

## THE INSIDERS

## A. "The firms nobody owns"

Any discussion concerning public ownership must take place within the framework of an analysis of the workings of contemporary British capitalism. In this section we offer a critique of the analysis which is discussed in the first half of *Industry and Society*.

Radical critics of *Industry and Society* have generally accepted the analytic description of contemporary capitalism offered in the first thirty pages of the document. *Tribune* declared "that the job could not have been done better by a committee composed of Karl Marx, Keir Hardie and William Morris." The Victory for Socialism pamphlet, *The Red Sixties*, hails it as "shattering." At the TUC Conference critics of the "Executive's" proposals could find no fault in this part of their case. The document—so the critics imply—is profoundly schizoid—radical in analysis, conservative in policy prescriptions.

In this section we shall try to show that the economic analysis underpins—rather than conflicts—with the policy conclusions. The central point of this analysis seems to be to show that what is wrong with contemporary capitalism is the shareholder—simply and only, the private shareholder. The "shattering" fact which the pamphlet makes is that the private shareholder is redundant. "Shareholders no longer exercise even indirect control over company managements" (p. 27). "The shareholder can no longer be said to reap a reward for risk, since the risk has gone out of risk capital" (p. 29). Since the modern corporation is, to a large extent, self-financing, we have "a permanent decline in the role of the private investor" (p. 31). "The influence of private ownership in the large firms, so far as management, production and growth are concerned, is small" (p. 39).

## " Serving the nation well "

But the document is wholly unalarmed at the emergent oligopolistic corporations which have replaced the individual entrepreneur as the focus of power and wealth in the economy. With the management and control of the large firms. *Industry and Society* is rather satisfied. The world of the directors is not, after all, "the world of the shareholder." "Their concern is with production as much as with profits and with expansion far more than with dividends" (pp. 16-17). Directors, we are made to understand, now have little stake in the business in the way of dividends: "the equity link that used to unite shareholders and directors is now wearing thin" with the "emergence of a separate managerial interest" (p. 18). This separate interest is, it would appear, remote from the ancient spirit of capitalism. "Under increasingly professional managements, large firms are, as a whole, serving the nation well" (p. 48).

In a sense, of course, the critics are right. Having demonstrated the redundancy of the shareholder, the Executive—one could argue—ought to have suggested the means for his elimination. But in a deeper sense, analysis buttresses conclusion. The enemy is the shareholder, but—so the argument runs—the shareholder is redundant and debilitated: if the enemy is so insignificant he hardly merits more radical measures than those proposed in the document.

Of course, capitalism *has* changed: the system has proved adaptable to both technological and social changes. In both its early and late phases capitalism has exploited labour; but

the forms of exploitation have changed considerably. The capitalist system has managed to contain, within the confines of "capital," the pressure from organised "labour"—and still continued to expand, admittedly by dips and booms, at a phenomenal rate. Marx, who sought to change the system, began by trying to understand it; but it is a century since he offered his model of mid-nineteenth century capitalism. In that period the system has changed almost out of recognition. It is proper, then, that *Industry and Society* should open with an attempt to describe the new mechanisms and characteristics of contemporary capitalism.

*Industry and Society* documents well the central feature of the system in its most recent phase—the emergence of the large firm with a joint-stock or "corporate structure." But it fails to relate the giant corporations to a dynamic social model of contemporary British society. The field of vision is one whose limits were set by James Burnham in 1940 in his *Managerial Revolution*. The authors can see the managers, but they are blind to the complex power structure of the giant oligopolies, in which wealth, power, status and control are interchangeable and interlinked.

The public companies, as the document notes, possess 80% of the total value of shares, and account for nearly 50 % of the total profits earned by private industry. The pamphlet concentrates on the 512 largest of these firms. These are the major productive institutions of British industrial capitalism. In many cases, the corporations are amalgamations of related enterprises, producing several kinds of products (e.g. I.C.I.). These firms are the giant price-leaders of the economy. Increasingly they finance investment and expansion out of profits retained within the firm; their purpose is not to satisfy but to create demand for their products. Consequently they spend an increasing amount each year on such "promotional" activity as product differentiation, advertising and "good public relations." So effectively do they control the sources of raw materials, the supply and distribution of products, that their prices are only indirectly determined by "free market conditions" of supply and demand. Their capacity for expansion is only indirectly determined by the supply of investment funds available at any time from the capital market.

