Tomaskovic-Devey, Donald, and Ken-Hou Lin. “Income Dynamics, Economic Rents, and the Financialization of the US Economy.” *American Sociological Review* 76, no. 4 (2011): 538–559.

Vernon, Raymond. “International Investment and International Trade in the Product Cycle.” *The Quarterly Journal of Economics* (1966): 190–207.

Watson, Ronald D. “Does Targeted Investing Make Sense?” *Financial Management* (1994): 69–74.

Weil, David. “The Fissured Workplace Why Work Became So Bad for So Many and What Can Be Done to Improve It.,” 2014.

Williamson, Thad, David L. Imbroscio, and Gar Alperovitz. *Making a Place for Community: Local Politics in a Globalized World.* Psychology Press, 2002.

"World Bank USA data." *World Bank Website*, 2013. data.worldbank.org.

Interviews

Conley, Richard, *Senior VP and Chief Credit Officer, Community Preservation Corporation*

Champion, Vanessa, *Office of the Comptroller*

Clark, Gordon, *Researcher*

Dabbs, Sara, *Senior Project Manager, Preservation Finance, HPD*

Frantz, Anna, *Director, Article 8A Loan Program, Preservation Finance, HPD*

Gorman, John, *Chief of the Pesticides and Toxic Substances Department, EPA Region 2*

Hagerman, Lisa, *Researcher*

Hoffman, Jeremy, *United Federation of Teachers*

Hoffnung, Ari, *Deputy Comptroller for Public Affairs*

Lefkowitz, Daniel, *Public School Parent*

Martino, Kathy, *Director, Economically Targeted Investments, Bureau of Asset management*

Musuraca, Mike, *Former NYCERS Trustee, AFSCME District Council 37*

Parks, Arline, *Diego de Beekman Houses Mutual Housing Association*