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# BUSINESS ELITES AND UNDEMOCRACY IN BRITAIN: A WORK IN PROGRESS

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## ABSTRACT<sup>1</sup>

This is an exploratory paper that discusses the undemocratic agenda setting of elites in Britain and how it has changed politics within a form of capitalism where much is left undisclosed in terms of mechanism and methods. It argues for a more radical exploratory strategy using C. Wright Mills' understanding of what is left undisclosed is crucially important to elite existence and power while recognising the limits on democratic accountability when debate, decision and action in complex capitalist societies can be frustrated or hijacked by small groups. This paper considers whether and how British business elites have, through their relation with political elites used their power to constrain democratic citizenship. Our hypothesis is that the power of business elites is most likely conjuncturally specific and geographically bounded with distinct national differences. The outcomes are often contingent and unstable as business elites try to manage democracy in the UK. The paper also considers the temporal dimension to analyse how the composition and organisation of business elites have been changing through successive conjunctures.

**KEY WORDS:** *Business elites, C. Wright Mills, elite power, finance, manufacturing, UK railways*

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## **BUSINESS ELITES AND UNDEMOCRACY IN BRITAIN: A WORK IN PROGRESS**

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‘Wherever possible, substitute construction out of known entities for inferences to unknown entities’

(Bertrand Russell, *Logical Atomism*, 1924, p.363)

‘In so far as the structural clue to the power elite today lies in the political order, that clue is the decline of politics as genuine and public debate of alternative decisions’

(Wright Mills, *The Power Elite*, 1956, p.274)

**T**his chapter is work in progress in a double sense: the undemocratic agenda setting of elites in Britain and elsewhere is changing political work in progress, just as the social scientific understanding of elites is developing intellectual work in progress. In both cases, powerful elites and smart intellectuals find mastery of the world or the argument is frustratingly elusive. The shared dilemma of business elites and academics who study them is that they both live in a capitalism where much is undisclosed, so that unacknowledged and unmanaged realities irregularly intrude in a disruptive way. This has implications for our knowledge heuristic because we have a choice, laid out in the two opening quotations from Bertrand Russell and C. Wright Mills, of two alternative, conservative and radical exploratory principles.

Few social scientists will be familiar with the opening quotation from Bertrand Russell which gives us his version of Occam’s razor. In Russell’s version, the explanatory principle of simplicity and parsimony via fewer assumptions becomes the injunction to work with known entities. Yet, the practice of most social scientists does fit with Russell’s heuristic: social scientists typically adopt a conservative exploratory strategy and make new empirical investigations using established apparatus with concepts and methods substantially carried over so that their work involves construction out of known entities. Much sociological discussion of stratification, for example, proceeds on this basis insofar as it supposes that ‘class’ can be read off the occupational hierarchy or takes a more cultural Bourdieusian line. There are many good reasons for doing this. If science is a craft involving an epistemic

community, the conservative strategy ensures internal debate and the progress of what Kuhn long ago termed normal science.

But, when it comes to understanding elites, we argue for the different and more radical exploratory strategy which is implicit in the second quotation from C. Wright Mills. His quite different starting point is that the undisclosed is crucially important to elite existence and power, which is often technically obscured or politically denied. They are technically obscured, because (as we argue in the next section) elite groups are on the margins of what is knowable for many social scientific conceptualisations and techniques, both in Mills' era and in our own. They are also politically obscured because, in parliamentary democracies, elites are anomalously undemocratic and therefore stand to gain from discretion which leaves their identities and effects blurred and shadowy. If we wish to understand elites under these conditions, we would argue that Russell's principle and standard social science practice should be suspended, as the radical exploratory strategy is more appropriate to the special case.

If knowledge is here a matter of inference to and from unknown entities, the process of knowing involves reading what Mills (1956) called 'structural clues'. This is what Mills is arguing in the second opening quotation, where the decline of 'genuine and public debate of alternative decisions' is read as an elite effect which is a clue to the existence of a power elite in the USA in the 1950s. This inference from the effect - or clue - to the elite - or hitherto unknown entity - is both a neat intellectual move and a reminder of why elite studies matter even though they often fit uneasily into the dominant knowledge practices of the social sciences. We focus on elites because, through them, we start to comprehend an important aspect of 'undemocracy' – the often undisclosed forces that obstruct the full realisation of democratic citizenship.

The universal franchise and the mass party were twentieth century democratic inventions which were for all kinds of reasons bound to disappoint. In a complex capitalist economy and society, the powers of debate, decision and action are both exercised hierarchically and also inevitably dispersed in ways that elude electoral command and control. The limits on democratic accountability and agenda setting are a recurring theme in social sciences, from Michels (1911) on oligarchical control in mass parties to Latour (2005) writing about the limits on democratic participation in an uncertain world of technical issues and expert knowledges. The powers of debate, decision and action in complex capitalist societies can be frustrated or hijacked by small groups with agendas which then frame executive action and electoral debate. One question arising is then about whether and how business elites have (partly through their relation with political elites) used their power to constrain democratic citizenship.

If the aim is to read clues to the existence and power of business elites, the reading is not made on the assumption that elite power is always and everywhere the same in its ends and means. Business elites in Britain, as in the USA, have to live with an imperfect but robust

democratic order in a changing economic structure, so that their world is full of new opportunities and potential challenges to the exercise of elite power. In thinking about such differences, our hypothesis is that the power of business elites is most likely conjuncturally specific and geographically bounded. In the USA in the 2010s, for example, we would not expect to find a reproduction or transposition of the relations between elites and democratic politics identified by Mills in the 1950s; any sketch of British elites would have to take account of the differences between here and there, as well as between now and then.

If the task is to understand the often contingent and unstable ways in which business elites try to manage democracy in the UK, we need to analyse how the composition and organisation of business elites have been changing, and how their economic and political field of action has developed through successive conjunctures (and explain how and why all this has been occluded by mainstream social science). The essay which does this here is organised in four sections. The first explains how social science framings often marginalise elites and explains how we set up the problem rather differently from elite studies. The second section offers a brief pre-history about how economic deindustrialisation and political defenestration in the UK marginalised productionist elites in the 1980s. The third and fourth sections then present readings of elite power in two sectors (finance and railways).

## 1. Framing elites and making them (in)visible

‘The power elite is composed of men ...(who) are in positions to make decisions having major consequences’

(C. Wright Mills, *The Power Elite*, pp.3-4).

It will never be easy to identify elite groups (whose decisions have consequences) because capitalist circumstance and intellectual resources change. Thus, elite studies needs to be intellectually updated so that it is made relevant to the present conjuncture. The challenge now is to incorporate the constructivist insights of sociology about how knowledge formats the world, without losing the old historico-political insight of Mills about the trail of clues from undemocracy to elites at work. If it does not rise to this challenge, elite studies is at risk of becoming methods-bound through a commitment to network analysis which fixes it in a managerial capitalist world of corporate directors and chief executives, without recognising new intermediary groups like fund managers. As our response to this challenge, we criticise established framings and argue for a descriptive turn and a renewed concern with elite effects; this is coherent with Mills’ exploratory strategy.