These institutions are the seat of immense wealth and the source of social and economic power in our society. Shares in these concerns are the largest single component of private wealth. Industrial shares account for nearly 50% of all the large fortunes in excess of £50,000.

## Ownership and control

Who possesses this wealth? Who owns and controls these mammoth institutions?

These are difficult questions to answer, but *Industry and Society* suggests that, in the old sense, *no one owns them*: The pamphlet follows the evidence of Mr. Hargreaves Parkinson (*The Ownership of Industry*) that the pattern of shareholding is so fragmented that "shareholders" constitute too loose a group to exercise effective co-ordinated control. What of the directors? The document uses Prof. Sargent Florence's analysis of 84 large companies, which showed that in no case

was a Board *required* to hold more than 5% of company shares, and that in 92% of the companies studied, the Board was not required to hold more than 1%. The pamphlet concludes that "in the typical large firm, large shareholdings are, taken individually, too small, and, taken collectively, too numerous for effective control to be exercised" (p. 20).

To this picture *Industry and Society* adds the thesis of the progressive divorce of ownership from control, with the growth in the power of non-shareholding managerial elites. Many of the decisions which used to be taken by the owner-manager in the "entrepreneur" phase of capitalism, are now taken by the top cadre of professional managers, whose attitudes differ in interest and function from those of the classical "entrepreneur" or "rentier." "The large companies are increasingly controlled by men who have little or no stake as owners in the companies they run" (p. 23). Ownership and control are separate, and sometimes antagonistic.

This is a persuasive but superficial picture of the giant corporations. Indications are given as to their scale and power but nothing is said of the people who exercise power through them. These institutions hoard immense capital reserves, but if we follow *Industry and Society* the people who dispose of this reserve productive capacity are—if anyone—a class of disinterested "employees." These institutions are the source of immense private wealth—through dividends, bonus issues or capital appreciation—but the authors of the pamphlet can see no one who possesses this wealth in size sufficient enough to be worth discussing. According to their picture, economic power has apparently diffused itself in a rough egalitarian fashion throughout British society. The public corporations—functioning at a capacity and with an efficiency hitherto unknown—are impersonal institutions, which, we are left to imply, work "naturally" in the interest of the community at large. "Our conclusion is that the community should have the opportunity of participating in the *almost automatic* capital gains of industry" (p. 39, our italics).

This picture appears to us an altogether too polite abstraction. The authors say nothing of the *meaning* of these giant oligopolies: the degree to which power has been institutionalised and wealth incorporated and concentrated in the large productive units of modern capitalism. The image of industrial power which they paint is not complemented by an analysis of the powerful elites which manage, dispose of and profit by the power accumulated in this way. Inadequate at the critical point in its description of industrial power, it is hardly surprising that the pamphlet offers no adequate working relationship between the structure of British industry and the structure of British society.

### Is ownership irrelevant?

Three examples are cited in the pamphlet to support the thesis of the separation of ownership from control, and to prove the irrelevance of ownership. First, a study made in 1942 is said to show that "large holdings" in I.C.I. (i.e. holdings of £10,000 and over) were too great in number (260 in fact) "for effective co-ordination between them"; and further "that the range of interests they represented—persons, nominees, insurance companies and trustees—was so far apart as to make the possibility of united action extremely remote" (p. 20).

Next, we are told of a survey by the Metal Box Company of its own shareholdings, in which it was shown that in 1955 large holdings (denied here as more than £4,000 of shares at market value) included "no less than 517 separate holdings" (p. 20).

Finally, in respect of B.S.A., "the largest single shareholder, the Prudential Assurance Company, had just under 5% of the equity." Over 80% of shares were held by 10,000 shareholders with holdings of less than £5,000. (p. 20).

These examples will be considered in greater detail in a moment. But first of all let us take some general objections. An absurdly small criterion of the "large holding" is accepted by the document—those above the £4,000 or £10,000 mark. We are, after all, surely interested in the number and opportunities for collusion possessed by the really big investor—the man with £50,000 or £100,000 or more in the firm.

