<u>Investing in a Just Transition</u>

PRI Western North American Network[1]

I'm really pleased to be with you today. I wanted to talk this morning on some of my experiences in working in regions in crisis, places where economic disruptions, some caused by public actions on environmental issues, have resulted in business closures, mass worker dislocations and community distress. So, I first wanted to ask you, how many of you have lost your jobs at some point? Family members or friends?

There is a growing body of literature and best practices on "just transition." I highly recommend "Alberta unveils its Just Transition plan for coal workers," which can be found on the web as one of the Work and Climate Changes Reports. It has some excellent case studies, such as the closure of a coal plant in Centralia; conversion from a coal-fired plant to a cleaner gas plant in Wisconsin; the military base downsizing programs; and other programs.

But my focus will be mostly experiential, so as to get to the grit of intervening in local dislocations but also the larger implications of global economic restructuring. I'll try to frame this around engagement frames that you would recognize, with companies and labor, communities and government.

So, as Ron mentioned, I co-authored the *Responsible Investor Handbook*. Our book, commissioned by the US AFL-CIO, provides guidance on corporate governance and fiduciary duty, but also devotes a lot of ink to the priorities and opportunities for workers' capital funds to rebuild our cities, renew our industrial commons and grow the clean economy.

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[1] This paper was written by Tom Croft, Managing Director of Heartland Capital Strategies (HCS), a "community of practice" comprised of responsible investors, focused on rebuilding the built environment, renewing the industrial commons, growing the clean economy and making the "boss" accountable. For more about Heartland, please visit us at www.heartlandnetwork.org. He also directs the Steel Valley Authority (SVA), the first jobs authority in America.

In my other day job, I'm the Director of the Steel Valley Authority (SVA), a regional development authority that manages Pennsylvania's industrial turnaround initiative, with five offices in PA. Sponsored by the PA Labor Department, and funded with federal workforce funds, our early warning network has averted or deferred the loss of over 1,100 manufacturing SMEs, having an impact on 26,000 jobs. We've worked through a number of recessions, but economic restructuring is like rust, it doesn't rest. We've worked in urban and rural communities, and a few times we saved the only company in a company town.

Prior to working in the Commonwealth, I established the Seattle Worker Center, which at one point organized a state sponsored Puget Sound Shipyards Commission on the defense downsizing of the US naval fleet, during the Reagan years. Before that, I set up the North Coast Worker Center in Humboldt County, CA, which responded to the Northwest/BC depression in natural resources industries, at the end of the '70s and early '80s.

The North Coast Center assisted thousands of dislocated workers who lost their jobs in the timber downturn leading up to the 1981 recession, and helped workers laid off in the expansion of Redwood National Park (RNP). We provided jobs and training needs, but also advocated to prevent mortgage foreclosures and address social crises. In that role, I assembled a legal defense committee to save the Redwoods Employee Protection Program (REPP), which provided $110 million in wage replacement and other relief to 6,000 workers affected by the expansion of the Park.

Global Changes, Local Pain

My current city, Pittsburgh, was once a center of American steelmaking—an industry that virtually collapsed in the 1980s, suffering the loss of 150,000 manufacturing jobs in the region. Most of my member communities in the SVA, established by mayors, legislative and labor leaders in the 1980s after years of worker and community uprisings, were bankrupt these past three decades. Theoretically, a generation later, Pittsburgh today has recovered, and it now has a vibrant, diversified economy centered around technology, health care, and bio-science. Some view the city's revival as a model for revitalizing the "Rust Belt" and other industrial regions.

As pointed out in a paper commissioned by the Century Foundation,[2] Pittsburgh's recovery has not extended much beyond the city limits. Outside the urban core, many towns throughout Western PA suffer from declines in employment and population, high levels of poverty, poor schools, increasing violence, growing social dysfunction, and environmental degradation. Whether you head east, to Akron and Ohio, or south, to West Virginia, the conditions are much the same, and worse in the coal belt.

As noted in a 2017 Cleveland Fed report, our cities never fully recovered from several recessions ("What's Gone Wrong--and Right--in the Industrial Heartland?"). Many business districts are hollowed, entrepreneurship lags. Poverty rates in metro statistical areas include some of the highest in the nation.[3] The GINI index, which measures income inequality, are among the highest in the US.

As Youngstown State business prof John Russo observed, "Deteriorating factories, empty parking lots, dilapidated housing, and vacant lots, all bear witness to the continuing material and social costs of economic restructuring." Other cities that have had similar comebacks have also been unable to pass their economic vitality on to their surrounding areas. As Russo concluded about Pittsburgh's recovery, "It's simply incomplete."

