Jeff Gordon
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Socialized Capital in the Twenty-First Century

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Introduction

Historians of American capitalism face a sprawling subject. Trying to define what fits inside the story of American capitalism is probably a fool's errand, so Louis Hyman recommends an inductive approach: "We should instead trace [capitalism's] transformations, taking a few sets of qualities (labor, investment) and seeing how they vary over time in importance."[1] Hyman is referring to variance on a comprehensive, economy-wide scale; his method would decompose GDP into the activities of business, labor, and the state. But a similar process of decomposition could be applied to households themselves. The question is this: how have Americans tried to pay their bills, accumulate wealth, and achieve economic security? Much of the history of American capitalism is an answer to this question.

The most common approach to studying this question is through the lens of labor history. Whether Americans have succeeded or failed to achieve economic security, they have often done so as workers. Within labor history, the most enduring questions concern the presence or absence of collective action. To some degree this history is a response to Werner Sombart's question from 1906: "Why is there no socialism in the United States?"[2] Labor historians have mined the reasons for the relative dearth of class consciousness, often returning to themes like a spirit of individualism, sectional division, racial animus, hostility to immigrants, and occupational sex segregation. In this tradition, the most important metrics for tracking working-class prosperity are

[1] Interchange: The History of Capitalism. *J Am Hist* 2014; 101 (2): 503-536.
[2] Sombart, Werner. *Why is there no socialism in the United States?* Springer, 1976.

wages and job security, and the most important explanatory variable is the degree of collective leverage over the working relationship. A closely related tradition in sociology, labor process theory, seeks to understand how managers extract surplus value from workers and how workers individually or collectively resist that extraction.

A much newer approach switches the locus of the American Dream from the factory floor to the trading floor. This new history of finance is not primarily concerned with Wall Street titans but with how financial markets structure the lives of ordinary people, offering both pathways to prosperity and risks of default. This attention to finance intersects with an older focus on property ownership, long held up as a liberating alternative to wage labor. In his analysis of farm mortgages, Jonathan Levy expertly parses a moment of transition in the relationship between property and financial markets.[3] Where property was once a refuge from market forces, Levy shows how the secondary mortgage market yoked Western farmers to Eastern capital and exacted financial discipline. Financial historians of the 20th century show how property was increasingly understood as a productive asset that needed to generate returns. In recent contributions, Julia Ott and Louis Hyman trace the financialization of household life on both sides of the ledger: ownership and debt.[4]

So, two principal dimensions organize the study of economic life. First, paid labor vs. capital accumulation. Second, individualism vs. collectivism. American historians have primarily investigated three of the possible quadrants on such a matrix. Individual labor has earned pride of place as the default mode. Organized labor and individual property ownership are both set in

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[3] Levy, Jonathan. *Freaks of fortune: The emerging world of capitalism and risk in America*. Harvard University Press, 2012.

[4] Ott, Julia C. *When Wall Street Met Main Street*. Harvard University Press, 2011.
Hyman, Louis. *Debtor nation: The history of America in red ink*. Princeton University Press, 2011.

contrast to this default mode, each sharing one of its dimensions and varying along the other. But the fourth quadrant remains empty. What about collective capital ownership?

Of course, the idea of collective capital ownership is as common in socialist theory as it is absent from historiography of the United States. The history of socialist though is far too extensive to begin to summarize here, but I will make one point about its internal diversity. Socialists all share an interest in reforming the structure of property ownership, but they seek to do so in different ways. Broadly speaking, there is a divide between those who seek state ownership of productive enterprise and those who seek cooperative ownership of specific companies or sectors. These camps are often associated with Marx, on the one hand, and Proudhon, on the other, although Marx viewed the state as a temporary entity and likely did not envision the version of state socialism invented in the 20th century. A second divide, which is correlated with, though quite distinct from, the first, is between those who endorse centralized planning of economic output and those who see socialism as compatible with a price system.

In recent years, several heterodox economists, political theorists, and policy entrepreneurs have argued that market socialism, as the price-friendly variant is known, could work in America. Some argue for a version where the state would own a significant portion of business enterprises and distribute dividends equally to the public.[5] Others argue for a more mutualistic version where workers would own and govern their workplaces.[6] These proposals provide context for this paper, although I will not discuss their merits in any depth. Instead, I ask what American history can tell

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[5] Roemer, John E. "A future for socialism." *Politics & Society* 22, no. 4 (1994): 451-478.

[6] Cohen, Joshua, and Joel Rogers. *Associations and democracy*. Edited by Erik Olin Wright. Vol. 15. London: Verso, 1995.

Cohen, Joshua, and Charles Sabel. "Directly-deliberative polyarchy." *European Law Journal* 3, no. 4 (1997): 313-342.

Ellerman, David. "The democratic worker-owned firm: A new model for the East and West." (2015).

us about the prospects for socialized capital ownership. Although the phrase "socialized capital" has little resonance in American historiography, the concept has proven analytically rewarding for several historians in disparate fields. It emerges, under different names, in studies of fraternal associations, labor banks, union-run retirement and investment funds, public and private pensions, and even Social Security. In this review, I aim to connect the dots across several eras and genres of historical scholarship. In doing so I hope to construct a comprehensive picture of the promise and limits of socialized capital in American political and economic life.

It is necessary to define what I mean by socialized capital. Socialized capital, in my usage, refers to a community's effort to advance its collective interest by pooling money and allocating it like an investor or a bank.[7] In its ideal form, socialized capital has three necessary characteristics that distinguish it from other forms of capital. First, socialized capital is democratic. The extent of participation may vary, but participants in a collective fund have some input on how the money is to be used. If the fund is managed by a government entity, participation may be channeled through the political system, while members of a union-run pension fund have recourse through their own internal politics. Second, socialized capital seeks holistic returns. Socialized capital funds have investment objectives that are specific to the interests of their members. This feature distinguishes socialized capital from capital that seeks only a financial return without regard for the consequences of its investment on its members in their capacities as workers, consumers, or

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[7] I should mention one type of institution I do *not* consider socialized capital. In a certain light, state-run transfer programs seem like a case of socialized capital. The state, representing a community, is allocating its funds to citizens. But where did those funds come from? From taxes, not from voluntary pooling. In practice, redistribution may serve many of the same ends as socialized capital, but it works under a completely different mechanism. In the interest of focusing my analysis, I therefore pay little attention to tax and transfer programs except in the case of Social Security, a transfer program masquerading as an insurance fund, and only there to examine the history of the fund itself.

citizens. Commentators have noted this quality in the context of "socially responsible investing," but here I emphasize that the definition of socially responsible should and does vary based on the interests of the fund contributors. Third, as a consequence of the above, socialized capital exercises governance over the non-financial economy. Whether directly as private equity investors or indirectly as shareholders, social capitalists seek to discipline companies to behave in the interests of the fund's members. In a sense this is analogous to the market discipline Gerald Davis notes Wall Street exerts over corporate America.[8] But rather than managing companies based on stock prices, social capitalists seek collateral benefits in line with their particular interests.