### The range of interests

Further, it is not at all clear why the interests represented by the different kinds of large investors should be as divergent as the pamphlet alleges. Just why is the range of interests as between, say, "banks, insurance companies and investment trusts . . . so far apart"? Several investment and insurance companies and building societies share directorships with banks: they don't act, speak or—so far as we know—think as though they had conflicting interests. (For example, directorships in Provident Mutual Life and the Royal Exchange and Equity and Law are held by men who are, not only directors of the Bank of England, but also directors of such large concerns as G.E.C., A.E.I., Cadbury Bros., and Courtaulds; directors of Lloyds Bank are also directors of such insurance companies and building societies as London Assurance, Mutual Assurance, Sea Insurance, Abbey National, and such large firms as Royal Dutch Shell Group, Vickers Ltd., and English Electric. Directors of the National Provincial Bank are directors of such giant firms as Anglo-Iranian Oil, Imperial Tobacco, Distillers and the Ford Motor Co., as well as being directors of Sun Insurance and Sun Life, the Atlas Assurance, the Prudential and the London Life Association) (*Monopoly*, S. Aaronovitch).

Nor is there any divergence of interests or outlook between the banks and, say, nominee or trustee concerns, particularly since, as the briefest examination of the *Stock Exchange Yearbook* will prove, many of the latter are actual subsidiaries or departments of the banks. As for "persons" and "other companies"—it surely depends on the "person" or the "company." A company or an individual linked with the banks or other financial institutions will have motivation and opportunity to concert pressure with these corporate colleagues.

A study has been made of the investors in I.C.I. holding shares over the value of £100,000. Only one of these is certainly a personal shareholder—and he is an ex-director, Sir Felix Brunner, Bt. The rest, numbering less than 50, consist of banks, insurance companies, and nominee companies which are almost always traceable as subsidiaries of these. There are also two or three pension funds (of which more will be said later); but with one exception the holdings of these are not far above the £100,000 mark. But it can be shown that, in almost any given case, a large shareholder has the opportunity to exert influence on policy, either by means of the interlocking directorate or else by means of some committee of the great financial institutions.

For example, the largest single shareholder in I.C.I. is Baring Nominees Ltd., which has over £5,500,000 invested in the firm. Baring Nominees is a "cover" for the banking house of Baring Bros. Ltd., the two firms have roughly the same Board of Directors (mostly members of the Baring family), and possess a controlling majority of shares in each other. Several directors of Baring Nominees sit on the same Boards as various I.C.I. directors. Thus Baron Ashburton

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of Barings meets Lord Chandos of I.C.I., on the Board of Alliance Assurance; the Earl of Cromer (Barings) and S. P. Chambers (I.C.I. Deputy Chairman) meet in Royal Insurance, and Liverpool, London and Globe Insurance. (See the table below.) No doubt by coincidence all the insurance Companies mentioned here have substantial investments in **I.C.I.** The insurance firms are, in fact, organised rather cohesively for the purpose of investment; The British Insurance Association, which unites 99% of all insurance firms in the country, possesses an Investment Protection Committee whose Chairman is a representative of Sun Life, and whose Vice-Chairman is "a man from the Pru." Sun Life, incidentally, has about £110,000 in I.C.I., and one of its directors, Mr. D. J. Robarts, is also a director of I.C.I. The "Pru" is the third largest single shareholder in I.C.I., with an investment stake of over £2,000,000.

The "Big Five" banks are well in evidence on the **I.C.I.** Board. The Chairman of I.C.I., Sir Alexander Fleck, is a director of the Midland Bank, itself a substantial investor in I.C.I., either directly or through its nominee and trustee functions. Other large banks with a personal I.C.I., con-

nection include the National Provincial, and the Westminster (which, through its subsidiaries, Control Nominees and West Nominees, has over £500,000 in the firm). Barclays—though not directly represented—has over £800,000 invested either directly or through Barclays Nominees.

The second largest shareholder in the company is something called Pensions Funds Securities Ltd. Its address is: Imperial Chemical House, Millbank, and two of its directors (including the personnel director) are directors of I.C.I., itself. This fund represents the compulsory pensions savings of I.C.T. employees—a vast institutional holding within the concern itself, to a large extent under the control of the Company's directors, financing the concern to the extent of a £3,000,000 holding!

