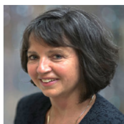
Social Justice Investing as antidote to the growing COVID chasm



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What is Social Justice? We know what it means intuitively, but all definitions center around individual dignity and satisfying basic human needs. In our developing COVID lexicon, "social distancing" is an ironic and shockingly appropriate description of the distancing of the wealthy and fortunate from an increasingly vast swath of society who are being deprived of basic human needs of food, shelter, safety, medical care, and justice, even as they work on the front lines of the crisis or are sidelined by it. Far from being the great equalizer, COVID19 is dramatically widening the chasm between the top 1% and the bottom 99%, threatening to wipe out the middle class that is the beating heart of any functioning developed economy. Not only does this widening chasm inflict misery and suffering on those who were already living on the edge during "good times"; it threatens to turn first world economies like the US into plutocracies. COVID is exposing and fueling the pre-existing *Crisis in Social Justice*. The assault on human dignity threatens the functioning of civil society, the broader economy, and dramatically increases risks while undermining stability and returns for investors. To prevent this devolution, it is imperative that investors place a premium on social justice and use their capital to reward corporate decision-making that incorporates social justice. In turn, this emphasis will reward investors by increasing the resilience and future competitive advantage in their portfolios. *Capital drives change.*

CAPITAL ALLOCATION CAN DRAMATICALLY INCREASE SOCIAL JUSTICE WHEN RISK IS PROPERLY VALUED

The global public equity and credit markets, excluding government issues, account for around $250 trillion, about triple global GDP. This means that capital providers and their investor intermediaries hold tremendous power over the functioning of the global economy and how capital is allocated.

Risk is a critical component of investment returns and freely moving capital should be the best instrument for pricing risk, both short and long term. Yet history shows that investors have been most adept at allocating capital based on *short-term* financial risk and reward, while mostly ignoring the risk of long-term externalities. Investors

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have reaped outsized returns in the past by investing in companies who underinvest in pollution control and environmental sustainability. Likewise, investors still reward companies who cut corners on safety, lobby for favorable regulation that shifts labor costs onto workers and communities, implement just-in-time and irregular scheduling, and use constant "restructuring" to cut average salaries and benefits to boost profits.

Ultimately, society pays for these externalities in the form of growing the ranks of the working poor, who are robbed of dignity and the opportunity to make a full contribution to the economy and society. Increasingly, corporations bear the cost as well in the form of criminal prosecution, fines, loss of employee intellectual property, loss of productivity and innovation, and reputational destruction of brand equity. The undermining of social justice in workforce practices, like environmental destruction, needs to be fully appreciated and valued as a risk. Capital providers have the power and the imperative to insist that their investors incorporate social justice risk into their investment decisions and invest in companies who appreciate and fully value employee contribution, while starving bad actors until they adopt social justice-friendly policies. Using the power of capital can force rapid change and also reap the rewards of untapped labor potential.

THE MISPRICING OF SOCIAL JUSTICE RISK IS EXEMPLIFIED BY THE WIDENING GAP BETWEEN MAIN STREET AND WALL STREET

On the same day the Bureau of Labor released the real unemployment (US, including the underemployed, the marginally attached, and discouraged workers) figure of 22.8% and the St. Louis Fed forecast a continued increase to 30% (worse than the Great Depression), we saw US equity markets continue their 30%-plus rally, with the NASDAQ closing positive for the year. The labor statistics showed average wages rising — but only because layoffs disproportionately affected lowly-paid service workers. The loss of livelihood, often without any access to benefits or stimulus, are being born disproportionately by women, minorities, and the poor[1]. Likewise, the frontline "essential" workers in this crisis who are putting their lives and health at risk are also disproportionately minority, female, and the working poor.[2] The most shocking contemporaneous example are meat packing plant workers, who are suffering from high rates of COVID infection and death, even as they suffer horrible working conditions and pay that is often below living wage rates.[3] "The burdens are falling most heavily on those least able to carry them," said Fed Chair Jerome H. Powell. "As a society, we should do everything we can to provide relief to those who are suffering for the public good."

WATCH FOR GRAY RHINOS

In the current equity rally, what do investors see that an outside observer with a view towards the future does not?

- Some observers point out that investors are very bad at dealing with "Gray Rhinos," similar to "Black Swan" events in their severity and shock to the system. Unlike Black Swan events, Gray Rhinos are seen by all, but consciously ignored because their potential negative impact is so great that it destroys current paradigms. The

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typical investor response to a Gray Rhino event like COVID is, "Well, if the worst case happens, then we all lose our jobs, so why worry until we have to."

- Another explanation could be a callous lack of understanding of the economic carnage on the other side of the chasm by asset managers, who typically find themselves among the top 1%, and are typically neither minority nor female, as only 1.3% of US assets are managed by women or minorities.[4]
- An alternative explanation credits the Algos for both the 35% drawdown as well as the rally back up; a combination of relatively illiquid markets and data-dependent models produced a sell signal on the early pandemonium of the crisis and then reversed course when "as much as it takes" Fed liquidity and fiscal stimulus was added to the data mix.
- A closer look beneath the surface of the rally shows that it has been mostly driven by the Technology Sector, and has resulted in 5 stocks now accounting for 20% of the S&P 500. Investors are accepting that things are bad for many industries, but are assuming a recovery that will reward the more immune companies and industries, hence the rise in Microsoft, Google, and tech overall.
- The ultimately simple explanation, offered by Christian Weller, senior fellow at the Center for American Progress and a professor of public policy at the University of Massachusetts, Boston: "Both corporate profits and behavior are anti-worker and boost stock prices."

In hindsight we will be better able to assess how current market dynamics are appropriately or inappropriately valuing COVID crisis risks, though it seems from all vantage points that social justice risk is being ignored.