Sociology is increasingly concerned with performativity and how concepts of power and methods of analysis can format knowledge and thereby make entities like elites appear or disappear. From this point of view, Mills’ writings on elites present an argument against the

pluralism of Dahl and its founding assumption that sovereign power is subject to multiple social checks and balances that constrain the power of every social group. This is relevant because a pluralist view implies that elites cannot be an important object of knowledge for political science. More recently, as Savage and Burrows (2007) have argued, the rise of the sample survey in sociology in the 1960s and 1970s made elite groups disappear because such techniques required larger groups to study; equally, subsequent Foucauldian arguments about capillary power and governmentality distracted from older ideas about the exercise of sovereign power by agents (Savage and Williams 2008, pp.4-10).

But if these developments eclipsed elite studies, they did not abolish them; indeed, they were academically sustained by the parallel development of more sophisticated techniques of social network analysis and allied concepts of nodes and bridges, as well as by the availability of suitable empirical source material on the careers of senior executives and directors in large public corporations. Network methods can always find interconnections between corporations manifest in exchange of high level personnel; they can also show that (despite the general decline of elite club governance) such personnel have elite career formations. Social network techniques can thus make small, untypical, interlocking, high level groups appear and these groups can then be called business elites. What makes members of such groups interesting is, by implication, the extent and character of connections with peers or members of other occupational or functional groups.

But it is altogether more difficult in the next stage of the argument to convince sceptics that such elite groups matter because their existence has consequences for decisions and outcomes. Hence in the 1990s we have the blunt 'so what' rejoinder of Pettigrew (1992) to research on company board linkages and Mizruchi's (1996) question, 'what do interlocks do?'. This was a constructive question because it opened up new lines of research about how, for example, networked companies behave differently in the political sphere (or, vice versa, about how outcomes are framed by networks). We have used this approach to show how the UK FTSE 100 and 250 are networked through the recycling of senior managers as non-executive directors; case evidence was then used to argue that such circulation enforces the shareholder value principle that companies should be auctioned to the highest bidders (Froud *et al.* 2008).

But, if the limits of network knowledge techniques can be worked around, they cannot be completely transcended because interconnections and background can only be mapped where there are suitable databases, as for public corporations where there is data on shareholding owners, senior executives and company directors. Network analysis can find empirical novelty with each new research project, but the novelty is only within a field of known corporate managerial entities.

As we have pointed out (Folkman *et al.* 2007), the rise of finance in the USA and the UK greatly increased the number and role of well-paid intermediaries, like investment bankers,

private equity partners or hedge fund managers who play a major role through operating in a world of deregulated credit creation. They have until recently been more or less completely neglected by elite studies because they do not ‘command bureaucracies’ (Mills 1956, p.286); moreover, intermediary backgrounds and careers cannot be studied with the techniques used for corporate executives because the relevant disclosures and directories simply do not exist. In a subsequent interview-based study of the founders of British private equity, we were intrigued to see that some of these partners chose to make themselves visible as philanthropists or media pundits while others enjoyed anonymity because there were almost no public sources of information about them (Froud *et al.* 2011).

More subtly, the traditional preoccupation with corporate elites rests on the assumption that, by virtue of office, chief executive or directors have some power of command and control over a corporate hierarchy within the boundaries of one giant firm. But this is disputable in the case of many banking firms in the financial sector where the firm is arguably a hollow shell with intermediaries at desks and divisions working for themselves within and across the boundaries of the firm. The Libor scandal revealed that firm boundaries were permeable because rate fixing requests were routinely made by traders outside the firm that was misreporting the rate. In response to questioning by the UK’s Parliamentary Banking Commission, the current chief executive and chairman of Barclays have publicly agreed (Thurso 2013) with CRESC’s description of their firm as ‘a loose federation of money making franchises’ (Bowman *et al.* 2012, p.3). The process of outsourcing in the public sector and in traditional ‘productionist’ firms is likely to have similar effects in blurring the boundaries of giant organisations as they morph into sectoral activity clusters organised around financial flows, contracts and political favours. In such contexts, the actors who are of interest may not be found in particular job roles or be visible outside their organisations.

So, we cannot assume that the business elites who matter are all or mostly within the purview of established techniques of network analysis; or that the boundaries of the giant firm have the same unproblematic significance as they had in earlier conjunctures. In response, our suggestion is that elite studies should take a more descriptive turn away from formalism about networks and towards a more open exploratory strategy which is both descriptive and analytic in that it involves reading elite effects. What does this approach imply?

As demonstrated in the next section, the descriptive starting point for this kind of elite studies would be the changing configuration and structure of (national) economy and polity which creates a field of action that combines a distinctive and changing economic habitat and political ecology. This emphasis on the national field of action does not mean that we would deny the existence of regional or transnational business elites, described by authors like Sklair (2001) or Van der Pijl (1998). But changing national circumstance is the obvious

starting point in Western Europe because there are marked differences between, say, the UK, Germany and France in terms of the national field of action. Two sets of differences are immediately relevant: first, there are important national differences in structural commitment to activities like manufacturing or finance, ownership of strategic economic activities and macroeconomic trajectory; secondly, there are marked national differences in taxation and market regulation partly related to the very variable progress of the 'neo liberal' structural reform project of marketization and flexibilisation in different national domains.

A descriptive turn of this kind will quickly turn up putative new elite groups and differences, like the large number of financial intermediaries in the USA and UK related to the presence of large international financial centres in New York and London. Such groups can then be resourcefully investigated from official sources like tax returns as well as by interview and ethnography. But as the new knowledge accumulates, so the old *so what* question returns: how do we know that financial intermediaries (or a sub-group of such, like private equity partners) are a power elite which makes a difference to decisions and outcomes?

Here we need to balance description with an analytic turn towards analysing elite effects on political agendas and accepted definitions of reality. This would conserve the political thrust of Mills' approach and honour him as a major figure of the 1960s whose exploratory strategy can be reworked in the updating of elite studies for the 2010s. As the opening quote indicates, for Mills, the absence of discussed alternatives or (as we would now say) agenda control, was the structural clue that indicated the presence of a power elite in 1950s America. And we should look for similar clues and agenda control indicators of elite effect in present day capitalism.

At the same time, we should not assume that the clues will disclose a unitary power elite of the Millsian kind, i.e. one dominant national elite of executives at the apex of the key hierarchies which, for Mills, were political, military and industrial. Our understanding of Mills has been coarsened by the reductionist remembering of this one big idea. For better or worse, there is much more to *The Power Elite*: it included, for example, a Weberian insistence that the absence of a neutral bureaucracy underpinned the unchallenged power of the US power elite; as well as an historical argument about the manipulative role of the media in mass society which had made Jeffersonian democracy obsolete. It is also worth remembering that Mills included such diverse arguments because *The Power Elite* is not presenting a generalising theory of elite power but a conjunctural analysis that invokes elite effects so as to explain a specific, historical problem: how the USA was committed to the cold war without democratic consent through the imposition of military definitions of reality.