The pattern of large-shareholding in Metal Box Co. is different from that found in I.C.I.—but no less interesting. There are no large-scale institutional investors with director nominees on the Board of Metal Box, though some of the directors meet directors of the large banks or insurance companies on other Boards. The chairman of Metal Box, for example, is a director of the Steel Co., of Wales, whose

## Imperial Chemical Industries

### The organisation of control

<i>Key I.C.I. Directors</i>	<i>Other Directorships Linked to I.C.I. Shareholdings</i>	<i>Ordinary Shareholdings</i>
<b>S. P. Chambers.</b>	National Provincial Bank, Ltd.*	1,344,2821
	Royal Insurance Co. Ltd.	.186,000
	Liverpool & London & Globe Insurance Co. Ltd.	120,000
<b>D. J. Robarts.</b>	National Provincial Bank Ltd.*	
	Sun Insurance Office Ltd.	
	Sun Life Assurance Society Ltd.*	
<b>Viscount Waverley</b>	Canadian Pacific Railways*	
<b>Viscount Chandos</b>	Alliance Assurance Ltd.*	209,526
<b>Alexander Fleck</b>	Midland Bank Ltd.**	1,544,8752
	* On each of these Boards sits a Managing Director of Baring Bros. Ltd. (Merchant Bankers)—(Earl of Cromer on National Provincial Bank Board, C. G. H. Mills on Sun Life Assurance Society, Baron Ashburton on Alliance Assurance Ltd., and Sir Edward Peacock on Canadian Pacific Railways). It therefore seems reasonable to list: Baring Bros. Nominees.	5,542,425
	** On this Board also sits Sir F. W. Morgan (Chairman, Prudential Assurance Ltd.). It seems reasonable, again, to list their shareholding as represented in some way through this incidence of the "common directorship." Prudential Assurance Ltd.	2,703,476
	<b>TOTAL</b>	<b>11,650,584</b>

<sup>1</sup>This total credited to the National Provincial Bank Ltd. is made up in this way:

National Provincial Bank	589,146
Branch Nominees	.102,000
Bishopsgate Nominees	581,505
Princes Street Nominees	62,631

<sup>2</sup>This total credited to the Midland Bank is made up in this way:

Midland Bank	117,844
Midland Bank Executor & Trustee Co.	1,044,921
Midland Bank (Overseas) Ltd.	201,979
Midland Bank (Nominees) Ltd.	180,131

**NOTE**—The issued ordinary capital of LCI. is £147,000,000. This is widely diffused, apart from the holdings shown above, 422,221 held by the Bank of Scotland Ltd. through three different nominees, and 836,442 held by Barclays Bank Ltd. through five nominees. There is, also, a personal fortune of 191,445 shares held by Sir Felix J. M. Brunner (who has a family connection with one of I.C.I.'s founding firms).

Under these circumstances, it seems clear that the five LCI. Directors listed can effectively control the Company.

Most of the 24 Directors are heads of Divisions or Groups. There are, however, a number of lay or non-executive Directors: **Lord Glenconner**, Hambros Bank (and Nominees), Northern Assurance; **Viscount Chandos**, Alliance Assurance, A.E.I., Met-Vickers Electric, Brit. Thomson-Houston; **Viscount Waverley**, Vickers, Clerical Medical and General Assurance; **D. J. Robarts**, Nat. Prov. Bank, Sun Life, Coutts and Co. (President British Banking Association.)

Chairman, Sir Harold Peake, in turn is a joint Vice-Chairman of Lloyds and a director of the National Bank of Scotland.

On the other hand there are a few large private investors with holdings of over £20,000 in Metal Box. Some of these large holdings belong to directors: Sir Robert Barlow, the Chairman, has £68,492, and his wife, Lady Barlow, £19,397. A Mr. Edward Barlow has £161,000. Another director, Mr. Hubert Cramer, has a holding of £103,991. Another, Mr. J. R. Bibby has £26,000 invested personally. Thus, three out of eight Metal Box directors represent the old entrepreneurial pattern of investor-manager. Thus the "managerialist" implications of the company's own survey do not survive a more detailed scrutiny.

It is true, as the pamphlet remarks, that the Prudential—the largest shareholder in B.S.A.—holds only 5% of the equity. But when one recalls that the very appearance of "the man from the Pru" at the shareholders' meeting in 1956 was enough to ensure the dismissal of Sir Bernard Docker, it becomes clear that, for the purposes of disciplinary policy at least, 5% is sometimes enough.

**"Minority owners control"**

It is true that the general body of shareholders is now so fragmented and dispersed that they cannot provide "effective

control" of the giant firms. But this fact has quite different implications from those suggested in *Industry and Society*—as the examples quoted above show. The very spread of small and middle-size holdings, and the "absentee ownership" attitude on the part of many smaller shareholders, make it possible for "effective control" to fall into the hands of relatively small group consisting of the large shareholders owning a *relatively* small percentage of voting capital.