Just Transition

We are here to talk "just transition" today, which, in its latest meaning, is the notion that workers and communities should not bear all of the brunt of economic changes that are put in place to deal with global warming. But it's important to understand that many communities have already suffered economic disruption. We need to realize

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[2] Joel S. Yudken, Thomas Croft, Andrew Stettner (October 17, 2017). Revitalizing America's Manufacturing Communities. Century Foundation.
[3] http://www.newgeography.com/content/005706-the-pittsburgh-conundrum

the politics of economic restructuring; and be able to see the damages left in the wake of change. Economic change is biting at every piece of the fabric of our society. As New York Times writer Thomas Edsall put it recently, “industrial revolutions are political wrecking balls.”

Think of what businesses, communities and workers have faced, just in the last three decades: financialization, deindustrialization, globalization, automation and now, increasingly, climate change, including disastrous weather events. My experience has been that when economic upheavals happen, there is no smooth transition, and there is hardly ever a just transition. Communities and people become desperate; vultures and con artists come to town, peddling quack cures; and in our case, mills are turned into malls (which are now closing as Amazon is swallowing the retail sector). We know, further, that climate change and other global restructuring have the potential to impact millions of more workers and families.

Of course, we’re here to talk about just transition as it relates to the massive shifts necessary for our countries to transition from carbon fuel economy to the clean economy. Climate change is already profoundly affecting economies, enterprises, workers and society as a whole. There is no doubt that the world is running out of time when it comes to global warming, catastrophic climate and sea rise.

The Paris COP21 accords recognized the imperative for a just transition during this transformation. So, for investors, it is important to think not only about stranded assets but also stranded workers and stranded communities. As the world moves toward a greener, low-carbon economy, the hope is that we can create decent jobs at a large-scale and promote social protection.

The International Labour Organization (ILO), in 2015, agreed that the world needs a deal on greenhouse gas emissions. It also declared that such a deal must be accompanied by strong provisions to protect workers, their families, and the communities that depend on them. The ILO adopted new guidelines for countries that are working to transform their economies to a low-carbon future, and recently established a new center on the green economy and just transition. The objective of the Green Initiative is to better equip the actors of the world to understand the challenges and opportunities of the coming transition, and help them take up the active role that they must play in managing this change.

Similarly, the International Trade Union Confederation (ITUC) and its partners have established a Just Transition Centre. The Centre will bring together and support unions, businesses, companies, communities and investors in social dialogue to develop plans, agreements, investments and policies for a fast and fair transition to zero carbon and zero poverty.

We already have guideposts in terms of how to invest responsibly in a world that is undergoing change. The UN PRI and the UN Sustainable Development Goals (SDGs) provide a broad entryway. Sustainable development means that the needs of the present generation should be met without compromising the ability of future generations to meet their own needs. Sustainable development has three dimensions – economic, social and environmental – that are interrelated, of equal importance and must be addressed together.

Sharan Burrow, General Secretary of the ITUC, and Fiona Reynolds, Director of the UN PRI, and other key leaders have been front and center in this growing field of work. Today, I will focus on a few important drivers to consider when engaging with companies and workers, communities and residents to achieve just transition.

Drivers of Economic Revitalization, Just Transition

Taking cues from the Century Foundation's "High Wage America" Project, we believe there are four place-based drivers when considering revitalization for a productive economy that has been disrupted. I'll focus on regional issues, but federal and state/provincial governments also have a role to play in this regard, and should adopt aggressive procurement and domestic production policies to support more robust jobs.

1. Reinvest in impacted workers

This driver supports the growth of robust, regionally based income maintenance and wage replacement, workforce education, training, and certification to empower workers seeking employment in livable wage jobs in productive and sunrise industries, while building a high-skilled workforce to meet the needs of those sectors.

When I lived in Humboldt County, the Redwood Employee Protection Plan (REPP) helped lumber workers affected by the expansion of Redwood National Park (RNP) in Humboldt County, which preserved 48,000 acres of old growth timberland. The Carter Administration and Congressman Phil Burton, with the help of the lumber unions, designed the REPP portion of the Redwood National Park Act. It was modeled after the Short Line Rail Acts that assisted workers when the Conrail system crashed. Its inclusion came after major protests against the expansion from timber companies and some of the unions.

The REPP Program provided approximately $110 million to some 6,000 lumber workers affected by the expansion of the Park. Eligibility was determined by whether workers—including loggers, millworkers and truck drivers—had worked at any of the three timber corporations whose land was purchased by the US government for the expansion.