On this reading of Mills, it is acceptable to bracket his big conclusion about a unitary elite as specific to the 1960s; and also to accept that parts of his argument (for example, about the role of media in mass society) are completely unacceptable to present day social scientists because times change and so does our episteme. But, the durable, reusable aspect of Mills is the exploratory strategy which involves the reading of elite effect clues to produce a political and social analysis of power that is conjunctural and specific. From this point of view, Mills is also both respectfully invoked and rather misunderstood by authors like Wade and Veneroso (1998) or Bhagwati (1998), who transpose and update his 1950s analysis of the 'military industrial complex'. For Wade and Veneroso or Bhagwati, this becomes a 'Wall Street- Treasury complex' with much emphasis on mechanisms like the revolving door in the USA between the corner office in investment banking and executive office in public roles like that of Treasury Secretary.

We do not, of course, deny the importance in the USA of figures like Robert Rubin and Hank Paulson, who both passed through this revolving door. The problem is with crediting these individuals or a small group with a distinctive elite effect that produces different and undemocratic outcomes. As we have argued in *After the Great Complacency* (Engelen *et al.* 2011), all the senior central bankers, regulators, politicians, economic experts and media right across the high income Western world accepted the same rhetoric about the benefits of financial innovation and limited regulation; just as their juniors in finance departments or journalism did not question this doxa. In this conjuncture of near universal complacency, it did not matter who was in charge or how many times the doors revolved. Hence, the British got outcomes and results in terms of unregulated banking irresponsibility which were as bad or worse although they operated with much stronger partitions between elite compartments and a Bank of England largely staffed by life-time employees.

If we are concerned with the classic Millsian power to control agendas and impose definitions of reality, it may now be much more revealing to consider elite effects at a sectoral level within one country, especially in the changing conjuncture since 2000. The 'neo liberal' project can be understood (and criticised) as a generic project which introduces the same structural reforms of privatisation, marketization and flexibilisation, regardless of time and place. But, except when national crisis empowers broad front change, the modus operandi of structural reform is usually more like house-breaking, in that it targets one sector in one country at a time. And whatever the sequence and scale of structural reform, the result is not a once and for all transformation because the legacy of reform is a set of privatised, outsourced and flexibilised activities that need business-friendly and usually sector-specific rules. Furthermore, if we consider a sector like banking and finance after 2008, this result is in no way guaranteed because, in this case, the sector has to resist demands for radical reform after suffering massive reputational damage and public hostility after it socialised its losses.

While the key Millisan structural clue to be found within sectors such as banking is the absence of genuine debate of alternatives for radical reform, the effective exercise of elite power depends upon appearances being quite the opposite. Pressure for genuine reform is stymied only when there is a simulacrum of debate about alternatives. Just as the daily rounds of cross party bickering creates an impression of genuine democratic choice while frontbench mindsets remains jammed in the post-political centre-ground, so on a sectoral level various forms of political theatre enable a partially convincing performance of alternatives that confuses reformist impulses.

This simulacrum takes three forms. Firstly, there is the performance of fierce intra-elite rivalry, in which companies vie against one another for dominance of consumer markets and victory in competitive tendering processes. These contests generate an easy flow of colourful stories for business journalists and bolster narratives around private sector meritocracies and the successes of structural reforms in empowering consumers. However, when sectors remain structurally unchanged, with limited net growth and a relatively homogenous product to deliver, this remains in essence a faux-pluralism: alternatives to an unsatisfying state of affairs are always lying close at hand in the form of companies deemed more or less innovative, trustworthy, or customer-focused, and problems within a sector are instantly resolvable by shaming and punishing the bad and rewarding the virtuous (positions which can in time be swapped).

Thus in the recent horsemeat scandal which hit supermarket retail in the UK, fundamental structural problems with complex and adversarial food supply chains (see Bowman et al, 2012a) are submerged under a flow of stories about individual supermarket chains and specific products. Supermarkets can devote more energy to differentiation via ethics policy statements, and consumers can buy their groceries somewhere else, but business models and structural conditions remain outside the scope of alternatives. Likewise, accumulating scandals around poor delivery on the part of companies awarded major government outsourcing contracts led to the creation of an informal blacklist of a few ‘high risk’ companies to be excluded from future tendering exercises (*Financial Times*, 2012a). It did not however provide grounds for debate about alternatives to outsourcing, where competitive tendering processes necessitate bidding companies inflating the limits of what they can deliver.

A second form of the simulacrum is the theatre of ‘strict regulation’ and political censure, in which misbehaving companies and dysfunctional sectors receive verbal dressing-downs from politicians and slaps on the wrist from regulators as a substitute for reform. These create the impression of something being done, but without intrusions into the core problems where easy solutions do not present themselves. In recent scandals around tax evasion, for example, angry denouncement from frontbench politicians and the Public Accounts Committee have become a substitute for reform for parties wary of alienating he

business community. Domestic energy supply and telecoms, for example, are mature, sheltered markets cleaved out of former state monopolies, in which winning market share becomes a zero-sum game played with confusion marketing: accusations of ‘bad value for money’ – for instance at gas companies which have continued to raise bills in contrast to falling wholesale energy prices, healthy profit margins and directors pay packages – or misbehaviour such as mis-selling, lead to regulators such producing strong words and weak fines, with the promise of minor reforms such as price simplification in tow. This is because in the case of most sectors in the foundational economy, regulators are independent of direct democratic control and based around constitutions which limit them to reinforcing marketisation.

Finally, the simulacrum works to preclude debate of genuine alternatives via the individualisation of economic problems: in times of crisis, visible elites are isolated and punished, with the removal of senior executives taken as a proxy for company or sectoral transformation. Individualisation also stymies the debate of alternatives in a more subtle way by placing the analysis of sectoral problems onto the level of morality rather than political or economic tangibles, so that vague promises of ‘cultural change’ in organisations can absorb anger and stall more meaningful reforms.

The argument so far has been general and analytic. The purpose of the succeeding sections is to use illustrations to show how this alternative intellectual strategy can, in practice, be realised. The next section provides a historical description of the economic and political undermining of productionist business elites in the UK in the 1980s as part of a longer term rebalancing towards new sectors. The two subsequent sections read elite effects in two sectors, UK finance and privatised rail, by demonstrating the capacity of elites to control the reform agenda.

## **2. History: UK de-industrialisation and the 1980s defenestration of productionist elites**

‘History is the shank of social study’

(Mills, *The Sociological Imagination*, 143.)

If Wright Mills was correct about the need for history, the question is what kind of history would help our understanding of British business elites? In line with our previous argument, this section presents a history of the changing economic and political space available to British business elites. It focuses on the undermining of productionist elites based in tradable goods through parallel processes of economic deindustrialisation and political defenestration in the 1980s; it also highlights the longer term rebalancing towards deregulated finance and foundational service sectors franchised by privatisation and

outsourcing. The object of description here is what we might call the economic habitat of business elites and the political ecology of their relation to other groups.

The Oxford English Dictionary defines habitat, in its natural history usage, as the kind of physical locality in which a plant or animal lives ‘as the sea shore, rocky cliffs, chalk hills or the like’, on the basis that different environments create different sets of ecological possibilities. The analogy with business has fairly obvious limits. The business habitat is not a given (like rich and fertile soil) but something which business can and will seek to modify through political action. Furthermore, firms are heterogeneous, from small workshops to large multi-nationals so that business occupies a multi-scalar space. But, if we are (in the Millsian way) searching for business elites with agenda setting capacity in a specific historic context, our starting point has to be the changing sectoral activity space available to different sections of national business elites and the political disposition of forces around organised business elites with specific activity bases.