To support the thesis of the "irrelevance of ownership," *Industry and Society* makes use of some of the work of Prof. Sargent Florence, one of the few economists who have done analytic work in this field in Britain. But significantly enough the authors have not made use of his general conclusions, which do not support their thesis.

Prof. Florence conducted an analysis of 85 large industrial and commercial firms with over £3,000,000 paid-up capital. His published findings (*Statistical Journal*, Part I, 1947, and his book *The Logic of British and American Industry*) show that the pattern of concentration is such that it is possible for a group of shareholders (roughly about 20 of the largest) to control policy while owning as little as 20% of total voting shares between them (20-20 is, of course, a rough figure, but it held for both Britain and America: after the largest 20 in

Metal Box Co. Ltd.	
Ordinary Shareholdings and Other Directorships	
Sir Robert Barlow (Chairman)	68,492
(Lady Margaret Barlow)	19,897
(Ernest Edward Barlow)	161,090
David Ducat	—
John Ryan	720
J. K. Bibby	—
Steel Co. of Wales	} 26,070
B.T.C.	
J. Bibby Ltd.	
Joseph Thorley Ltd.	
Liverpool Grain Storage & Transit Co. Ltd.	} 145,639
Mersey Docks & Harbour Board	
(J. Bibby & Sons Ltd.)	103,991
H. W. Cramer	—
Sir Harry Jephcott	—
Glaxo Ltd. (Chairman)	} 1,600
Murphy Chemical Co. Ltd.	
F. W. Rankin	3,000
J. Cartner	—
DIVIDENDS—1951-2-3-4=15%	
1954-5=20% (including bonus share issue—10% on each)	
In 1956 £830,136 was distributed to Ordinary stockholders	
In 1956 £328,480 was paid to minority interests in subsidiaries	

Metal Box Co. Ltd.	
Substantial Holdings (other than Directors')	
(Issued Ordinary Capital £13,098,855)	
Continental Cans	716,971
(i.e., biggest shareholder—out of 763,696 in Metal Box Overseas Ltd. This has a separate dividend policy from the Metal Box parent company)	
Barclay Nominees Ltd.	216,862
Baring Bros. Ltd.	25,000
British Linen Bank	51,825
Church Commissioners	447,500
William Deacons Bank	532,280
F. N. Hepworth, C.B.E., J.P.	60,568
L.T.C. Pension Trust	39,600
Gladys Lampard (and others)	81,808
Lloyds Bank Nominees Ltd.	639,474
Lloyds Bank Trustees Ltd.	372,012
I.C.I. Pensions Fund Securities	107,943
Prudential Assurance Ltd.	656,400

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the typical firm, Prof. Florence discovered that the size of holdings tended to decrease quite sharply). "On average in large companies, twenty shareholders out of some ten to twenty thousand hold, in Britain and America, nearly a third of voting shares." In fact "more English companies have a concentration so high that the twenty largest owners hold 50% or over" (*Logic*, p. 189). Prof. Florence argued that "there is certainly evidence for believing that the managerial revolution has not proceeded as far as is sometimes thought (or stated without thought) and that leadership and the ultimate decision on top policy may remain in many companies or corporations with the largest capital shareholders. The case for the existence of such a type of quasi-entrepreneur government in companies rests on five ascertained points of fact." These five points were (1) the highly unequal distribution of shareholding and the concentration in the hands of 20% of the shareholders, (2) the highly unequal distribution even among these twenty, and the size, on average, of the largest holding, (3) the family and other connections that can often be traced between many of the twenty largest shareholders "making them a coherent group," (4) the nature of the largest holders "which in many companies are themselves companies, (5) "the fact that many of the large shareholders are often directors; or if these shareholders are companies, that the directors of these shareholding companies are often directors of the company whose shares are held" (*Logic*, pp. 193-4). In the *Statistical Journal*, 1947, Prof. Florence called this pattern of ownership "*oligarchic minority owners control*."

There is no uniform pattern of holding among the twenty or so largest shareholders in the companies studied. The analysis revealed several patterns. In 20 of the largest trading companies which were analysed in greater detail, Prof. Florence found that 3 of the 20 were in the hands of "people apparently connected," several of whom were directors, holding 23% of voting power. In 5 of the 20 the "bloc" consisted of other companies. Three of the 5 were virtual subsidiaries, with a proportion of stock held by companies where more than 20% was held by one or two "parent" companies. In one of these 5, 8 companies appeared among the 12 largest stockholders owning over 20% of stock, where the means of control was the "interlocking directorship." This pattern suggested "a series of participating companies each desiring a finger in the pie of policy."