Overall, workers were eligible for six years of wage replacement, health benefits, education benefits and a bridge to retirement, which contributed supplements to workers' pension funds. The Act sought to have the government make direct contributions to workers' pension funds, but DOL instead chose the supplemental contribution route. REPP also provided funding for re-training of affected employees, as well as job search and relocation allowance. Of the 6,000 recipients, less than 1/4th were approved for training; unfortunately, there were systemic failures in the workforce agencies in their management of training.

The Reagan Administration and its DOL did its best to kill the REPP Program, though it didn't threaten the $500 million dollars paid to three timber companies that had over-cut and clear-cut the redwoods. **I organized a legal defense plan led by my friends in the International Woodworkers of America (IWA) Local 3-98 and a former colleague in legal services.** Our lawsuit, which took 2 and ½ years, and which was accompanied by major protests, fundraising campaigns and hundreds of mostly successful legal appeals on behalf of wronged REPP recipients, won at the 9th Circuit, and saved the program, the people and communities.

2. Spur regional innovation and advanced industries.

This driver strengthens the capabilities of the public, private, and civil sectors to support the development and diffusion of advanced industry innovations to improve the competitiveness of regional sectors and economies. In Pittsburgh, after horrible development decisions were made in the wake of the steel collapse, wiser heads ultimately recognized the critical relationship between the region's historic legacy of making things, which it still does, and they built on those foundations, fostering new industry segments that served new markets or served society. After decades of environmental cleanup, for example, Pittsburgh became a hub for environmental technology companies.

From our historic role in steel and advanced manufacturing, we've seen the growth of new innovative industries—technology, robotics, bio-tech, green construction, wind and solar energy, etc. In these cases, the private sector, state, universities and research labs built on the legacy of the past, instead of burying it. As the EU points out in its industrial policy studies, and local Pittsburgh studies have verified, when cities build green housing, regional manufacturing value chains are created. Similar evolutionary strategies are now underway in Cleveland, a city which built the first windmill in the U.S. and which boasted foundational manufacturing sectors, in the windmill industry.

The Ruhr Valley in Germany is one of the most impressive stories in terms of transforming a coal and steel region. After the collapse of the coal and steel industries, which in the 1950s employed ¾ million workers, and after labor unrest, companies and cities began the Emsher Park Initiative. This encompassed an environmentally polluted area 70 km long along, comprising 800 sq. km straddling the Emscher river in which 2 million inhabitants live in 17 cities. The federal government funded industrial diversification initiatives that built on the legacy sectors of the past, but, opening five new universities, created a new future. And the region built a UNESCO heritage site celebrating industrial heritage. Amazingly, the region still boasts a manufacturing sector that comprises 25% of GDP.

During my time in Seattle, the Shipyards Commission examined the long-term prospects for the Puget Sound shipbuilding industries, impacted by the drawdown in naval yard budgets. Composed of leading labor-management-government officials from the region, the Commission addressed the potential to convert naval-supported construction and repair yards to meet the repair and maintenance needs of the Pacific fishing fleet. It also focused on the supply chains to the shipbuilding complex, linking to our early warning network to help those firms transition to new markets and survive. Finally, the Commission led to increased reemployment and retraining resources for dislocated shipyard workers.

More recently, our governments have sponsored region-wide transition programs like the POWER initiative, created by the Obama Administration to assist coal miners and coal communities, especially in West Virginia and the coal belt, and workers and communities impacted by the closing of coal-fired plants. There have also been military base closing initiatives in both countries, and the US defense downsizing programs have been notable for more comprehensive, integrated agency approaches and economic adjustment capacity-giving, including helping supply chain firms find new markets.

In the transition to the clean economy, there will be significant regional opportunities. In addition to jobs-rich opportunities in advanced manufacturing, robotics, the internet of things, the bio-economy and other high-tech sectors, there is regional momentum for energy efficiency and other consumer demand-driven sectors, and I'll mention some of those shortly.

3. Retain, restore and grow regional sustainable firms.

This driver includes stakeholder-led investment and banking interventions and economic development tools, measures, and initiatives to support and assist economic revitalization and sustainable restructuring, especially in economically vulnerable and distressed regions and communities. So, in this section, I want to emphasize again the value of supply chains, or value chains, to the regional economy, and the importance of retaining firms and establishments that employ people.

Faced with a severe recession and restructurings in steel in North America in the 1980s, Lynn Williams, President of the Steelworkers, deployed labor-friendly investment banks to restructure and save parts of the industry, through defensive buy-outs and other strategies. These strategies often worked because workers were empowered to participate in production or ownership. Other unions, such as the Machinists, Pilots and food workers, followed suit.