Few experiments in collective capital stewardship have met all of these criteria. In fact, these criteria reflect the specific challenges that recur throughout many of the cases I examine. Two challenges deserve particular attention; they vex almost every serious attempt at socializing capital. First, ownership does not guarantee control. The relationship between ownership and control of corporations has been the central issue in research and debate on corporate governance for over a century. Much academic work treats corporate governance as a principal-agent problem where suspicious shareholders try to convince profligate managers to do their bidding. For the citizen-capitalists discussed in this review, the problem of corporate control is just a subset of a broader principal-agent problem. Not only have small-time investors struggled to exert any control over the corporations in which they hold stakes, they have even struggled to control the professional investors who manage their assets. Second, capital can yield both financial returns and collateral benefits—but it is difficult to do both at the same time. Some citizen-capitalists have hoped to profit from the financial markets while also lending to favored businesses, inducing

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[8] Davis, Gerald F. *Managed by the markets: How finance re-shaped America*. Oxford University Press, 2009.

demand for their own labor, and enacting pro-worker policies. But difficult tradeoffs have arisen. Moreover, the very dynamics that make it possible to earn a market return—such as a large pool of contributors with diverse interests, or professional investment management—tend to impede these other benefits. As some citizen capitalists (notably, pension funds) have discovered, the more capital you accumulate, the less there is to distinguish you from the rest of Wall Street. In this way, socialized capital is often privatized right back again.

Socialized Capital in the Nineteenth Century

In the United States, the mythologized path to prosperity—whether through labor or capital—was individualistic before it was collective. In the antebellum period, the dominant perspective on labor among non-slaveholding white men was 'free labor' ideology. The key tenets of this view, as recounted by Eric Foner, were (a) that free Northern labor was superior to Southern slave labor and (b) that through labor, men could earn the opportunity to escape the wage-earning class and become property owners. The heroes of free labor ideology were farmers, artisans, and small business owners. Far from criticizing capitalists, free labor-ites sought to join them. Abraham Lincoln summarized the mindset: "Let not him who is houseless pull down the house of another; but let him labor diligently and build one for himself, this by example assuring that his own shall be safe from violence when built."[9] Individualism therefore characterized men's aspirations both as workers and as property owners in the antebellum period. And so, the proper starting point for a history of socialized capital is after the Civil War, when the American economy grew rapidly more corporate, industrial, and concentrated. Like organized labor, which first

[9] Foner, Eric. "Free Labor, Free Soil, Free Men: The Ideology of the Republican Party Before the Civil War." (1970), 22.

emerged in the 1860s, collective capital ownership began as a reaction to the financial insecurity of the early Gilded Age.

Socialized capital has, from its beginnings, been defined by a rivalry. Just as David hardly appears in a sentence free of Goliath, socialized capital is defined principally in opposition to the insurance and banking industries. Jonathan Levy traces the emergence of the first commercial insurers—those who insured merchant ships—and then the first consumer-facing life insurance companies. Under what circumstances is an insurance company a case of socialized capital? Levy weighs in on this question via his efforts to distinguish fraternal societies from insurance companies. The three decades after the Civil War were known as the "Golden Age of Fraternity," in which, according to one estimate, 36% of the adult male population held certificates entitling them to benefits from at least one nonprofit fraternal society in the event of sickness, disability, or death.[10] The fraternal societies grew especially in response to the Panic of 1873. Culpability for the Panic was largely attributed to financial operators, like Jay Cooke, who took risks with other people's money. For some savers, this was reason to distrust traditional life insurance companies as responsible stewards of one's premium. Levy argues that the fraternal bond was defined in explicit rejection of the "insurance principle." Specifically, the two defining features of insurance logic were actuarial science and contracts. First, insurance companies would charge different rates to different people, and higher rates as any individual aged. Second, each policyholder's relationship to the collective pool was no more or less than contractual. Both features cut against the need—or possibility—for social bonds among policyholders. Insurance was a commoditized relationship between company and consumer.

[10] Levy, 196.

The fraternal bond rejected both pillars of the insurance principle, but in doing so revealed a paradox at the heart of collective capital ownership. When a member fell ill or died, a fraternal society would charge all other members an *ex post facto* assessment to fund that particular benefit. Everyone would be assessed equally—usually $1 each—and the payment would be directly associated with a specific sufferer. Participation was thus personalized rather than commodified. Max Weber, on a visit to America, was much impressed with the fraternal societies, proclaiming them "a radical break away from patriarchal and authoritarian bondage" and emblematic of the "voluntarist principle" of modern life.[11] But the fraternal financial model came with a crucial consequence: fraternals did not need to accumulate reserve funds. At first, this was seen as a feature, not a bug: the 1885 pamphlet of the Ancient Order of United Workmen bragged about lacking a fund and thus keeping money "out of the reach of speculative fingers."[12] This is the paradox: in order to achieve freedom to use capital in their preferred ways, outside the reach of financial markets and their temptations, the fraternals had to hold no capital. There were very few exceptions. One was the United Order of True Reformers, an African-American fraternal order based in the South. The True Reformers proclaimed themselves "united in finance" as well as "united in brotherhood."[13] The True Reformers' Savings Bank of Richmond, Virginia, took deposits and made loans primarily among Richmond's black residents. The Order was also one of few to systematically solicit contributions from children so as to train them in habits of thrift and economy.

[11] Ibid., 202.
[12] Ibid., 199.
[13] Beito, David T. *From mutual aid to the welfare state: Fraternal societies and social services, 1890-1967*. Univ of North Carolina Press, 2003, 37.

By 1900, life insurance companies had recovered from their 1873 disgrace and overtaken fraternal societies. Levy pins the reasons why on two implications of the difference between the insurance principle and the fraternal bond. First, the insurance companies convinced their customers that there were benefits to holding a pool of capital. They did this through an exotic new offering called tontine insurance. Tontine added a layer of gambling on top of an insurance policy. With a tontine plan, a policyholder forfeited the right to dividends during the term of the plan, which instead flowed into a separate tontine fund. The insurance company invested that fund in the financial markets. And when the term of insurance ended, all proceeds from the tontine fund were distributed back to any remaining policyholders; all those who had died or lapsed on their payments in the meantime got nothing. For the policyholder, tontine was a bet that one could remain in the pool longer than one's fellows, as well as an opportunity to get paid in one's own lifetime (rather than providing only for one's descendants, as with typical life insurance). And for the insurance companies, especially Equitable Life, which pioneered tontine, tontine was a convenient way to obscure how much money policyholders were owed—after all, how could anyone know how much money should be in the pot when the term came due? Tontine policies proved very popular. By 1905, the $6 billion of tontine life insurance policies represented 7.5% of national wealth.[14] The fraternals, lacking any pool of capital, could offer no such rewards.

The second problem for fraternals was the extra-legal nature of the fraternal bond. Joining a fraternal society entitled you to a certificate, which was meant to be an informal guarantee of payment—more similar to a promise between friends than a contract between business partners. Indeed, fraternal associations were very careful to eschew the word "contract." This was all well and good until fraternal members took the societies to court over disputed benefits. There, in a

[14] Levy, 215.

series of cases in the late-1880s, courts consistently ruled that the primary purpose of fraternal societies was life insurance, whatever ritual ceremony may have existed on the side.[15] As such, members had a contractual right to benefits payments. Moreover, as John Fabian Witt describes in *Accidental Republic*, fraternal insurance was squeezed between commercial insurance and the courts. As commercial life insurers grew extremely sophisticated in drafting policies, courts responded by interpreting such contracts *contra proferentem* (against the drafter). Fraternals rarely had access to equally sophisticated legal help, but were subject to the same onerous standard.[16] These legal difficulties emboldened a contingent within the fraternal movement who wished to emulate "scientific" actuarial practices, charge age-based rates, and accumulate reserve funds to meet their obligations. In this way, the fraternals lost their special claim to the "voluntarist principle" and began to merge, in substance if not in image, into the mainstream life insurance industry.