The process of deindustrialisation in the UK is usually understood through the macro indicators as one of relative decline: manufacturing’s share of GDP has been more or less halved towards 11% because there has been no sustained increase in the real value of output since the 1970s. As labour productivity was increasing, the outcome was disastrous for the workforce with numbers employed declining from around 7 million to just over 2.25 million by the late 2000s. As shareholder value was in the ascendant, the outcome was just as disastrous for large British manufacturing firms, especially the giant conglomerates which economically and politically led the tradable goods sector in the 1970s and the 1980s. And a new activity space opened by the 2000s for supermarkets, banks and outsourcers in what we call ‘the foundational economy’ which was all sheltered and levered on the state.

The dramatic start to finish changes in elite habitat are tracked in Tables 1 and 2, based on original company report and accounts. These tables track the changing composition of the FTSE 100, the index of the 100 quoted companies with the largest market capitalization on the London Stock Exchange. In Tables 1 and 2, we make the comparison between 1984 and 2007; the first date is the year when the FTSE index was first calculated just after the first Thatcher recession and the second date comes right at the end of the long boom which ended in the financial crash. At the beginning of our period, the FTSE 100 was effectively a national index of large British firms and manufacturing was the dominant sector. By 2007, the position is more complicated because in a globalised world the FTSE 100 index includes international mining firms and brewing giants.

**Table 1: Large FTSE 100 manufacturing firms with more than 30,000 employees in 1984<sup>2</sup>**

Firm	Turnover (£mill)	Total Employment	UK Employment
Assoc. British Foods	2,700	81,800	68,300
Allied Lyons	2,900	71,400	35,200
Brit. Am. Tobacco	10,100	212,800	50,800
BET	1,900	49,500	25,100
BOC	2,100	38,700	9,100
BAE	2,500	76,000	68,000
Cadbury	2,000	33,800	18,500
GEC	4,800	170,900	131,800
GKN	2,100	54,900	33,500
Hanson	1,600	67,000	30,000
Hawker Siddeley	1,500	41,500	27,300
ICI	9,900	115,600	58,600
Imperial Group	4,600	92,600	60,000
Pilkington	1,200	44,000	16,700
Racal	800	31,900	19,100
Rowntree	1,200	32,000	17,200
United Biscuits	1,700	41,100	29,800
Whitbread	1,200	39,700	39,700
BTR	3,500	60,300	Undisclosed
Courtaulds	2,000	70,000	Undisclosed
Plessey	1,300	38,900	Undisclosed
Unilever	5,900	140,000	Undisclosed
Thorn EMI	2,800	89,100	Undisclosed

Source: Company annual report and accounts

**Table 2: Large FTSE 100 manufacturing firms with more than 30,000 employees in 2007**

Firm	Turnover £mill	Total employment	UK employment
Assoc. British Foods	6,800	84,600	29,100
AstraZeneca	7,400	67,400	11,800
British Am. Tobacco	10,000	98,000	Undisclosed
BAE	14,300	88,000	34,000
Cadbury	8,000	71,700	14,000
GSK	22,700	103,000	Undisclosed

Source: Company annual report and accounts

<sup>2</sup> The data relates to financial year. In some instances when the 1984 report and accounts are unavailable, the next available year is used.

The first Thatcher recession of 1981-3 had permanently reduced manufacturing output and capacity by some 20%, but the FTSE 100 of 1984 still included 39 large British manufacturing firms which accounted for nearly 40% of all the sales and profits of all FTSE 100 companies. All 39 firms disclosed total employment and 25 of these manufacturing firms employed more than 30,000 in total which made them giants by British or European standards. The subtotal of UK employment is more difficult to calculate but some 17 of the 39 firms employed more than 15,000 in the UK in 1984, if we add together the 12 firms which disclosed UK employment plus 5 others which we know had extensive British operations. The implication is that in 1984, the FTSE 100 was dominated by large firms which had the economic presence through scale and technology to anchor domestic supply chains; just as these large firms had the political clout to represent the interest of the tradable goods sector as central to national welfare.

By 2007, the position is very different. Even if we include the brewer SAB Miller, there are no more than 15 large manufacturing firms in the FTSE 100 and these 15 firms by 2007 account for less than 10% of all FTSE sales; they are now very narrowly based in a few related sectors with 12 of the 15 firms operating in what might be called the 'oral consumable' sectors of food, drink, tobacco, pharma and hygiene. If the FTSE 100 of 2007 does include 15 large manufacturing firms, only eight of these employ more than 30,000 in total worldwide and no more than three manufacturing firms (Associated British Foods, British Aerospace and Rolls Royce) disclose that they employed more than 15,000 in the UK, with two others having extensive British operations. Two of these firms are exceptions which owe their survival to government treatment of defence contracting and aero engines as special case sectors where strategic national interests require a national champion.

The British textiles, engineering and chemical conglomerates like Courtaulds, GEC and ICI were all closed down and broken up in the 1990s; while car assembly is now a patchwork of branch assembly plants largely adjunct to foreign owners so that the British car components sector has no firm like Lucas, which was once capable of supplying major systems and sub assemblies. This sectoral shift against indigenous manufacturing was much sharper in the UK than in Germany where manufacturing remains the leading sector, or in France which struggles against German competition. Both these countries, for example, still sustain engineering conglomerates like Siemens or Alstom, car assemblers like BMW or Renault or car component suppliers like Bosch and ZF or Michelin and Valeo. These companies still operate like their British predecessors of the 1970s and 1980s because they sell tradable goods into internationally competitive markets (with variable success) from a national base which is the centre of their mechanical or electrical engineering expertise and anchors a chain.

What replaced atrophied UK manufacturing? The two major developments were the brilliant success of the finance sector before the long boom turned into the present crisis and the ever growing importance of what we call the 'foundational economy' which meets

every day needs through retail chains including high street banks and supermarkets, privatised utilities and outsourcing. The two developments were overlapping because the City of London was an international wholesale financial centre and base for mainly foreign firms in an era of unregulated credit creation inaugurated by big bang after 1986; but it fed off mass marketing of mortgages and pensions by high street banks. The foundational sectors had a common logic. With or without overseas operations, these firms all relied on oligopolistic positions in a sheltered UK market which gives them a lien on British household income subject to domestic competition.

**Table 3: Large FTSE 100 foundational economy firms in 2012 with more than 15,000 employees in the UK**

Firm	Total Employees	UK Employees
<b><u>Banking:</u></b>		
Barclays	139,200	55,300
HSBC	270,000	48,000
Lloyds group	92,800	89,800
RBS	119,200	71,200
<b><u>Retail and supermarkets:</u></b>		
Kingfisher	666,900	23,500
Marks and Spencer	81,200	74,800
ABF	106,200	37,500
<b><u>Supermarkets:</u></b>		
Morrisons	94,100	94,100
Sainsbury's	101,900	101,900
Tesco	406,400	205,900
<b><u>Utilities:</u></b>		
BT	89,000	73,800
Centrica	38,600	30,600
SSE	19,500	18,871
<b><u>Outsourcing groups:</u></b>		
Capita	47,600	41,700
Compass group	508,700	50,000
Serco	96,100	28,500

Source: Company annual report and accounts

At the same time the pattern of growth was different because the finance sector (wholesale and retail together increased their share of national gross value added (GVA) from 6.6% in 1992 to 8.0% in 2007. But the numbers employed in the finance sector did not exceed one million, of which no more than 300,000 were employed in and around wholesale finance; and, partly for this reason the huge growth of finance created only one FTSE 100 bank,

Barclays, which had a substantial wholesale workforce. But privatisation, outsourcing and the advance of the supermarkets created many new giant firms, partly because the big corporates could grow through the transfer of state activity and the cannibalising of small scale retailing. The UK still has giant firms with large British operations as well as UK headquarters but they are now concentrated in these sectors, as Table 3 shows. In 2012, the FTSE 100 included 16 firms like Lloyds Bank, Marks and Spencer, Capita, Tesco and BT employing more than 15,000 in the UK and some 13 of these firms employed more than 30,000 in the UK.