Ron Bloom, who was one of the principals of the investment bank that helped capitalize more responsible restructuring, and who later worked for Steelworkers President Leo Gerard, by the way, went on to help save the auto industry as a leader of Obama's Auto Czar program. In that regard, the Obama Administration achieved a real environmental victory in terms of pushing the auto industry to produce more efficient vehicles. Of course, one of the important acts on behalf of workers was the creation of the UAW VEBA, which helped restructure workers' health care programs. It is said that the Auto Czar program also saved a million jobs in the industry and supply chain.

The SVA, my own organization, followed a similar trajectory, although at a mini-me level. After the collapse of Big Steel in Pittsburgh, the SVA formed a regional warning network to prevent or mitigate manufacturing SME closures and mass

layoffs up and down the supply chains. Our Strategic Early Warning Network (SEWN) has now engaged 1,100 firms and averted or deferred the loss of 26,000 manufacturing jobs. We also helped win a provision in the US workforce laws that requires every state in the US to establish layoff aversion systems. We are now trying to have the Congress enforce those new provisions.

In our every day work, my field staff regularly help companies become more energy and waste efficient, and we deal with market changes and other economic shifts. We helped one trailer manufacturing firm that had lost auto OEM customers, for example, covert their production process to build trailers for wind energy towers and blades.

Fast-forward a couple of decades, there is a broader re-shoring movement afoot. Companies are bringing back jobs to North America. And, the proposed industrial and solar tariffs, though controversial and handled poorly by the Trumps, are important, nonetheless, environmentally. Besides the fact that our manufacturing sector needs time and capital to re-tool, and breathing room to innovate, we need to reduce the vast number of container ships that are steaming daily across the oceans, creating significant pollution and ocean trash.

Our national governments, pension funds, cities and states can participate in the re-shoring phenomenon and support the development of global to local, domestic production, such as demanding that efficient buses and train cars be built in America and Canada, such as the case as with public ports and transportation authorities in LA, Chicago and other cities.

4. Mobilize responsible capital for sustainable renewal/ growth

This driver supports the development and availability of well-resourced and accessible capital strategies and financing options to assist in the renewal of productive economies, and sustainable recoveries in struggling industries and communities. In addition to governmental and private investments made in advances to our nations' infrastructure and industries, our pension funds invested in many of these advances in the last half of the 20th Century. *Our money*—workers' capital--saved by teachers, electricians, steelworkers, firefighters, hotel workers and other employees—helped seed many of these earth-changing innovative industries, such as solar and wind energy.

Workers' capital, or *our money*, is simply the pension funds and other savings and assets of working people, including 401ks, insurance funds, bank deposits, etc. Overall, US workers own $22 trillion in institutional assets and Canada's workers trillions more. Unions have been investing responsibly to address social upheaval for over a century, starting with unions in Amsterdam, which invested in social housing in the 1850s during the industrial revolution. Similarly, labor invested in garment housing, banks and credit unions in New York City in the 1920s. US construction unions began investing pension funds in affordable housing beginning in 1960, after meetings between the President of the AFL-CIO and Dr. Martin Luther King.

In 1995, I worked with Leo Gerard and the AFL-CIO HIT to assemble the Heartland Labor/Capital Network. We asked how the labor movement and citizens might harness the power of pension funds to rebuild North America? This work followed on the success of housing trusts. Our efforts helped capitalize KPS Capital Partners, the investment bank which worked with unions to restructure and rebuild industrial firms, and it has now saved 40,000 jobs across two continents. Our initiative was similar to efforts in Europe, Quebec and Canada, and Australia, where unions and pensions established specific investment managers to invest in industries, infrastructure, renewable energy, and other responsible alternatives.

Today, many union, public and company pension funds have profitably invested workers' capital to rebuild and renew the built environment; modernize, turn around and grow sustainable businesses; and fund the growth of the clean energy economy. You can learn about many of these developments on our website, www.heartlandnetwork.org.

In addressing climate change, pension funds and responsible investors must work with governments, companies and worker stakeholders to mobilize capital toward the industry transformation that undergirds the transition to clean energy. By 2050, there will be 24 million full time jobs in renewables and energy efficiency, according to research from Marc Jacobsen at Stanford University. That includes new jobs in smart, clean construction and transportation-related development, retrofitting, green infrastructure, smart grids and energy storage, efficient, mass transportation. How do we then target those developments to impacted workers and communities?