In *From Mutual Aid to the Welfare* State, David Beito extends an analysis of the fraternal movement several decades past Levy's end point and emphasizes a different argument about the movement's declining influence in the early 20th century. Like Levy, he discusses how aging members put stress on the flat assessment system. But where Levy emphasizes the role of the courts in foiling fraternals' not-quite-contracts, Beito blames punitive legislatures that regulated fraternal societies more harshly than insurance companies, closing off avenues for growth and competition with their corporate rivals. Dissent from within the fraternal movement drew the first regulatory attention. In 1900, the National Fraternal Congress (NFC) knew that its members needed to charge higher assessments to survive in the long term, but worried that short-term price

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[15] Ibid., 226.
[16] Witt, John Fabian. *The Accidental Republic*. Harvard University Press, 2009, 93.

competition would drive them into the ground. The Congress therefore lobbied state legislatures to institute a uniform law denying approval to fraternals that charged rates lower than those recommended by the NFC. The law only passed in seven states, but the affair alerted legislatures to the idea that fraternals might be offering shoddy, substandard insurance products.

Over the next decade, states cracked down. Take endowment insurance, a category of insurance contracts, including tontine, that paid out while the holder was still alive. Most fraternals opposed endowment insurance because of its inherently speculative nature, but endowment-offering societies made up a popular minority. Beito claims, “A major goal of state legislation was to deprive endowment societies of the legal protections extended to the life insurance societies,” like exemption from taxes and debt garnishment.[17] In the 1890s, many states also outlawed fraternal insurance for children. Most fraternal leaders supported this policy, believing such insurance would tempt parental malfeasance. But in the early 1900s, insurance companies started to offer the same policies and found no equivalent law on the books prohibiting them. Fraternal leaders scrambled to change laws but it was too late. Bemoaned one fraternal leader, “Unwittingly, the fraternalists of this country have been raising children as prey for their opponents.”[18]

Witt provides yet another account for the decline of the fraternals. His chosen task is to explain why the path of cooperative insurance in the United States differed from that in Britain, where “friendly societies” were transformed into the “approved societies” that formed the foundation of Britain’s new national health insurance system in 1911. His answer is that in the United States, early 20th century insurance reformers were singularly preoccupied with the problem of industrial accidents.[19] Insurance reform was necessary because of America’s unusually

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[17] Beito, 208.
[18] Beito, 211.
[19] Witt, 98.

high rate of workplace accidents and the consequent mass of workmen seeking compensation for disability—not so much because of old age pensions or life insurance, which were more salient in Britain. And while the cooperative system was suitable for compensating accident victims, it was not well organized for preventing accidents in the first place. Witt argues that fraternal societies willingly abdicated their role in helping to solve the work accident problem because they deemed accident insurance "outside the sphere of fraternal protection."[20] Managerially-directed accident avoidance under the banner of "scientific management" largely took up the cause.

Levy, Beito, and Lizabeth Cohen would likely disagree with Witt's analysis as they all emphasize the role of death, sickness, and funeral benefits over that of industrial accident compensation. They also attribute competitive pressure to the insurance industry (and its friends in the statehouse) rather than to paternalistic management.[21] The common thread of their analyses is a fraternal movement overmatched by an insurance industry discovering increasingly profitable and (to policyholders) attractive things to do with its capital.

Populism

The fraternal movement was an urban phenomenon. Almost simultaneously, a rural version of socialized capital began to form in Texas. The version of socialized capital several historians have identified in Populism was less successful than the fraternal movement in its own time, but more farsighted in its vision of how the financial system should serve independent producers.

Among perennial historiographic debates about Populism, one thorny question is whether the Populists embodied labor or capital. In *Age of Reform*, Richard Hofstadter questioned what

[20] Witt, 101.
[21] Cohen, Lizabeth. *Making a new deal: Industrial workers in Chicago, 1919-1939*. Cambridge University Press, 1991.

common ground farmers, who he saw as petite bourgeoisie capitalists, could possibly share with the urban labor movement.[22] In *The Populist Response to Industrial America*, Norman Pollack responded to Hofstadter by arguing that farmers and workers did indeed share a class interest, even if they failed to form an effective political alliance—a failure he blames on Samuel Gompers and other labor leaders who distrusted the Populists as employers and managers.[23] One reason this Hofstadter-Pollack debate may seem interminable is that farmers and urban workers interacted with capital in different ways. While the labor-management axis may be the proper way to analyze workers' opposition to capitalism, for farmers the axis of contention was between borrowers and creditors.

In *Democratic Promise,* Laurence Goodwyn centered the Populists' critique of the financial system.[24] This involved placing them in the context of the Greenback Party and agrarian pro-inflation politics. But moreover, it entailed a geographic focus on the Texas Alliance, where Populist economic cooperation was most highly developed. Under the leadership of Charles W. Macune, the Texas Alliance and broader National Farmers' Alliance and Industrial Union (NFAIU) sought to circumvent middlemen both in marketing their crops and buying supplies. The Texas Alliance created the centralized Texas Cotton Exchange to pool contributing farmers' cotton and sell it for them on commission. Macune's most ambitious plan, the so-called "subtreasury" system, would have replaced the private lending market with local treasury depots where farmers could borrow against their crops at low interest directly from the federal government.

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[22] Hofstadter, Richard. *The age of reform*. Vintage, 2011.
[23] Pollack, Norman. *The populist response to industrial America: Midwestern populist thought*. Vol. 50. Harvard University Press, 1976.
[24] Goodwyn, Lawrence. *The populist moment: A short history of the agrarian revolt in America*. Oxford University Press, 1978.

In this light, the Populists—or at least their Southern incarnation—were financial collectivists seeking to replace the for-profit financial system with state-run development banks. A Farmers' Alliance speaker responded to accusations of monopoly with the logic that financial trusts are not always bad, depending on who is in charge of them: "It will be a philanthropic monopoly. It will distribute wealth among the people."[25] So the Farmers' Alliance were capitalists, it seems fair to say, but capitalists who envisioned a much smaller role for financial intermediation than has marked American political economy before or since. It is for this reason I count them as proponents of socialized capital, even though a cynic might argue that their preferred financial system was simply in service of their business interests. Socialized capital and free enterprise are hardly warring concepts. Charles Postel's analysis of Populism in *The Populist Vision* is especially helpful for untangling familiar if misleading dichotomies like this one. Postel summarizes Populism as "A broadly democratic rural movement [that] embraced a vision of business politics that focused on centralized, bureaucratic, and state-centered reform."[26]

One of Postel's major interventions is to argue that the Populists were not anti-modern; rather, they held a different view of modernity and progress that is almost unrecognizable from our present vantage because it did not succeed. This view of progress, which is consistent with Goodwyn's account, was pro-corporate but anti-bank. Small producers should band together in cooperative cartels, as California fruit growers did most successfully, until eventually cooperatives like Sun-Maid grew indistinguishable from other corporations. Conversely, financiers deserved no profits; scientific monetary policy, a state function, should continuously expand the money supply to meet the needs of business.

[25] Postel, Charles. *The populist vision*. Oxford University Press, 2007, 103.
[26] Postel, 121.