This kind of double activity shift in the UK towards finance and the foundational intensified the dependence of corporate business on national politics. Business is a franchise to take turnover and make profit which often needs political sponsorship, and this is true whether it be manufacturing, big box retail or private equity. Hence the importance in all high income societies of detailed national regulations about corporate tax rates, investment allowances, urban planning and such like. The progress of structural reform like privatisation and outsourcing diminishes the directly state-controlled sector but increases the importance of political decisions because it creates formal franchises in regulated privatised utilities and an outsourced, para-state sector of private firms, such as the nurseries and care homes that depend on state funding. National politicians typically initiate structural reform and afterwards manage public opinion for or against business, which is most easily mobilised around national issues. This is especially so in the centralised UK with limits on federal devolution downwards and much hostility towards supra-national power.

If sectoral activity shift had political implications, everything was accelerated because the slow economic process of deindustrialisation in Britain over two decades since the 1980s has its political corollary in the speedy defenestration of productionist business elites under Thatcher, which took place in a couple of years from the early 1980s. Thatcher, who is mainly remembered for fighting union leaders, was equally resolute in marginalising what she regarded as failed corporatist business leaders. That defenestration is the background to the famous (or notorious) threat in 1981 by Terry Beckett, who had moved from Ford to become Director General of the CBI, that the Confederation would have a 'bare knuckle' fight with a government which was pursuing policies so damaging to the manufacturing sector (Grant 1993).

In Britain in the decade before 1979, (productionist) national business elites did not so much set the agenda as continuously partner successive national governments, in the effort to solve a series of acute problems: the UK's lack of competitive success in European manufacturing; internal issues about labour strife and industrial relations; and an unresolved relation with the Common Market. Thus Donald Stokes and Arnold Weinstock were government-favoured private sector managers in the state-sponsored private merger phase of the 1960s, which put them in charge of sectoral behemoths like British Leyland (BL) and General Electric Company (GEC). Equally, Paul Chambers from ICI and Terry Beckett



from Ford led organised big business in the 1970s and early 1980s when the Confederation of British Industry (CBI) was a 'a governing institution' (to use Middlemas' 1979 phrase) in Britain's primitive corporatist phase. The work of such elites involved continuous interaction with the political classes and organised labour on prices and incomes policy as well as more generally articulating the needs of big business. The CBI, for example, led a significant pro-Europe big business campaign in the 1975 referendum.

Then in a remarkable shift, nationally-based productionist elites who had a leading role in the 1970s were defenestrated in a few years in the first half of the 1980s as the British government moved quite explicitly to rebalance the economy towards services and finance, and symbolically embraced Japanese branch factories in manufacturing.

Manufacturing was permanently diminished by the monetarist experiment which induced the 1981-3 recession before the windfall gain of North Sea oil eased the balance of payments constraint so that poor export performance no longer produced recurrent payments crisis. Meanwhile, the government's turn against quasi-corporatism left giant manufacturing firms with nothing to negotiate and nobody to talk to. The rear guard action of British manufacturers in the 1985 Aldington House of Lords Select Committee Report predicted a terminal trade crisis; but this was discounted by a government which wanted 'to encourage enterprise to get the whole economy to perform better' (Lord Young, House of Lords, 3 December 1985). The government was at this point well advanced in negotiations with Nissan, which led to the 1986 opening of the Sunderland plant as part of a policy that put UK car manufacturing under new management and foreign ownership. At the same time, the government was sponsoring a new order private sector built on sheltered services, shareholder value and deregulated credit: the first two major privatisations were British Telecom (BT) in 1984 and British Gas in 1986; this was also the year of the 'Big Bang' that deregulated financial services.

This historical retrospective on the 1980s raises two questions. First, do the new sectoral spaces of finance, privatised utilities and the para state sustain agenda setting business elites? Second, is the power of the new business elites more robust than that of their productionist predecessors? That is an open question because the defenestration of the 1980s demonstrates that established elite power can be fragile in adverse circumstances. In line with our earlier argument, we will consider elite power at sectoral level in two of the most interesting areas that grew out of post-1980s political change. First, the next section considers deregulated UK finance which was through the City of London both the most successful new sector in generating profits for itself and then uniquely destructive in dumping liabilities onto the taxpayer. And second, the fourth section considers railways, which is interestingly quasi-paradigmatic of the para-state because rail was privatised but remained heavily dependent on state subsidy.

### 3. The power of finance (before and after 2008)

‘These men have replaced mind with platitude and the dogmas by which they are legitimated are so widely accepted that no counter balance of mind prevails against them’

(Mills, *The Power Elite*, p.356).

Mills recognised the importance of elite endorsed narrative in generating closure and blocking out alternative frames and agendas. Trade narratives about the social benefits of private activity acquired a new importance in post-1980s Britain after the renunciation of any kind of corporatist representation of employers and organised labour. In finance and other new sectors like pharmaceuticals or privatised utilities, trade associations developed local narratives about sector specific national contribution in the form of jobs created, tax revenue, trade balance and products that met social needs (with each sectoral story highlighting two or three of these elements as relevant). The sectoral narrative of national contribution then provides legitimating cover for trade association lobbying in Whitehall and Westminster. As we argue below, this is an important part of how finance controlled the regulatory agenda and secured a permissive light touch regulatory regime before 2008. It is also how finance has constrained the reform agenda since 2008 by (so far) successfully resisting wholesale structural reform to banking and finance. This latter point about limited and constrained reform, despite sustained public hostility to finance, is important in itself and because it is, in a Millsian frame, a very strong indicator of entrenched elite power.

The first precondition of financial power was the development of powerful and sophisticated lobbying networks that linked London finance with the apex of the core executive, especially in the Treasury. In the 1990s, the transformation of the social character of the City of London after the Big Bang (the increasing domination of markets by foreign firms, the integration of the City into global markets, the rise of the European Union (EU) as a significant regulatory actor and the wider spread of organised business lobbying) all combined to promote organised lobbying. The change in the character of the British Bankers’ Association (BBA) is emblematic: it was rescued from a moribund condition in the 1980s to lobby for the banking industry in the EU; after 1997, under the leadership of Angela Knight, previously a Treasury Minister in the Conservative (Major) governments it was turned into a formidable voice defending the regulatory exceptionalism enjoyed by the City. By the new millennium an even more impressive City lobbyist had been reorganised: the City of London Corporation, historically a manager of City charities and City ceremonials, developed a significant intelligence and advocacy capacity.