Again, many pension funds and many of our Heartland-affiliated investment managers, capitalized by workers' capital, are already investing in these new sectors, and also driving sustainability in affordable housing and advanced manufacturing. There are also new "Just Transition Funds" that are working to link this framework to place—impacted communities—and people—impacted workers and their families. An innovative philanthropic initiative—part grantmaker, part catalyst—a new coal communities Fund creates economic opportunity in places hardest hit by the energy transition. It claims to find, fund, and help scale community-based transition efforts toward sustainable economic development, equity, and energy resilience.

Lessons Learned (sometimes the hard way)

There are many lessons to be learned from these battles:

- **In regions where painful mega-disruptions to industry is taking place, sometimes amidst broader economic downturns—some lumber towns in the Northwest suffered 50% real unemployment rates—there is no substitute for wage replacement. Because of REPP, a large number of workers received significant transition supports that enabled them to survive a traumatic dislocation and uprooting of their lives (and that of their families).** In this case, Humboldt County (and it's 17% UI rate) suffered much less than Del Norte County (and its 24% UI rate), and other indicators such as housing value price losses were worse in surrounding counties. The alternative would have been dramatic increases in welfare transfers, many more new poor and higher health failures and incarceration rates.

- **Workers need a sustained level and period of wage replacement funds and other forms of assistance to allow a planned transition for them and their families. Too often, the industrial policy of the US, less so Canada, was to let dislocated workers vote with their feet, becoming economic fugitives.** The benefits of progress and technology need to be shared with workers and citizens, as Bertrand Russell long advised. While we've been talking about sector, firm and place specific strategies, I also understand the growing demand for universal income systems.
- **For many years, traditional reemployment and retraining programs have been criticized for not reaching dislocated workers, training workers for jobs that don't exist, or that resulted in reductions in pay and benefits, and skills.** It's crucial that investors, corporations and policy makers not rely solely on the inadequacy—both in terms of payments and duration—of traditional unemployment or trade benefits. Workers need more than six months time to make transitions.
- **The most effective reemployment solutions are preferential hiring commitments, corporate transfers upstream or downstream to comparable job opportunities, and other first rights of refusal policies. In terms of company or public training programs, workers need to jobs guarantees, whether with companies or public works projects, or similar endeavors.** Preferential hiring and training initiatives that are part of economic response programs are often mis-timed or mishandled. The preferential hiring provisions of Redwood Park, for instance, were badly mishandled, as federal authorities did not broker those opportunities with local government.
- **The recovery plan for regions should ensure labor-management partnerships are front and center in the planning, and must mobilize all federal, state and local agencies and communities of interest. The main goal of just transition should be to maintain comparable employment for people whose jobs and lives are disrupted by external changes, and to help communities enjoy a sustainable recovery as quickly as possible.** In the case of regions that have suffered dire economic declines, especially rural areas, governments, companies and investors should target new those areas for public-subsidized sustainable infrastructure, broad-

band, industry research and commercialization labs, and other developments. An obvious question: why don't we mobilize larger coal mining, power plant and brownfields clean-up initiatives and replace brownfields with solar and windmills?

- **While many of the community economic transition programs have given lip service to "diversifying the economy," they have too often ignored the surviving supply chains.** Economic policy leaders need to prioritize and stabilize the supply chains left behind. Those supply chains could be both a source of stability for the community and also a foundation for re-growth into alternative economic sectors that then provides more choices for affected working people.
- **Pension funds should alert portfolio companies to be mindful their obligation to employees and the community. Historically, many became wealthy corporations, and their managers and shareholders thrived on the backs of working people. Business owners aren't the only parties that make investments in the economy, workers also make investments—in terms of their education, their relocations to the job site, investing in housing, transportation and schools, their ongoing skills investments and intellectual capital contributions.** Firm need to invest in their employees' future, regardless of whether they continue with the firm or not. Many of your current good governance campaigns, such as supporting human capital initiatives, good pension and health benefits, severance benefits, research and development, worker education and training, and pushing back against stock buy-backs and CEO bonuses, are vital tools in helping firms mitigate disruption. Finally, at-risk firms should contribute to pooled just transition funds.

Fighting for Stranded Workers, Stranded Communities

Pittsburgh's Mayor Bill Peduto, in a thoughtful interview in Huffington Post, argued that in greening growing cities like Pittsburgh, our cities should in-source and re-shore products/processes that are part of these growing markets, and other advanced sectors. And, when there is no room in the city, our communities should work together to locate these "value chains" in the Mon Valley, broader region and Appalachia.   Labor, investors, capital stewards, community and business stakeholders have been fighting for over three decades to save Heartland hometowns. Together, we can design the building blocks for collaborative labor-management, academic, multi-community and multi-state coalitions to mobilize capital and public solutions in the rust belt, coal belt, Heartland and other impacted places in North America.