### The pattern of oligarchy

The twenty largest shareholders are rarely single persons. This does not mean that a large bloc of shares or a directorship is not an indication of great personal wealth. The scale of corporate enterprise is such that only the very wealthy could own more than 1 % of voting capital. In addition there is, to an increasing extent, the policy of a spread of holdings by the very wealthy through the large companies, though in the major corporations large holdings tend to be relatively more concentrated than in the middle-size firms.

But to a remarkable degree, the large shareholders are "corporate" persons. This fact reflects both the scale of economic activity and the pattern of behaviour in institutions which tend towards oligarchic group control. In some companies the classical entrepreneur or family owner-manager is "simply re clothed in corporate garments." More often, the large shareholders are themselves corporate institutions, or financial concerns (banks, insurance companies, investment trusts, etc.). These financial institutions buttress a corporate economic system. In Parkinson's analysis of the 30 major

firms which constitute the Index of Industrial Shares published by the *Financial Times*, "persons" held roughly 42% of holdings and over 36 % of capital. Banks, insurance companies and investments trusts held, together, some 22.2% of holdings and 13.8% of capital: "other companies" held 3.7% of holding, but 20.4% of capital. 27% holdings and 26% capital were held by "nominee companies." As we saw above, it is almost impossible to discover what sorts of interests "nominee companies" represent. They are registered companies, holding shares and formed simply for that purpose, and they may represent either persons or companies or banks. They serve the purpose of complete anonymity of ownership and interest—a growing characteristic of our corporate economy.

The complicated patterns of ownership are drawn together in many cases by an elaborate network of "interlocking directorships." C. Wright Mills, in his book on the American economy, *The Power Elite*, remarks: "'interlocking directorate' is no mere phrase; it points to a solid feature of the facts of business life, and to a sociological anchor of the community of interest, the unification of outlook and policy, that prevails among the propertied class. Any detailed analysis of any major piece of business comes upon this fact, especially when the business involves politics. As a minimum inference, it must be said that such arrangements permit an exchange of views in a convenient and more or less formal way among those who share the interests of the corporate rich." (P. 123.)

### "The managerial revolution"

*Industry and Society* properly remarks that "as companies grow larger and their affairs more complex, management becomes increasingly important, increasingly hierarchical, increasingly specialist and increasingly professional." In fact the administrative scale of the large oligopoly is so complex that it has stimulated the growth of a new elite in industry—the professional managerial elite. In the previous sections we have been concerned with one kind of "control" only: that which governs broad decisions of economic policy of these institutions. These decisions relate to the level of investment, the pricing of products, the nature of technical innovations, the proportion of profits retained within the firm, the size and timing of dividend distribution, and the general structure of wages. But the professional manager stands at the peak of another important group in industry—the bureaucratic and technical staffs—arranged in a hierarchical pattern of command, whose functions concern the administration and technical implementation of general policy. This is a different sort of "control"—which bestows upon the top executives a different kind of power—which is nevertheless great. This is the power of "face-to-face" control in industry, particularly within the structure of each firm. *Industry and Society* makes little or no mention of this concentration of economic power, and the subject is treated separately in this pamphlet, in the section on workers' participation.

But the top managerial executives are themselves, often, members of the board of directors. They provide the pivot between general policy and its detailed administration. As such, they are another group whose interests are protected and whose power is exercised through the corporate oligarchy or power elite which we have been describing. They are, the pamphlet suggests, "concerned with production as much as with profits and with expansion far more than with dividends. Salaries, pensions, status, power and promotion—these rather than wealth are their operating incentives."

(P. 17.) Indeed, such defenders of the modern corporation as Drucker and Berle have gone so far as to suggest that these cadres have wholly different motives from the classical rentier or entrepreneur, that they have developed a "corporate conscience." To a great extent, the document accepts this "neutral" interpretation of the behaviour of the managerial elite. C. A. R. Crosland, in *The Future of Socialism*, uses this argument, together with the "divorce of ownership from control" to show that the present economic system can no longer even be called capitalism.

This analysis gives an entirely false picture both of the economic motivations in a society where wealth has been incorporated, and of the particular interests of the managerial elite.