An active system of professional lobbying worked partly through narrative which dignified self-interest in a way that was both platitudinous and never more than half true because the success of London finance was attributed to light touch regulation, while its contribution to

the national economy through taxes paid was exaggerated, for example, by focusing on corporation tax not total taxes paid (Engelen *et al.* 2011, pp.146-50). Two linked narratives predominated: they recurred repeatedly in speeches on quasi ceremonial occasions like the Lord Mayor's banquet, and were more systematically propagated in City commissioned reports. One narrative celebrated the deregulated, finance led economy inaugurated by the Thatcher reforms as a new model of successful Anglo-Saxon capitalism which more regulated European economies would do well to emulate. The second celebrated the intelligence of lightly regulated financial markets in developing mechanisms and instruments for the management of risk. The platitudes carried conviction in the minds of market operators, regulators like central bankers, and elected politicians: hence the long litany of affirmations of the genius of City markets in the years leading up to the great crash of 2007-8 (Engelen *et al.* 2011).

Trade lobbying plus narrative defence was backed up by the City's embrace of Murdochism. From the early 1990s, the City had no fixed attachment to the Conservatives as a centre right party of business. Instead, like newspaper proprietor Rupert Murdoch, the City switches political donations and ostentatious public support between centre left and right according to which party was most likely to win the next election and would afterwards gratefully remember its funders in a world where both major parties compete to represent themselves as business friendly. New Labour won City support through the 'prawn cocktail offensive' in the early 1990s, and retained it through Blair's three electoral victories until, under the Brown premiership, City money switched to the Conservatives. In 2005, when David Cameron became leader of the Conservative Party, the financial services industries were the source of just under a quarter of total cash donations to the party; by 2010 the figure had risen to just over 50% (Bureau of Investigative Journalism 2011; Watt and Treanor 2011). In 2010, 57 individuals from the financial services sector made donations of £50k and became a member of the 'Leader's Group', with an entitlement to meet 'David Cameron and other senior figures from the Conservative Party at dinners, post-PMQ lunches, drinks receptions, election result events and important campaign launches' (Conservative Party 2011).

Organised lobbying plus a narrative defence backed by financial contributions were enough to completely neutralise the threat of closer regulation before 2008. In 1997 the passage of the Financial Services Act, and the creation of a single Financial Services Authority, seemed to signal that finance too was now being subjected to growing controls. The reality, as has now been widely documented, was very different. The creation of the new Authority began a period of celebrated 'light touch' regulation designed to maximise the freedom of markets to run their own affairs. Legitimation of this state of affairs by central bankers and by regulators involved familiar tropes borrowed from City PR narratives (Froud *et al.* 2012). Accounts stressed the capacity of markets to anticipate and package risk and celebrated the success of light touch regulation in London in ensuring the City's continued international dominance, especially over more restrictively regulated centres elsewhere in the EU.

As we have documented elsewhere, after the catastrophic crisis of 2007-8, the financial elite faced moments of great danger, as popular anger mounted at the growing evidence of widespread incompetence, recklessness and greed which had not been purged from the system (Engelen *et al.* 2011). Finance, after socialising its post-2008 losses at great cost to the taxpayer, is much more blameworthy than (merely) uncompetitive British manufacturing was in the 1980s. Yet, since 2008, financial elites have been able to avoid the defenestration inflicted on their productionist predecessors after 1983.

The British Social Attitudes survey periodically asks questions about public confidence in key business institutions. In 1983 it asked its sample of the population whether banks in Britain were well run. 90% agreed that they were: the confidence expressed was higher than for any other institution surveyed. By 2009, when a similar question was asked, the figure had dropped to 19%. In reporting these figures, Curtice and Park remark that: 'This is probably the biggest change in public attitudes ever recorded by the *British Social Attitudes series*' (2011, p.141). This collapse followed a series of disastrous appearances in public venues by leading bankers. In March 2009, for instance, there was the televised arraignment of several former heads of the stricken banks before the House of Commons Treasury Select Committee, which was accompanied by headlines in the tabloid press such as 'Scumbag millionaires', in *The Sun* on 11 February 2009. Subsequent appearances have been just as damaging to the reputation of the industry. The hostility after Bob Diamond disastrously gave evidence to the Treasury Select Committee in July 2012 about the Libor scandal (Watt and Treanor 2012) precipitated a full scale crisis of morale in the bank.

Yet in the UK case it proved strikingly easy for the financial elite to control the terms of the debate about reform, and to control the management of the stricken institutions. The Labour Government (in office until 2010) produced proposals for only the most marginal of reforms; through the Bischoff Report, New Labour continued to endorse the City narrative about the social benefits of finance for tax revenue, employment and trade (Froud *et al.* 2012). There was a new rhetoric from all three main parties about the need to rebalance the economy but this was always to be done by growing manufacturing faster not shrinking banking and finance, even though the banks had assets and public liabilities equal to five times GDP. The successor coalition, in office from May 2010, set up a banking commission which was designed to shunt difficult issues about ownership and banking practices away from front line politics. The Commission did not make radical proposals for structural reform by breaking up the big banks or disrupting oligopolistic competition on the high street by using state-owned RBS and Lloyds-HBOS for purposes other than shareholder value creation. Instead, the central national proposal for reform was for ring fencing retail from wholesale activities in a way that was bank-friendly (Independent Commission on Banking 2011). Significantly this reform was endorsed by all three main political parties though much expert opinion was not convinced.

Popular hostility in the UK to banks and bankers made no difference to this outcome which was negotiated between banking elites and politicians or civil servants who did not represent 'counterbalance of mind' to finance.

A key reason for the absence of genuine alternatives in this reform process has been not only the inter-connections between banking and political elites, but also the successful simulacrum of alternatives which has operated in this instance through the isolation and punishment of individuals. Throughout the crisis problems in the major banks have been laid at the feet of those in leadership positions, whose exit from the organisation or sector, or public shaming by regulator, provides the grounds for heralding cultural transformation which allows past mistakes to be laid to rest. This has involved, most notably, stripping the knighthoods from former Royal Bank of Scotland chief executive Fred Goodwin and former HBOS chief executive James Crosby after extended periods of criticism from the press and parliament. Former Barclays chief executive Bob Diamond resigned following the libel scandal in the face of public opprobrium and apparent behind the scenes encouragement from key regulators. On a lower level, large-scale institutional failures have been pinned on lower-ranking individuals who receive more meaningful punishments via the courts, notably UBS's rogue traders Kwaku Adoboli and Thomas Hayes.

Scapegoating and the cult of leadership are of course nothing new, but in the case of banking the issue has been more complex as the anthropomorphisation of the sectors problems moved the debate about reform away from business models and toward individual morality. As earlier CRESC papers observed, this meant that in the wake of the Libor scandal 'banking culture' – taken in the ideational sense of motives and values rather than as arising from material conditions – become the object of reform for elites rather than banking business models (Bowman et al, 2012). The result is that the final report of the parliamentary final report of the Parliamentary Commission for Banking Standards, 'Changing banking for good', is centred around means by which the regulator can intervene on individual motives and values. The problem, the report says, is that "Too many bankers, especially at the most senior levels, have operated in an environment with insufficient personal responsibility ... they then faced little realistic prospect of financial penalties or more serious sanctions commensurate with the severity of the failures with which they were associated" (Parliamentary Commission on Banking Standards, 2013). Naturally, the only major structural fix is, as in every sector, to encourage greater competition and choice to create better functioning markets.