SOCIAL JUSTICE AND THE MIDDLE CLASS DRIVE SUSTAINABLE GROWTH

Historical economic analysis correlates sustainable growth and innovation with the middle class, not the rich. The "upper class," or top 1% in modern parlance, have little or no incentive to innovate because it would result in a disruption of their comfortable rents.[5] The poor aspire to improve their socioeconomic status but are engaged in subsistence and are unable to take risk. It is the middle class who have both the drive to advance as well as enough financial security to engage in entrepreneurial activity that disrupts existing industries and allows for revival, growth and the betterment of society.

In her book, *Capitalism on the Edge*, Albena Azmanova coined the term "Precariate Capitalism," which she defines as a condition where an overwhelming share of the population is objectively living on the edge or feels like it is. She attributes about 80% of the US population as falling into this category. Supporting this is the large share of Americans who are living paycheck to paycheck, for whom it would take only a slight downturn to devastate their lives. Many of the fastest-growing jobs pay less than $30,000 a year, making it hard to save. Meanwhile, the U.S. safety net is limited, gig and self-employed workers rarely qualify for aid, and many states have made it harder to get unemployment or other benefits. According to a study by Fed economists Bhutta and Dettling, "only about 40 percent of families have liquid

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savings equivalent to at least three months of expenses, and less than 30 percent have liquid savings equivalent to at least six months of expenses."

Why is this important? Because all of these studies signal that the middle class that fuels the American and the global economy has shrunk to between 20%-30% of the US population *pre-COVID*, and is now at risk of disappearing into the COVID chasm. As goes the middle class, so goes the entire American dream.

While most developed countries have policies in place that protect the middle class through labor market regulations and state-mandated benefits, the US has only the limited presence of Unions to protect workers from the abyss. To return to any sense of "normalcy" post-COVID, the most productive investment would be to direct capital toward social justice improvements, and therefore not only protect the middle class engine of the economy, but also grow its ranks by graduating a sizeable portion of the working poor. Capital owners and those who invest on their behalf have $250trn of power to drive capital towards valuing social justice, in order to enable the rise from subsistence into the middle class, to allow the middle class to perform its job as the innovative growth engine of the economy, and to deliver sustainable returns to shareholders. Social justice-minded investing is not just an opportunity to build a better future — it is a moral imperative that delivers investment returns.

VALUING SOCIAL JUSTICE IN CAPITAL ALLOCATION AND INVESTMENT DECISION-MAKING

As a component of ESG, Environmental, Social, and Governance analysis, the "S" has always been the most difficult to quantify and incorporate into investment decision-making. However, with the surge in demand for ESG investment strategies, focus on the United Nations Sustainable Development Goals, and the growing amount of ESG data and rankings, Corporations are being pushed towards disclosing, quantifying and setting goals around their ESG practices. Until Capital Holders coalesce around common metrics and mandates to differentiate among investment opportunities with a Social Justice lens, and how to price Social Justice risk, we offer the following list of considerations that can immediately be implemented in investment decision-making to start improving the Social Justice impact of any investment strategy:

- Living wage for the locale where employees live and work
- Employer subsidizes health insurance, sick and family leave, and continuing education and training
- Consistent and predictable hourly scheduling adaptable to employee personal situations
- Opportunities for advancement and remuneration for employee innovation and initiative
- Diversity goals that at minimum reflect diversity of community and/or customer base; disclosure of diversity at all levels
- Published health and safety practices and results
- Employee representatives at all levels of management, including board
- Disclosure of CEO/worker pay ratio, gender and minority pay ratios
- Frequent worker satisfaction surveying and publishing of results
- No profiting from activities that deprive others of social justice

> Sow the seeds NOW for a more just world and the higher returns that it produces.

- No investment supporting the prison-industrial complex
- No discouragement of unionization
- No lobbying for anti-worker legislation

Implementing this list requires more subjective and non-traditional analysis than most investors are accustomed to doing when making capital allocations and investment decisions. Nevertheless, given the precarious situation we find ourselves in as we stare into the growing COVID chasm, it is imperative to value social justice as a risk and return investment factor in order to sow the seeds NOW for a more just world and the higher returns that it produces.

1. "The [Department of Labor} report offers the first true glimpse of how young people, women, and black and Latino Americans are disproportionately suffering from the current economic crisis," says Andrew Stettner, senior fellow at The Century Foundation. 'It's what always happens during disasters such as this. Those with the least power and resources are hit first and hardest.'" https://www.usatoday.com/story/money/2020/05/08/covid-19-layoffs-take-toll-women-people-color-and-young/3094964001/
2. "The burden has been borne unevenly across gender, racial and socioeconomic lines, according to an Associated Press analysis of census data in the country's 100 largest cities. They are mostly women, people of color and more likely to be immigrants.
   Workers deemed "essential" are also more likely to live below the federal poverty line or hover just above it. They are more likely to have children at home, and many live with others who also have front-line jobs." https://www.timesfreepress.com/news/breakingnews/story/2020/may/01/front-line-work-during-covid-19-pandemic-falls-women-minorities/522013/
3. This article describes the heartbreakingly miserable work conditions and management callousness and negligence in the meatpacking industry: https://www.theatlantic.com/ideas/archive/2020/05/essentials-meatpeacking-coronavirus/611437/
4. "Just 1.3% of US financial assets are managed by women or minorities." https://www.weforum.org/agenda/2020/01/financial-investment-asset-funds-diversity-women-minorities/
5. The "Rentier" class collects "rents," basically capital gains and dividends from investments, rather than engaging in labor. This concept is explained thoroughly in Thomas Piketty's Capital in the Twenty-First Century. http://piketty.pse.ens.fr/files/capital21c/en/Piketty2014IntroChap1.pdf

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