The Texas-based cooperative efforts were only moderately successful; Postel details how members of the centralized cotton exchange failed to pay their dues, both due to widespread poverty and distrust that the distant exchange was really serving their interests. The Federal Reserve Act of 1913 created a system of rural lending, but Postel argues that it too represented a rejection of Populist ideals around collective control of capital.[27] While Populists wanted credit allocation to be strictly a matter of democratic choice, the Federal Reserve System gave local bankers disproportionate representation at the regional reserve banks and conferred enormous power on the unelected Federal Reserve Board. The structure of the financial system has probably never since been as salient in national politics as it was during the Populist moment in the 1890s. But few episodes in American history bear a greater similarity to twenty-first century calls for breaking up banks and decentralizing credit than the Populist vision.

The Birth of Mass Financialization

In the 20th century, working people, long accustomed to debt, began to make use of the financial system in a new way: as creditors and as owners. The speculative appeal of tontine insurance foreshadowed more widespread entry of household savings into financial markets. Historians discuss this development under the banner of 'financialization.' Julia Ott's *When Wall Street Met Main Street* details the first iteration of consumer finance in its unregulated, pre-New Deal form. At the center of Ott's narrative is the flexible ideal of an "investors' democracy," a trope levied by everyone from federal bond salesmen to welfare capitalist managers to New York Stock Exchange brokers in the hope of drawing consumers to their securities. Much of the appeal of investors' democracy lay in its apparent collective spirit, but Ott makes clear that early 20th

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[27] Postel, 281.

century investors almost never succeeded in achieving real collective ownership. Over the course of her study, stock ownership solidifies into something near its contemporary form: atomized ownership without any mechanism of collective control.

The first episode of mass investment came during World War I, when 82% of households bought a war bond. Treasury officials saw the appeal of mass participation in both economic and social terms: bondholders would finance the war effort and prevent inflation through forced savings, but they would also foster unity against the perceived Bolshevist threat. Officials compared subscription rates across different ethnic neighborhoods to evaluate which immigrant groups were proving most loyal, while volunteers publicly shamed friends and neighbors who had not yet contributed. Whatever collective spirit animated the war bonds effort was manufactured from on high. And while bondholders may have felt good about their contribution to a major collective project, they had no discretion over how the war effort was to be managed.

The most intellectually sophisticated version of collective ownership ideology in the 1920s came from Harvard economist Thomas Nixon Carver, architect of the New Proprietorship ideology. Carver wanted everyone to be a stockholder. In part, this fit easily into the old tradition of lionizing property ownership. But more radically, Carver thought that by making capital so abundant through widespread stockholding, marginal returns to capital would diminish, driving up the demand for labor and ultimately blurring the lines between labor and capital. Whether or not this economic reasoning was sound, it suggested a remarkably collective—almost socialist—vision for how ownership of productive industry should be distributed. The actual application of Carver's ideas was far from radical, however. Corporations participated in New Proprietorship by offering their employees discounted stock in the company. For management, this mechanism helped buy loyalty, ward off union organizing, and avoid unfavorable regulation, especially in sectors accused of monopoly.

On the way from government bonds to corporate equities, Main Street investors discovered corporate bonds. Ott's discussion of the National Association of Owners of Railroad Securities (NAORS) introduces the possibility of a new form of community based in capital ownership. As investors, people could share an interest not based on any pre-existing workplace or ethnic affiliation but purely as owners of the same securities. NAORS advocated for investor-centered railroad policy, including a guaranteed minimum return on capital akin to a living wage for capitalists.[28] The Esch-Cummings Act of 1920 delivered, directing the Interstate Commerce Commission to guarantee a 5.5% minimum return on railroad capital. This was a striking shift from earlier ICC policy which set maximum rates to protect farmers and shippers. Now, investors represented the public interest. That said, a closer look at NAORS membership is a reminder of the institutional middlemen sitting between any putative community of investors and their holdings. NAORS was composed of representatives of insurance companies and mutual savings banks—the places where regular people's money was pooled. This is the first appearance of a theme that would dominate consumer investing in the 20th century. Individual shareholders (or, in this case, depositors) were too diffuse to play any oversight or governance role.

The war fundraising effort and growing culture of ownership did spark several initiatives of more authentic capital pooling. In *Purchasing Power : Consumer Organizing, Gender, and the Seattle Labor Movement, 1919-1929,* Dana Frank reviews small private experiments in "labor capitalism."[29] The "way labor bought liberty bonds demonstrated that we can raise funds for any

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[28] Ott, 122.
[29] Frank, Dana. *Purchasing power: Consumer organizing, gender, and the Seattle labor movement, 1919-1929*. Cambridge University Press, 1994.

undertaking," declared a Seattle longshoreman. [30] Seattle workers owned and operated several companies during this period. The most successful was the Mutual Laundry, a profitable and fully unionized laundry owned by Laundry Workers' Local #24 and assorted local unions. Frank distinguishes between cooperative businesses and "labor capitalism" primarily in that cooperatives were governed by "one worker, one vote" while labor capitalist firms issued stock which was held in unequal amounts by different unions. But the distinction also echoed an ideological disagreement within the labor movement as to whether workers should build an alternative to capitalism or work within the system to empower the working class.

In Seattle and across the country, the linchpin of interwar labor capitalism was the labor banking system. Frank attributes the appeal of labor banking to the idea that labor should "keep its money to itself instead of giving it to their enemies to be used against them."[31] The most successful labor bank emerged in New York. According to his sympathetic biographer, Sidney Hillman, head of the Amalgamated Clothing Workers of America, entered the 1920s believing that the labor movement should take on new projects to grow its power.[32] The idea to start a union-run bank originally came from Warren Stone, head of the Brotherhood of Locomotive Engineers. Hillman knew that banking was a chokepoint for cooperative businesses and hated the idea of supplying banks that lent to hostile management. As he reflected on the appeal of Stone's idea, "To enter the banking business seemed the highroad to social control, a peaceful way of penetrating the holy of holies of the capitalist system."[33] The Amalgamated Trust and Savings Bank (of Chicago) and Amalgamated Bank of New York stood out among the 30+ labor banks founded in the decade.

[30] Frank, 68.
[31] Frank, 72.
[32] Josephson, Matthew. *Sidney Hillman, statesman of American labor*. Doubleday, 1952.
[33] Ibid., 245.

The Amalgamated banks made "character loans" to union members on the strength of recommendations, financed mortgages, and even funded the union's cooperative housing projects. But they also made standard business loans, even to companies in Amalgamated's own clothing industry. The two Amalgamated banks were the only labor banks to emerge from the 1929-1933 crisis solvent. Amalgamated Bank remains the largest active union bank with over $4 billion in assets.

Social Security

The New Deal marked a turning point in the history of socialized capital by bringing the concept of economic security into the political mainstream. The Social Security Act of 1935 is, of course, the major legislative accomplishment in this vein. But as Jennifer Klein argues in *For All These Rights,* Social Security is as significant for the gap it left in the safety net as the one it filled.[34] No one benefited more from Social Security than private insurance companies, who received a free advertisement for their pension services. The history of workplace pensions—private, public, and union-administered—lies in the shadow of Social Security. Because pensions have struck many observers as the most promising (or frightening) institution for collective control of capital, I will discuss them at length. First, I will consider Social Security as a mechanism for collective capital ownership. Historical study of the welfare state is vast, much of it touching on Social Security. I limit my discussion to the dimensions of Social Security involving capital: the Social Security trust funds. Issues of redistribution, eligibility, and tax incidence fill many volumes but exceed my current bounds.