"Making individual responsibility in banking a reality" by deferring bonuses, threatening jail terms and drawing up new codes of conduct does little to address underlying causes of the banking crisis or resolve remaining problems, but fits perfectly in the simulacrum in whereby the appearance of change is maintained in areas which causes little fundamental disruption.

And this compromise of limited reform plus the simulacrum which protects banking is evidence of a powerful semi-visible elite in and around finance. This elite is clearly visible in the statistics on income inequality assembled by authors like Atkinson (2005) or Piketty and Saez (2003) who highlight the emergence of a new stratum of 'working rich' with high incomes, and whose leading representatives in the UK and USA are those who work in and around investment banking in London and New York. The City of London is a machine for manufacturing millionaires (not least because of the 'comp ratio' system in investment banking and fat fees in fund management) (Folkman *et al.* 2007); the BBA and other more specialist trade groups like the British Private Equity and Venture Capital Association (BVCA) use narrative to make their special pleading look socially respectable; and political contributions close the circle so that it is very difficult for front bench politicians to be unsympathetic.

If it is hard to deny the elite power in finance, many would nevertheless suppose it is a sectoral exception. This was a sector unlike any other because deregulated finance had a huge economic throw weight in the UK and its influence was unusually concentrated in one centre adjacent to political power. Furthermore, much discussion of finance and the real economy assumes that the productive economy has a different logic. It is therefore, significant to find agenda control through similar means in other sectors which suggests elite presence.

#### **4. Another sector: UK railways in the 2010s**

'The elite cannot be truly thought of as men who are merely doing their duty. They are the ones who determine their duty, as well as the duties of those beneath them' (Mills, *Power Elite*, p.356).

This kind of agenda control is not confined to finance. In the UK, if we consider the privatised utilities and the para state of privately-owned, publicly-funded activities (such as in health and social care), sectoral business elites also define the duty of politicians, civil servants and regulators. These business activities create widespread public suspicion and hostility yet sectoral elites are able to control reform agendas and do so in very similar ways by producing trade narratives. Specifically, these narratives distract from complex and questionable funding and organisational arrangements so that official public discourse about the operation of the sector is about how best to give private interests what they want. The section below describes the rail sector which is untypical only in terms of the scale of the serial shambles and its cost in terms of huge accumulating public liabilities.

The dominant private players in rail are the train operating companies (TOCs) which have successfully bid for regional franchises to operate the trains; they lease trains from (for-profit) rolling stock operating companies (ROSCOs) and pay track access charges to (not-for-

dividend) Network Rail which manages and invests in the track infrastructure. Over a decade or more, the result has been increasing dysfunction which has been well-documented by industry commentators like Christian Wolmar (2005) and by independent academics like Sean McCartney and John Stittle (2011, 2012) or Jean Shaoul (2004, 2006), as well as in our own *Great Train Robbery* Report (Bowman *et al.* 2013). Privatised rail remains a public problem because passenger revenues have never covered operating costs, leave alone generated a surplus for investment; the rail system therefore requires ongoing public subsidy. The scandal is that subsidy is offered without control of predatory private interests or regard for public consequences for the taxpayer.

The manifest failure to control the high profits made by the ROSCOs from train leasing indicates much larger problems centred on the role of Network Rail. This company has funded infrastructural investment by issuing £30 billion of private debt guaranteed by the tax payer. The Network Rail debt cannot be repaid out of revenue because track access charges have been lowered in a way that artificially boosts the profits of the train operating companies; these are typically special purpose vehicles whose standard practice is to distribute what they earn as profits to corporate parents like Virgin or Stagecoach. As argued in Bowman *et al.* (2013), a train franchise represents a low investment, low risk option on profits, with an option to walk away with modest penalties if disappointing passenger numbers lead to expected losses. Successive transport ministers and Department for Transport (DfT) civil servants have failed to control the gaming of this system by franchise bidders who succeed by over-bidding with back-loaded premium payments to the state. Low premium payments in the early years allow profit taking with the option to walk away with minimal penalties and avoid high premium payments in the later years of the franchise.

The Association of Train Operating Companies (ATOC) tells a rather different story and makes very dubious claims about public benefits as it ‘brings together all train companies to preserve and enhance the benefit for passengers’ (ATOC n.d.). Thus, ATOC asserts that ‘privatisation has been accompanied by an injection of over £30bn in private sector investment, steady improvements in safety, and renewal of rolling stock, so that the fleet is now the youngest in Europe’ (ATOC 2009). Bowman *et al.* (2013, p.75) show that private investment by the TOCs in stations, track and signalling is much less than dividends they have paid out<sup>3</sup> and the average of rolling stock is now higher than in the last years of British Rail. In ATOC’s narrative, the TOCs claim credit for increased passenger numbers but this claim is doubtful. The secular rise in passenger numbers began ten years before privatisation, is recently concentrated in the South East (Bowman *et al.* 2013, p.112) and is driven by GDP growth. The TOCs effectively admitted this point when they lobbied to build

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<sup>3</sup> For instance, in 2011 the TOCs collectively invested £29m in stations, track and signalling and paid out £165m in dividends.

GDP risk into franchise contracts. The same contradiction between narrative claim and lobbying objective recurs in ATOC's role as 'major player' in improving punctuality.

As in finance, the half truths of the trade narrative about post-privatisation performance (and the demonising of British Rail) provide the frame through which policy makers deal kindly with the dominant sectoral players. The train operators have been able to control the reform agenda so that it becomes one of making the franchising system work better, rather than exploring alternatives as part of a wider review of the rail system. ATOC's claims and assumptions have been routinely copied out into official reports into the rail industry, such as the 2011 *Rail Value for Money Study*, chaired by Roy McNulty, (DfT 2011). The McNulty report's declared aim was to avoid structural change: 'as far as possible, to adapt existing structures rather than to sweep them away, and to focus the efforts of all concerned primarily on the areas where efficiency can be improved rather than on total reorganisation' (DfT 2011, p.46). The result was recommendations for improvement through longer franchises and new ways of risk sharing.

This consensus was not upset by the fiasco around the award of the West Coast Main Line (WCML) contract in 2012 when an initial award had to be withdrawn because of errors made by the department in the franchising process. Two reviews were commissioned by the DfT in response to the crisis: the Laidlaw report considered the mistakes of DfT civil servants in handling the WCML franchise (DfT 2012a, p.18); while the Brown review's remit was to 'consider the implications for the remainder of the rail franchising programme of the position reached on the InterCity West Coast competition' (DfT 2012b). The letter from the Secretary of State to Richard Brown suggested the objective as 'how to get the other franchise competitions back on track as soon as possible' (DfT 2012b). Brown recommended reforms which would strengthen the TOCs: 'I share the Government's view... that the rail industry works, and that there is no credible case for major structural change... It is very important that the franchising programme is restarted as soon as possible' (DfT 2013). This is entirely consistent with the view of the chief executive of one of the TOCs, First Group, who opined 'the franchise system is not broken or needs no major overhaul' (*Financial Times* 2012).