**Interests and motives in a corporate economy**

The analysis which we have outlined above suggests that, to a remarkable degree, private wealth in a capitalist economy has been incorporated and the motivations of private enterprise have been institutionalised within the corporate structure. These joint stock firms, and the financial institutions which serve them, are now the organised centres of the private property system in modern capitalist states. The corporate economy has outgrown the personal shareholder and the robber baron. In the modern state, the old-style capitalists have made themselves over in the image of the giant firm: they must combine together—in a multitude of formal and informal ways—in order to secure their interests and wield their power. The ownership and control of these concentrations of industrial property can now be exercised only through a series of loosely organised but tightly knit oligarchic groups. The groups may represent several interests—financial, managerial, industrial: but, as in any true oligarchy, the "natural competitiveness" of these elites of power has been subsumed into their greater interests—the mutual care of corporate property. Acting together, they constitute a group of economic and social interests more powerful, and more remote from the control of the community, than the capitalist world has ever known.

As C. Wright Mills has remarked: "Under the owners of property a huge and complex bureaucracy of business and industry has come into existence. But the right to this chain of command, the legitimate access to the position of authority from which these bureaucracies are directed, is the right of private ownership. The stockholder is neither willing nor able to exercise operating control of his ownership. That is true. And the power of managers is not dependent upon their personal ownership. That is also true. But it cannot be concluded that there is no functional relationship between ownership and control of large corporations. Such inferences focus upon personnel issues instead of legitimations and institutions.

"Changes have occurred within the industrial propertied class in such a way that the actual wielding of power is delegated to hierarchies. . . . But the top man in the bureaucracy derives his right to act from the institution of private property; he does act in so far as he possibly can in a manner he believes is to the interest of the private-property system; he does feel in unity, politically and status-wise as well as economically, with his class and its source of wealth." (*White Collar*, p. 101-2.)

The men who constitute these new elites of corporate power—both those who manage and those who own—are the executors of private property. The incorporation of wealth and the institutionalisation of economic motive-means, in fact, that directors, large shareholders and managerial executives *all* stand in more or less the same relation-

ship to private property. Their personal wealth and power is intimately related to the power, stability and success of modern business enterprise. These oligarchic groups can no longer think *only* of their own personal wealth: they must think of this by thinking of the concerns through which wealth accrues. They cannot seek the quick maximisation of private wealth, for the scale and complexity of enterprise is now too great. This goal has been institutionalised in our economy—but it remains the driving power of the whole system. The wealth and power of the large shareholder or director is derived either through dividends or through concealed profits—in the form of capital gains or capital appreciation. The non-owning manager derives his power and status through immense salaries, expense accounts and bonuses—which, like dividends and capital gains—can only be derived through the profits of corporate enterprise. Quick profits have to be considered in conjunction with other motives which are not opposed but *complementary* to the driving motives of wealth and power. These must be safeguarded by the taking into consideration of such new features of institutional property as long-term growth and expansion, the level of investment and innovation necessary to keep the corporation ahead, the dovetailing of pricing and product policies, the pressure for increased wages on the part of organised labour. But the salaries and perquisites of the managers and executives are merely new concealed forms of capital appreciation. "Stability" and "growth" are, after all, motivations which each of the groups can well afford, particularly when they lead to the increasing control over the supply of goods, and when, through appreciation, they ensure the long-term maximisation of wealth and status on an unprecedented level.

**The unity of the propertied class**

The very oligarchic nature of economic power in the new capitalist economies makes for a solidarity of the propertied classes. Into this social stratum, the chief managerial executives have been drawn. They are the most recent recruits of the corporate revolution.

But economic power, derived and concentrated in this fashion, is also *social* power. Since the price and supply of goods, the size of dividends and salaries, and the nature of their "higher emoluments" are, to an increasing extent, the result of decisions which they themselves can consciously take, the men who compose this power elite are as wealthy as they choose. The only limitation to wealth and power is the success of the corporate enterprise which they serve. This is true, whether they choose to show their wealth by