[34] Klein, Jennifer. *For all these rights: Business, labor, and the shaping of America's public-private welfare state*. Princeton University Press, 2006.

The Social Security trust fund is the largest investment fund held by the federal government. One might expect it to have been a political Rorschach test over the decades, a canvas on which any interest group could project its priorities. For example, admirers of Nordic and Gulf State sovereign wealth funds might clamor to use the fund as a sovereign wealth instrument of our own. But such arguments have been rare. The most active debate over the fund took place during the years of its creation in the late 1930s. The winners of that debate locked the fund on a relatively path-dependent course it has followed ever since. Examination of the arguments made by both winners and losers of the 1930s debate reveals that the Social Security trust fund was never close to becoming an actively managed pool of the nation's capital.

Between 1935 and 1939, an ongoing debate about Social Security concerned the extent to which it would function like an insurance company. As Mark Leff explores, President Roosevelt was intensely committed to the insurance model.[35] He thought that by treating payroll taxes as quasi-insurance premiums, linking each participant's eventual payout to their contribution, and foregoing general revenue contributions, Social Security would win legitimacy and protect itself against any future cutbacks to the welfare state. The insurance principle would necessarily entail the creation of a reserve fund as taxes flowed in before those contributors' payouts were due. Roosevelt and his Treasury Secretary Henry Morgenthau had another reason for supporting such a fund: it could be invested in the sprawling public debt, a point which Morgenthau (indiscreetly) brought up in Congressional testimony.[36]

The insurance industry and its supporters in the Republican Party were outraged by the possibility of a large public fund. Martha Derthick emphasizes this particular source of resistance

[35] Leff, Mark H. "Taxing the" forgotten man": The politics of Social Security finance in the New Deal." *The Journal of American History* 70, no. 2 (1983): 359-38.
[36] Leff, 377.

in her history of Social Security, as does Jennifer Klein.[37] Between the 1935 Social Security Act and the 1939 amendments, M. Albert Linton, president of Provident Mutual Life Insurance Company, led the attack on the idea of a reserve fund. Linton was a member of an advisory committee commissioned by the Social Security Board and a voice in the ear of Republican Senator Arthur Vandenberg. In response to the notion that a $47 billion fund would accumulate by 1980, Senator Vandenberg said it was "scarcely conceivable that rational men should propose such an unmanageable accumulation of funds in one place in a democracy."[38] As Edward Berkowitz points out, that amount of money was understandably intimidating, amounting to eight times the money then in circulation.[39] Vandenberg was concerned that Congress would periodically raid the fund for new programs. Even more troubling to Vandenberg was the idea that the fund might invest in private securities: "That would be socialism."[40]

But it does not seem that anyone was seriously advocating using the fund as an active investment vehicle. Most of Roosevelt's own economic policy advisors were opposed to the reserve fund, at least during the economic climate of the 1930s, based on a fear that forced saving was the opposite of what was needed to stimulate an economy plagued by depressed buying power.[41] This consumer-oriented Keynesianism fits with Alan Brinkley's analysis of late-New Deal liberalism as increasingly acquiescent to the aggregate demand-oriented view that the "state

[37] Martha Derthick. *Policymaking for social security*. Brookings Institution Press, 1979. Klein, 110.
[38] Derthick, 232.
[39] Berkowitz, Edward D. *America's welfare state: From Roosevelt to Reagan*. Baltimore, Maryland: Johns Hopkins University Press, 199, 41.
[40] Blackburn, Robin. *Banking on Death: Or, Investing in Life-The History and Future of Pensions*. Verso, 200, 74.
[41] Leff, 368.

could manage the economy without managing the institutions of the economy."[42] The advisory committee, which was composed of Roosevelt advisors, insurance and other business representatives, and (conspicuously) no union leaders, recommended to modify the strict insurance approach by increasing benefit outlays in the early years of the program so as to slow the accumulation of the reserve fund (thereby redistributing from later to earlier retirees).

Nonetheless, a fund did accrue as a growing payroll tax base exceeded benefits payouts. Investing only in treasury bonds, the government was the sole owner and customer of this special bank. After the initial furor about the reserve fund, opposition seems to have died down. Perhaps this can be explained via Jennifer Klein's observation that the insurance companies quickly pivoted from opposing Social Security to framing it as a minimum baseline on top of which to sell more generous policies. But more broadly, the pay-as-you-go nature of Social Security was successful and popular in its early decades. Pay-as-you-go refers to the fact that current payroll tax revenue is used to pay current benefits. Throughout Social Security's history, it has paid each generation of retirees higher benefits than the taxes they paid in.[43] As Paul Samuelson explained in a famous 1958 paper, a pay-as-you-go program pays a return equal to the growth rate of the tax base.[44] Less famous was his 1967 comment acknowledging the crucial assumption of a growing population and/or economy: "A growing nation is the greatest Ponzi game ever contrived."[45]

In the 1970s, amid the first signs of slowing growth, anxiety about the reserve fund resurfaced. In 1974, the Harvard economist Martin Feldstein fired the opening salvo in a decades-

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[42] Brinkley, Alan. *The end of reform: New Deal liberalism in recession and war*. Vintage, 2011, 7.
[43] Feldstein, Martin. *Rethinking social insurance*. No. w11250. National Bureau of Economic Research, 2005, 35.
[44] Samuelson, Paul A. "An exact consumption-loan model of interest with or without the social contrivance of money." *Journal of political economy* 66, no. 6 (1958): 467-482.
[45] Blackburn, 230.

long debate that has come to be known as "privatization." Feldstein argued that Social Security was lowering the national savings rate. People believed they were saving by paying their payroll taxes, but the government didn't invest the money like a bank would with savings deposits. He concluded that the government should invest the trust fund in mortgages and corporate bonds.[46] Interestingly, Feldstein no longer touts that conclusion. In more recent writing, Feldstein—who later served as chief economic advisor to President Ronald Reagan and as architect of President George W. Bush's privatization proposal—recommends that a portion of the payroll tax be diverted to individual private accounts which people would invest in higher-yield securities in a manner similar to 401(k) investing. Indeed, Social Security privatization is now universally understood to refer to the creation of private accounts rather than government-managed investing in private markets.

Historians have not yet adequately analyzed the marginal prospects and ultimate fate of that public option. One hypothesis might echo Greta Krippner's argument in *Capitalizing on Crisis* that governments seek to avoid wading directly into thorny distributional disputes and prefer instead to outsource the work of determining winners and losers to seemingly neutral market forces.[47] Other clues emerge in a paper by Robert Myers, a top Social Security actuary and administrator from 1947 to 1982. Responding to (unnamed) critics calling on the Social Security Administration to explore alternative investments, Myers first points out that with such large amounts of money available, the federal government would "control a considerable portion of the private industrial economy, which would, in effect, result in "socialism by the backdoor

[46] Feldstein, Martin. "Social security, induced retirement, and aggregate capital accumulation." *Journal of political economy* 82, no. 5 (1974): 905-926.
[47] Krippner, Greta R. *Capitalizing on crisis*. Harvard University Press, 2011.