Here again the simulacrum of alternatives proved effective in confusing the issue. Virtuous Virgin Rail were able to claim responsibility for the transformation of the WCML, having received £2.5bn in direct state subsidy and a £10bn taxpayer-funded track upgrade, and present themselves as victims of duplicity on the part of First Group and incompetence on the part of the DfT: petitions demanding that Virgin keep the franchises succeeded in gathering over 150,000 signatures (Virgin Trains, 2012). The reward for Richard Branson's dubious claims that the success of the Virgin Trains franchise was down to management acumen (Virgin Trains, 2012a) was support among the public and, following the failure to find a swift solution to the re-tendering process, a risk-free management contract running up to 2017.



The WCML as a franchise was a high-value, high prestige operation which achieved high levels of customer satisfaction. Although a combination of state subsidy and the option to walk away means that no franchise represents any form of financial risk to prospective operators, lines which have been less fortunate in terms of state investment suffer from lower levels of passenger support. The beauty of rail franchising though, as with many other forms of state outsourcing, is that failure on the part of one provider leads not to pressure for reforms but for hope that another provider can do a better job next time around, endowing the system with a sort of perpetual motion driven by new logos and more outlandish promises. In the case of the East Coast Mainline, the financial failure of two franchises in quick succession between 2007 and 2009 led to the state taking over the service through its hastily assembled company, Directly Operated Rail (McCartney and Stittle, 2011). Despite better than adequate performance by DOR, the DfT has pledged to return the ECML to a private franchise holder as soon as possible, promising that customer choice will play a greater role in the selection of winning companies in future.

The TOCs' unchallenged control of the reform agenda is quite remarkably maintained despite sustained popular hostility to the UK's privatised rail system whose public face is the Train Operating Companies. The TOCs can point to the official Passenger Focus survey evidence under 31 heads which shows passengers are generally satisfied with quality of service (though not with fares which are generally higher than in Europe). But this frames the problem very narrowly as a consumer issue and in doing so diverts attention from other important citizen issues about private ownership. The public cannot understand the obscure flow of public subsidy around the rail sector but it is suspicious and dissatisfied with private ownership. Indeed, opinion polls point to a high level of public support for renationalisation: 51 per cent support in a 2009 *Politics Home* survey (with a further 18 per cent favouring greater state involvement short of renationalisation) (Politics Home 2012); two thirds of respondents in an October 2012 poll carried out by Vision Critical for the *Daily Express* (2012); and 70 per cent of respondents in a GfK NOP poll carried out for Rail Media in September 2012 (*Rail* 2012). Opinion poll evidence should be treated with caution but the succession of polls shows a dissatisfied citizenry whose preference for nationalisation indicates a consistent public demand for an integrated not-for-profit public railway and an alternative future, but which has had no influence whatsoever on policy makers.

The success of the TOCs in controlling the rail agenda raises the question of who the elites are and how they are organised. In finance, the elite beneficiaries and agenda fixers are either the same individuals or the fixers are a representative subset of the much larger group of beneficiaries in investment banking and fund management. In railways, the beneficiaries and fixers are quite distinct groups. The major beneficiaries in privatised transport are those who had major ownership stakes in new opportunities, a group which would include not only Richard Branson but also humbler, provincial figures like Brian Souter of Stagecoach or Moir Lockhead, formerly of Grampian Regional Transport and then of First Group. The work of fixing and agenda alignment is done by well-paid managers who

have built their careers at the interface of the public and the newly private rail sector. From this point of view, it is interesting to consider the careers of Sam Laidlaw and Richard Brown who were brought in to conduct 'independent' reviews after the West Coast franchise debacle to ensure both legitimacy and narrow debate.

Sam Laidlaw is a well-connected senior utility manager who is Whitehall house-trained as an insider who understands the politics of privatised, regulated industry and the need to keep things going. Currently Laidlaw is CEO of Centrica, the FTSE 100 company formed by the 1997 demerger of the privatised British Gas plc and he was already in place as the lead non-executive director on the board of the DfT at the time of the WCML fiasco. Richard Brown is the complete rail industry insider who is currently Chair (and formerly CEO) of Eurostar. He started in the industry with British Rail before privatisation where he progressed to divisional manager in Midland Mainline; he joined National Express Group when they were awarded that franchise after privatisation and progressed to become Commercial Director. As well as direct management experience in a variety of freight and passenger operations, Brown has operated at industry level as chair of ATOC; most recently, he has been appointed to the board of HS2.

The operating conditions for the privatised industry are politically set and authentication by elite intermediary fixers like Laidlaw and Brown has been sufficient to avoid radical change and to ensure agenda control survives as the DfT is scapegoated and TOCs are strengthened. The outcome of agenda control in other sectors needs to be researched but *prima facie* is broadly similar because we can think of no utility where private interests have been confronted rather than conciliated.

## **5. Conclusion: so what (does it mean)?**

Any concluding discussion of elite power should start with a caution about how it would be rash to draw large conclusions from two sectoral cases in one country. But, in the exploratory spirit of Wright Mills, finance and railways do provide clues to the existence of elites and the modalities of elite power in the present conjuncture.

In the UK, more than thirty years after the watershed of 1979, the Thatcher/ Blair style of 'neoliberalism' through structural reform, privatisation and outsourcing is not so much a project of structural reform but a kind of permanent revolution: a revolution whose structural results are increasingly embedded in an economy that has been reconfigured by a complex process involving both politically sponsored structural reform and the (sustained) relative failure of manufacturing with the (short term) success of finance measured either by shareholder value or market share in tradables. The implication of our argument is that, in finance and in a privatised sector like railways, these double processes have embedded operators and lobbyists who undemocratically set sectoral agendas that suit corporate

private interests (regardless of public costs and the opinion of voters). The outcome in both sectors meets what might be called the Wright Mills test of elite presence: because in both sectors we have the promotion of definitions of reality and sectoral settlements which suit private financial interests and obstruct politics understood as ‘the genuine and public debate of alternative decisions’.

More research is needed. But, if our results are confirmed for other sectors, it is hard to be optimistic about the immediate prospects of politically controlling these elites and re-opening the democratic conversation. Whereas Mills believed one, unitary, power elite made a difference in Cold War America, the prospect now is of dispersed, invasive, sectorally -based power elites who are very difficult to challenge, not least because they are only semi-visible and their definitions of reality can only be unpicked by a kind of critical intellectualism which has few funders. This situation of capitulation to business is not without precedent because nineteenth century British governments had to live with the parliamentary power of sectoral interests like industrial assurance, private railway companies and the coal owners who were all untouchable even when they had no electoral constituency. The Atlee government after 1945 did displace these politically over-mighty business elites but that displacement only became possible after two world wars, under pressure from an organized labour movement and with a mass social democratic party. If we consider present day business elites and their sectoral effects, the economic and political conditions for change are most likely absent and likely to remain so, as long as economic policy keeps things going for the majority of the citizenry. In the meantime, the pressures for change could be levered by providing more sectoral analysis of the political and economic effects of the different sectoral elites who altogether build a giant system of welfare for undeserving corporates.

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