**TABLE SHOWING DIRECTORS' EMOLUMENTS IN RELATION TO DIVIDENDS AND**

	TOTAL PROFITS			
	No. of companies	Total profits £m.	Ordinary dividends £m.	Directors £m.
Oil . . . . .	.15	203	37.5	.75
Chemicals and paint ..	53	135	14.2	2.4
Food and confectionery..	72	201	16.5	2.7
Tobacco . . . . .	5	103	15.9	.2
Iron and steel .. ..	37	137	9.8	1.8
Engineering and electrical manufacturing.. ..	119	138	20.3	5.6
Motors and aircraft ..	55	74	6.8	1.9
Sub-total ..	356	991	121.0	15.35
Total, all corporations ..	1,238	1,570	195.7	34

## THE INSIDERS

consumption, or grow wealthy in secret. The personal fortunes of the wealthy and powerful are coincidental with the "stability" and "scale" of their enterprises. This fact serves to draw together into a single social elite the different oligarchic interests which are represented in joint stock enterprise. The success of enterprise generates consumption power of immense proportions—and thus makes possible a style of life which is commonly enjoyed.

But the men of power are not simply as wealthy as the life they lead, the goods they consume or the services they command. Shareholders often choose to consume in the form of the appreciation of their stock: directors can consume in the form of bonus shares or expensive vacations; executives consume through the paid expense account and the company car. These forms of inconspicuous consumption guarantee that style of life by means of which the unity of the propertied class is finally secured.

To a very great extent, *Industry and Society* accepts the corporate economy and the institution of private property upon which it is based. The pamphlet argues merely that the State should itself take a share of corporate profits—that it should swell, in another direction, the structure of interest groups which now own and direct private enterprise. The State could not hope, merely by the purchase of some shares, to appropriate these institutions. Nevertheless, as shareholders, it would of necessity be involved with the whole complex process by which wealth is maximised. The State would appropriate for itself—as the managerial elite has done in another way—the motives and behaviour patterns of a propertied class.

It seems now almost unnecessary to say that this pattern can only serve to ramify and stabilise the forms of wealth and power in our society. There is no hint anywhere in the pamphlet of an attack—direct or indirect—upon this structure of power. But if the State could not appropriate power, then power would presumably remain where it now lies: thus the interests of the State—and the level of social welfare—would become subordinate to the interests of the private oligarchies which own and control.

### A socialist programme?

In what sense can the private enterprises and their financial institutions be considered democratic or "social" organisations? The process of accumulation and appreciation would still remain private, hidden and remote within the world of big business and high finance. Even as a large shareholder, the State could not itself propose dividend limitation, since to do this would in fact be to decrease the rewards which it is so anxious to share. The State could not object to a high level of retained profits, because in that way the concealed

property of the State would naturally appreciate. As an investor, the State would share with other groups an interest in the profitable pricing of goods—determined in the manner in which prices are now fixed among the price-leading oligopolies. The State would become—as private industry is, to some extent, to-day—the servants of those financial institutions (banks and private trusts and investment companies) which provide the institutional capital necessary for expansion.

In sum, as a private shareholder, the State would legitimise the most anti-social behaviour of the modern oligopolies. It would help to maximise the wealth of the private shareholder. It would underwrite the present hierarchical structure of British society—it would swell the power and increase the status of the propertied rich. It would have, by default, a vested interest in maintaining the disproportionate distribution of wealth and power which, even at present, makes Britain one of the most class-bound and stratified of modern states.

How can this be reconciled with those aims which *Industry and Society* enunciates in its introduction? How could such measures "substantially reduce unearned income, unjustifiable inequalities of wealth and the division of society into privileged and under-privileged classes"? How will it replace the "competitive struggle for gain"—by itself participating? How will it make "the exercise of economic power responsible and accountable to the nation" or facilitate "central economic planning"? But without any of these objectives, can the proposals of *Industry and Society* be termed "socialist," even within the terms laid down by the pamphlet itself?

In fact, the oligarchy of State and business which, whether or not it knows it, *Industry and Society* makes possible, could establish a system of State capitalism on a scale unknown even to the capitalist world.

### Rejection

Private property is what it is. Its forms—even when legitimised, institutionalised or incorporated—must remain forms which Socialists are committed to reject. The idea of a Socialist society cannot be incorporated into the body of private wealth. A society whose economic foundation is private property remains a class society—even when efficiency and productivity mitigate the sharpness of class divisions. In the end, those who own and control the institutions of private property constitute an exclusive and competitive elite, whose motives and interests are irreconcilable with the interests of society—except through the skilful rhetoric of the company executive. These institutions are profoundly undemocratic—in function and character. As such they are monstrous excrescences in any society which seeks democratic political and economic forms.