method.'""[48] Another disadvantage would be the need for an investment policy, which would turn the federal government into a ratings agency, privileging some securities over others (some modern observers would deem this an advantage). Finally, Myers considers and dismisses the possibility of investing the fund in socially useful activities such as building housing and hospitals "as is done in some countries." This approach would still be subject to the smear of socialism, not to mention the fact that such spending should, he argued, be subject to Congressional oversight rather than the whim of an insurance agency. Some academic research has continued to explore the feasibility of investing the trust fund in private securities as an alternative to privatizing individual accounts, but this idea has remained completely off the table in each successive President's Social Security policy.[49]

The absence of publicly managed private investment from the Social Security debate would be less notable if, in the meantime, one state had not begun doing just that. Created in the late 1970s, the Alaska Permanent Fund has entered the ranks of the world's largest sovereign wealth funds. In one of the most conservative states, the Permanent Fund fuses two left-wing policy fantasies: collective capital ownership and a universal basic income. [50] And while public investment funds have thus far been confined to seven Western states with resource extraction profits, no law of nature prevents such funds from forming on the basis of other tax proceeds. The

[48] Myers, Robert J. "Investment Policies and Procedures of the Social Security Trust Funds." *Soc. Sec. Bull.* 45 (1982): 3.
[49] Burtless, Gary, et al. "How Would Investing in Equities Have Affected the Social Security Trust Fund? *Center for Retirement Research Working Papers* (2016).
[50] Groh, Cliff, and Gregg Erickson. "The Improbable but True Story of How the Alaska Permanent Fund and the Alaska Permanent Fund Dividend Came to Be." In *Alaska's Permanent Fund Dividend*, pp. 15-39. Palgrave Macmillan US, 2012.

Alaska Permanent Fund is thus the best available model for considering the suitability of sovereign wealth funds in the American context.

In 1976, the Alaska legislature voted to allocate a small portion of its yearly oil revenues to a state-run investment fund. Governor Jay Hammond, the force behind the decision, had been a longtime proponent of resource-based wealth sharing. As the manager of a small fishing borough in the 1960s, he grew concerned that fishing profits were leaving the community. He instituted a tax on fish production and proposed to create an investment corporation and pay dividends to all local residents. The residents were uninterested in this scheme, so Hammond dropped it and instead used the fishing tax revenue to replace property taxes. This proved the political winner. Indeed, Alaska's peculiar tax culture seems crucial to understanding why its residents support government management of their collective investments. Growing the collective nest egg may be seen as the only way to maintain freedom from income tax and sales tax, neither of which are collected. In 1976, Governor Hammond asserted that the nest egg (oil revenues) had been "scrambled" on short-term expenses.[51]

When the fund was created that same year, its purpose was not yet clear. Some legislators wanted to use it as a development bank for in-state infrastructure projects, but this option failed under criticism that political insiders would reap disproportionate rewards. The decisive factor may have been the fall of the Shah and consequent doubling of oil prices, which promised Alaskans huge impending oil revenues. There would be enough money to go around. The Permanent Fund started paying a dividend to all residents in 1982, and has paid out $24 billion since 1982. The dividend varies based on investment returns, but has typically hovered around $1,500 per person, or $6,000 for a family of four. Alaska voters have made clear how they want the fund invested:

[51] Ibid, 23.

profitably and disentangled from Alaska politics. Frank Murkowski made repeated proposals, as Senator and Governor, for the fund to make equity investments in gas pipelines, or to divert money to balance the state budget. These were all rejected, although in 2017 the State Senate has passed a bill intending to plug a budget deficit with the Fund. The voters' preferences suggest that across such a large, diverse community, the shared interest in collective capital ownership is limited to the least common denominator. When smaller, more homogeneous groups control an investment fund, more idiosyncratic choices become possible. This has been part of the promise, and occasional reality, of employee-owned pension funds.

Pensions and other Union Funds

Wall Street has kept the Social Security trust fund outside the gates of its menagerie. Inside roam bulls, bears, and an 800-pound gorilla: employee pension funds. At the end of 2015, U.S. pension funds held $21.7 trillion in assets and owned over 20% of domestic public company stock. In 1976, the management scholar Peter Drucker set off a debate by claiming that "pension fund socialism" had come to America.[52] If workers owned their stakes in pension funds, and pension funds owned so much of the stock market, therefore workers owned the means of production. The title of his book, *The Unseen Revolution*, signaled Drucker's wry attitude toward the matter: pension fund socialism had outflanked labor union socialism without anyone noticing, and the result looked pretty much like capitalism. Drucker thought this was, for the most part, a good thing. Pension funds were a reliable source of capital formation in a society that tended to under-save

[52] Drucker, Peter F. *The unseen revolution: How pension fund socialism came to America*. Elsevier, 2013.

(echoing Feldstein's critique of Social Security), and they managed to achieve this social goal without relying on the heavy hand of the state.

In the subsequent decades, pension fund scholars have largely rebuked Drucker for failing to distinguish between ownership and control. Workers may have a contractual claim on their pension benefits, but they have not managed to win a voice in the governance of their collective investments, much less the companies and corporate raiders they fund. Commentators have thus grown pessimistic about the prospects for pension funds as models of collective, democratic capital allocation. At the same time, a small community of truly independent pension funds formed on the periphery of the labor movement. These experiments in deploying capital for purposes other than strict profit-seeking have excited observers while also facing their own considerable challenges.

The American labor movement did not design the current system of professionally managed pensions and health benefits of its own volition. As Jennifer Klein convincingly demonstrates, the 1930s and 1940s were a time of widespread experimentation in voluntarist, union-led social provision. Many unions sought to implement community health centers emphasizing preventative care and group payment plans. The pinnacle of self-management came in 1946 when the United Mine Workers won control of a joint healthcare and pension fund. The miners were then able to use these funds to build hospitals in mining communities rather than be limited to reimbursement for care through unaffiliated doctors.[53]

But the UMW agreement was the first and last major agreement of its kind. The 1947 Taft-Hartley Act restricted unions' ability to determine the uses to which retirement funds could be put. The drafters made clear this was to prevent "indiscriminate use of [employer funds] for so-called

[53] Klein, 198-.9

welfare purposes."[54] Corporate managers worried that even funds jointly managed by worker and manager trustees would undermine managerial authority.[55] Klein's major intervention is to argue that the 1950 Treaty of Detroit between the United Auto Workers and the major auto manufacturers was not exactly the unbridled coup for labor it is often held up to be. In context of the union-managed funds and medical programs of the previous decades, the Treaty of Detroit was a retreat to the welfare capitalism of the 1920s. Benefits would be tied to a particular workplace and employers would play the crucial role of selecting professional benefit managers. Less famous than the 1950 Treaty was 1958, when the UAW petitioned Ford Motor Company for joint trusteeship of the company pension fund. Ford refused. After this loss, as Teresa Ghilarducci observes in her history of pensions, *Labor's Capital*, "unions relinquished their demands for joint control of pension assets in favor of bargaining solely over benefits."[56] In its self-critical 1985 report on revitalizing the labor movement, the AFL-CIO did not mention control over investment assets as a potential goal.[57] Notable exceptions were the UAW's 1979 and 1984 contracts with Chrysler and GM, respectively, where the companies agreed to invest 5-10% of pension assets in health clinics, worker housing, retirement centers, and other socially desirable projects. In exchange, they were permitted to move more of the remaining funds to their preferred investment manager.

