Funding the Future

Who owns companies, and why?

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A reader on this blog recently asked a question that goes to the heart of how our economy now works. It was simple: who are the institutional shareholders, and why do they align with the self-destructive policies these companies appear to pursue?

The answer is that in most large companies now, ownership lies not with individuals but with institutions. These are:

* Pension funds.

* Insurance companies.

* Mutual funds.

* The vast asset managers like BlackRock, Vanguard and State Street that dominate the modern market. Between them, these three control voting rights over roughly one-fifth of the world's major listed corporations.

Contrary to popular belief, the number of individuals owning shares in the largest companies is relatively small in absolute terms, and their share of ownership of these companies is similarly small.

The important point to note is that the institutions noted are not owners in the traditional sense. Instead, they are intermediaries that manage other people's savings. Their job is not to build companies, but to track indexes and deliver short-term returns that look respectable compared to their competitors. That, above all else, is what has changed the whole nature of corporate behaviour in recent decades.

Second, these investors do not act like stewards of the firms they own. They have little interest in innovation, training or long-term investment. What they do care about is quarterly performance, and particularly profit margins. So the pressure they apply is always the same: cut costs, raise returns, and keep the share price up, and the easiest way to do that is to reduce labour costs. The result is a business model built around job cuts, wage suppression and share buybacks, all of which extract value from the company rather than creating it.

The result is a self-destructive logic. If you lay off your workforce, you also, ultimately, destroy your own customer base. Capitalism cannot survive without demand. Yet the system behaves as though customers will somehow keep spending, even as the wages that sustain that spending are being eroded. The result is an economy running on empty: low pay, low investment, and growing inequality.

This is not the invisible hand of the market at work. It is a system that has lost its bearings.

So how did that happen, and what about the people who actually built these companies? In most cases, they no longer have control. Once a firm is floated on the stock exchange, it becomes a financial asset to be traded, not a productive enterprise to be developed. The Board is no longer composed of the founding engineers, innovators, and entrepreneurs. They are replaced by managers whose success is measured in short-term returns. The long-term purpose, to provide goods, services, and livelihoods, gets hollowed out. Financial engineering becomes the only issue of corporate concern.

Thames Water is a perfect example. Once a public utility, it was turned into a leveraged vehicle for profit extraction. The assets were stripped to pay dividends and bonuses, the debt piled up, and now the company teeters on the brink of insolvency. Consumers have been exploited, creditors have been misled, and the real economy has been damaged. Yet those responsible have, so far, always walked away richer.

So, why do investors sabotage themselves? That is because the people making these decisions do not see themselves as part of the companies they control. Their business model is to hold diversified portfolios. If one firm collapses, it is no concern to them; they have spread their bets and assume other gambles they have made will provide sufficient returns to cover the loss. No one is responsible for the system as a whole. We have created a form of capitalism without accountability. The corporation, in this world, is not a social institution. It is simply a conduit for extraction.

Finally, there is a political dimension. The same forces that have hollowed out corporate life are reshaping society. People are being treated as expendable, as another blog post I wrote over the weekend made clear. If institutional shareholders demand it, then people, whoever they might be, can be dispensed with. Precarity is becoming the normal way of life for most people, supposedly to enhance the returns on the savings of those who have them, and it seems most of our politicians are more than happy to go along with it.

The fact is that institutional shareholders wield far more power than they should, and represent no one but themselves. They have turned what were once engines of shared prosperity into machines for private gain. They have separated ownership from responsibility and profit from purpose. And, perversely, they are, in a great many cases, acting against the best interests of those they supposedly work on behalf of, who are the savers of the UK.

It does not have to be that way. We could change the rules by limiting speculative ownership, giving workers a real voice, and redefining the duty of corporate directors as one of long-term stewardship. We could rebuild the corporation as a social institution serving both people and planet.

That would not just save companies from themselves. It would also save democracy from the economic despair that financialised capitalism continues to produce. There is, however, little or no sign of awareness of the need to do this in Westminster. The question is: why is that? Are those who are there not interested in saving democracy, ending the threat from fascism, and most of all reducing the precarity that afflicts an increasing proportion of the population of the UK? And if not, why not?

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, **here.**

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments

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