Professional managers would turn out to be the most powerful players in the pension fund universe. By the point when Peter Drucker made his "pension fund socialism" argument, pension specialists had been having the same debate for over a decade. Ghilarducci pinpoints the origins

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[54] Klein, 221.
[55] Klein, 223.
[56] Ghilarducci, Teresa. *Labor's capital: The economics and politics of private pensions*. MIT Press, 1992, 116.
[57] Ibid., 121.

of a panic over pension funds' economic control in a 1959 report by Robert Tilove, an actuary and eventual architect of ERISA. In that same year, a Jesuit priest, Paul Harbrecht, wrote a book on unions and pension funds and, in response to Tilove, declared it obvious that most beneficiaries "enjoy none of the prerogatives of management and direction that usually pertain to ownership or proprietorship."[58] This lament has been repeated, more or less unaltered, for almost sixty years. In a recent book on retirement security in international perspective, Robin Blackburn dubs pension monies "grey capital" because the property rights occupy a grey area of ownership. Fund trustees hire consultants, who in turn hire a money manager, who in turn allocate to corporate managers, who sit at a comfortable remove from the original plan contributors. Writes Blackburn: "The fund managers are not owners and do not behave like owners. They are functionaries of the financial services industry."[59] Some pension plans include beneficiary representation among the trustees, but many do not. And the technical legal status of pension fund money is trusteeship rather than ownership. This is a point of controversy in circumstances where pension funds generate surpluses exceeding contractually obligated payouts.

Blackburn reports an academic consensus that pension fund managers adopt approximately the same investment strategies as the rest of Wall Street, from investment in blue chip stocks to speculative asset fads. If they were concerned about the long-term interests of their contributing workers or similarly situated workers, pension funds might be expected to behave differently. One glaring irony of pension fund investing is the common allocation to leveraged buyout firms, which often bring about layoffs and reduction in wages and benefits through their takeovers.[60]

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[58] Ibid., 111.
[59] Blackburn, 121.
[60] Baker, Dean, and Archon Fung. "Collateral damage: Do pension fund investments hurt workers." *A. Fung et al., Working Capital: The Power of Labor's Pensions* (2001): 13-43.

Ghilarducci names four limitations to the prospect of pension fund socialism. First, employees' desire to achieve high returns and meet benefit goals conflicts with pension fund activism. Second, Taft-Hartley bars plans from being solely trusteed by unions and ERISA's fiduciary duty requirement makes unconventional approaches risky. Third, pension ownership is decentralized and the owners are often in conflict over potential uses of the funds other than seeking the highest return. And fourth, even if unions gained significant control over assets, they would be constrained by the performance requirements for capital in a growing economy.

A common trope in discussion of pension funds is that public employee funds take a more independent, active approach to asset management than their private counterparts. One reason for this belief might be that while no private pension funds are self-managed, some public funds are. Some of the largest public funds—such as TIAA-CREF, CalPERS, the Florida State Board of Administration, and the Wisconsin Investment Board—maintain permanent investing staff who allocate portions of the fund to hedge funds, private equity managers, and can even make direct asset purchases. In a study of CalPERS, Tessa Hebb investigates the extent to which the fund most famous for activism deserves its reputation.[61] As Hebb discusses, funds typically earn the "activist" label by adopting screening policies (*e.g.* no tobacco stocks) or participating in divestment campaigns. The history of socially responsible investing, thusly defined, stretches from Quakers refusing to invest in arms producers in the 1750s to the 1928 launch of the Pioneer Fund, the first mutual fund to systematically omit alcohol and tobacco companies, before cresting in the South Africa divestment campaign. In the 1970s and 1980s, public pension funds faced legal challenges for seeking to divest from companies doing business with the apartheid regime, and were

[61] Hebb, Tessa. *No small change: Pension funds and corporate engagement*. Cornell University Press, 2008.

ultimately allowed to do so only if directed by their state legislature. Private pension funds governed by ERISA were not allowed to use any criteria other than shareholder interest, but some managed to divest while presenting a rationale about avoiding the long-term financial risk of backing an increasingly unpopular business practice.

CalPERS' activism, limited as it was to screening out environmentally questionable stocks and advocating for transparency in corporate governance, managed to step on the wrong toes. Upon his first election, Governor Arnold Schwarzenegger dismissed the then-president of the fund. But Hebb's portrayal of CalPERS suggests an approach only slightly less conservative than the industry mainstream. Blackburn, too, concludes that so-called activist funds make the same allocations and give their members equally little input as private funds. Some changes may be afoot: in 2014, CalPERS announced it was ending its investments in hedge funds, which could not justify their high prices. But the enormous size of public pension funds militates against democratic investment choices.

In the first half of the 20th century, the most ambitious forays into collective capital ownership were associated with individual labor unions rather than the state. First the Amalgamated Bank and later the United Mine Workers pooled their members' savings and contributions and used them for targeted purposes valuable to their particular communities. In the second half of the century, that pattern has continued. Building and construction trades unions have led the way, using their pension funds for productive investments that also employ union workers. In Boston, the Bricklayers and Laborers locals created an arrangement called "development deposits" where in exchange for buying federally insured certificates of deposit from the U.S. Trust Bank of Boston, the bank offers construction loans for union-built affordable housing. Since 1964, the AFL-CIO has operated the Housing Investment Trust (HIT), which takes investments from other pension funds and finances union-only housing and commercial construction projects. The national Sheet Metal Workers take an even deeper approach to shaping an economy that benefits their members. Building contractors need to seek environmental bonds before undertaking projects involving environmentally harmful substances like mold or asbestos. In order to increase demand for their members, the Sheet Metal Workers bought a surety bonding company. They also bought an asbestos contractor: an example of labor buying out management.[62]

The Reagan Department of Labor challenged several building trades investment projects, but the funds were protected by ERISA's prudent expert rule, which allows each investment to be evaluated "within the context of the portfolio and the interests of the participants."[63] In articulating their interests, the building trades have even directly confronted the implicit argument that pension funds should focus only on investment return. They use a "Keynesian multiplier argument" and argue that pension funds have two sources of income: investment earnings, of course, but also employer and employee contributions, which are best protected by growing the underlying business.[64] Ghilarducci notes that this argument is primarily rhetorical and has not been quantified, but it does map onto Samuelson's comment about growing nations, or in this case growing industries. The United Mine Workers pension fund sought a federal bailout in 2016 not because of underwhelming financial market returns but because the coal industry is on its deathbed.

One way to intervene even more directly in labor markets than lending is to become a temporary manager. This is typically the domain of private equity firms, not famous for their pro-worker inclinations. But one exception did emerge in the 1990s. The Union Labor and Life

[62] Calabrese, Michael. "Building on success: Labor-friendly investment vehicles and the power of private equity." *Working capital: The power of labor's pensions* (2001): 93-127.
[63] Ghilarducci, 124.
[64] Ibid., 125.

Insurance Company (ULLICO) ran the only private equity fund dedicated to creating and preserving union jobs. The fund, Separate Account P, would buy divisions of companies spun off amid bankruptcy, as might any private equity firm, before taking the surprising step of shoring up pension plans and ratifying collective bargaining agreements. In its largest investments, Separate Account P acquired the airport shuttle company Super Shuttle and a shipbuilding company in order to unionize both workforces and keep all manufacturing domestic. But the fund was also implicated in insider trading regarding its investment in Global Crossing and was ultimately shut down during the financial crisis.[65] In reviewing the characteristics of successful union-friendly investment funds, Michael Calabrese concludes that they commingle funds with professional management for ERISA protection, diversify geographically especially when lending into the mortgage market, reduce costs through economies of scale, track and report comparability to market return benchmarks, and achieve collateral benefits beyond investment returns.

To be clear, union-run funds with idiosyncratic investment goals remain bit players in the context of the pension industry. Mainstream Taft-Hartley funds might be attracted to their perspective on what kind of investments benefit the long-run interests of workers. But in order to change their own asset allocation, such funds would need to convince employer-appointed trustees—not to mention their own members—to bear the financial risk of forsaking Wall Street's guidance. As many pension funds struggle to pay out promised benefits, such audacity may be too much to ask.

Conclusion

[65] Calabrese, 99.

In this essay, I have treated a sometimes-nebulous concept at the interstices of several fields of American history as coherent. Recall three qualities I attributed to socialized capital in its ideal form. First, socialized capital is democratic. Second, socialized capital seeks holistic returns, or returns specific to the interests of its participants. Third, socialized capital exercises governance over the non-financial economy.

Experiments in collective capital ownership throughout American history have rarely achieved all of these qualities. The fraternal societies of the 19th century managed to be both democratic and holistic precisely by punting on actual capital ownership (and thus any prospect of governing the rest of the economy). The fraternals are especially interesting as prologue to the late-20th century experience of pension funds. Just as fraternal leaders predicted, holding capital is a sort of golden handcuff. It often requires a community to make peace with Wall Street and follow the prevailing investment trends of the day, speculative as they may be (as the public pension funds that lost \$5-\$10 billion in the Enron meltdown can attest).[66] But holding capital and growing it through investment also extends the life of a financial community over time. The fraternals, reliant on ad-hoc payments to take care of their members, had no buffer when costs rose and the community shrank. Pension funds can at least last decades after their membership base begins to decline.

At the same time, most pension funds score low on each dimension of socialized capital. Trustees hire professional investment managers so any democratic input from worker-members is superficial. Interests are sufficiently diffuse that most funds seek only financial return. Some public funds like CalPERS have earned a reputation for activism, but even this reflects only a negative screen for forbidden categories (like “sin” stocks) rather than a positive social goal. ERISA-

[66] Blackburn, 190.

governed private funds have no distinct investing identity whatsoever. And because fund members sit so many steps away from the investment managers who actually allocate their money, pension funds are relatively passive managers of the real economy.

Theorists of market socialism tend to approach the idea of socialized capital with a presumption of state provision. In John Roemer's model of market socialism, for example, the state endows all citizens with an equal number of non-transferrable investment shares which individuals then allocate to corporations, buying an equity stake and the right to receive dividends. Since the corporations cannot issue more shares, they obtain capital by borrowing from state banks. In some ways, Roemer's proposal echoes the experience of the Alaska Permanent Fund. All Alaskans receive equal rewards from rising asset prices to the extent that the Fund owns them. But ultimately the Fund is better understood as a welfare program than as socialized capital. Democratic control of investment decisions is impractical at such a large scale, even if the Permanent Fund does hold several open board meetings each year. The Fund seeks only financial return, and does not engage in shareholder activism. The experience of the Permanent Fund provides a strong clue that if the Social Security trust fund were invested in private securities, neither would it meet the criteria of socialized capital. This is not to disparage such a course; public ownership of corporate equity seems to have strong egalitarian effects in its own right. For that and related reasons, the possibility has barely registered on the far fringes of American political discourse throughout the history of Social Security.

The most successful experiments in socialized capital have come out of the labor movement. Cooperative businesses and banks have been effective mechanisms for pooling labor's capital to invest in a worker-friendly economy. Although the execution may have disappointed, the key intellectual scaffolding for decentralized control of investment capital was laid down by the agrarian Populists of the 1890s. The Farmers Alliance was a democratic movement that sought to empower its members by lowering the cost of credit and materials. The Alliance never sought to own a stake in other industries; it aspired to be a self-financing cartel rather than a bank. In the end, rural poverty made it difficult to collect the dues necessary to run an independent cotton exchange.

The first cooperatives to get off the ground were instead associated with the urban labor movement. Dana Frank argues that the post-World War I period was the first time in American history when (white) workers were both prosperous enough and well-organized enough to think about "politicizing" their savings.[67] The labor-owned businesses of that period fit into a broader trend of experimentation in voluntarist social provision up through World War II. As Jennifer Klein details, unions created cooperative health clinics with group payment plans, a model they greatly preferred to employer-sponsored reimbursement and fee-for-service physicians. This period ended between 1947 and 1950, when the Taft-Hartley Act and the Treaty of Detroit shackled unions to whatever benefit plans they could bargain out of their employers. The building trades investment funds of the postwar era have not yet received a proper historical treatment, but on the surface, several seem to exemplify all three characteristics of socialized capital.

Research on socialized capital sits at the intersection of several subfields of American history. For good reason, historians of the labor movement and its Populist precursors have uncovered the most authentic episodes of socialized capital. Charles Postel, Dana Frank, and Jennifer Klein's books each grapple with the role of capital ownership amid the myriad goals and strategies labor unions have pursued. In their effort to become labor capitalists, workers have naturally discovered tensions between this and other priorities—from collective bargaining, to

[67] Frank, 68.

political action premised on a critique of capitalism itself. An ambitious project might revisit the full history of the American labor movement in the context of unions' secondary identities as capitalists.

But to make sense of socialized capital's limits and possibilities, one must also account for the state and for the financial services industry. As both Jonathan Levy and Jennifer Klein demonstrate, union-run and other voluntarist social welfare provision has always been in competition with the insurance industry. Insurance companies, in turn, lobby the state to protect their exclusive right to manage certain pools of capital, often under the pretext of responsible, professional management. In the latter half of the 20th century, a new class of money managers have surpassed insurance companies in the realm of institutional investing: hedge funds and institutional asset managers (like BlackRock, the world's largest investment firm). Historians will need to trace the relationship between these asset managers, retirement savings, and the state. An important question in this area is why "pension fund socialism" never came to pass and if there was any juncture where it might have. A history of pensions from Taft-Hartley to the present would likely track the financial services industry's cumulative success in locking pension funds behind a set of regulatory "safeguards" that mainly serve to enrich advisors with a steady stream of management fees. The 1974 ERISA legislation would be a key milestone in this history. ERISA's major reforms—a fiduciary conduct rule, minimum vesting standards, and government insurance for private pensions—unintentionally widened the cost difference between defined benefit and defined contribution plans, argues James Wooten in his legislative history of ERISA.[68] By the time

[68] Wooten, James. *The Employee Retirement Income Security Act of 1974: A Political History*. Vol. 11. Univ of California Press, 2004.

employers turned to 401(k) plans to replace defined benefit pensions, any dream of pension fund socialism was likely dead.

Finally, research on socialized capital would benefit from a cultural turn in order to understand the motivations and influences under which workers, savers, and retirees have considered (or rejected) becoming citizen-capitalists. Free labor ideology spawned an enduring association between wage labor and moral worth. Private property ownership also boasts a venerable legacy in American popular thought. In comparison, collective control of the investment process hardly registers as a shared national value. Before examining the political and economic barriers to socialized capital, it may be important to understand the circumstances under which people have been drawn to it in the first place. What do pension holders think about the investment decisions of their fund? What do depositors in the Amalgamated Bank hope their money will accomplish? What do union members expect from union-owned businesses? In both historical and contemporary settings, these questions may shed light on why socializing capital has been only a minor strategy in working class politics, and whether it could be a major one in the future.