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SHAREHOLDER VALUE OR PUBLIC PURPOSE? FROM JOHN MAYNARD KEYNES AND ADOLF BERLE TO THE MODERN DEBATE

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Abstract

The debate about corporate purpose is a recurring one that has re-emerged today. What should be the guiding principles of business: the pursuit of profit or a contribution to public interest? We trace key elements in this debate in Britain and America, from the interwar years, when John Maynard Keynes and Adolf Berle made important contributions, to the 1970s, when events ushered in a return to laissez-faire and the rise to dominance of the shareholder primacy model of corporate governance and purpose, to today. Both the earlier and the current debates are centered around whether we see business institutions as strictly private entities, transacting with their suppliers, workers, and customers on terms agreed with or imposed upon these groups, or as part of society at large and therefore expected to contribute to what society deems to be its interests. Whether current developments will ultimately produce a shift in corporate purpose akin to the one that followed the Second World War remains to be seen. But the parallels to the interwar debates, and the uncertain economic, political and social environment in which they took place, are striking. Our objective is to see what might be learned from the past to inform the current direction of thought concerning capitalism and corporate purpose.

Keywords: corporate purpose; shareholder primacy; John Maynard Keynes; Adolf Berle, *Britain's Industrial Future*; *The Modern Corporation*

Introduction

The debate about corporate purpose, and management power in this context, has a long history. During the early 20th century, the emergence and growth of large joint-stock companies, in which capital and power were increasingly concentrated, challenged long-held ideas about competition in markets; and this sparked wide-ranging debates about not only laissez-faire capitalism but also the role of both large companies within the economy and society and, relatedly, regulation in the public interest. Those debates challenged the assumptions upon which society was based and brought to the fore a discussion of what the guiding principles of business should be: the pursuit of private profit or a contribution to public interest.

Perhaps unsurprisingly, the debate about corporate purpose has re-emerged today, with many of the same factors driving it: a major financial crisis in 2008, the low growth and high unemployment of the Great Recession, the failure of traditional economic policies such as austerity to address the problems, and now the Covid-19 pandemic. Both the original and

the current debates are centered around how we see business institutions: as strictly private entities, transacting with their suppliers, workers and customers on terms agreed with or imposed upon these groups, or as part of society at large and therefore expected to contribute to what society deems to be its interests.

John Maynard Keynes's contributions to this debate are not widely known. Yet the principles he proposed have great contemporary relevance. His views on this matter are scattered throughout his writings and in a collectively written book, *Britain's Industrial Future*. It is our purpose to pull these together and to show that the modern debate, while narrower than Keynes's framework, shares those principles.

Britain's Industrial Future also has an interesting history. At the Liberal Party summer school in 1926 – with the General Strike of just a few months earlier fresh in the imagination – it was decided to mount a research project on Britain's industrial structure and future. A committee, calling itself the Liberal Industrial Inquiry (here referred to as "the Inquiry" and bibliographically as LII) was formed. It was chaired by Walter Layton, then editor of *The Economist*, and commanded some of the best economic brains in Britain at the time, including, of course, Keynes. *Britain's Industrial Future* (LII, 1928) was their report, known for its cover as "the yellow book." Keynes wrote several chapters and oversaw production of the book as whole (Keynes, 1927, pp. 731–732).

In the United States, Adolf Berle's contributions, particularly as expressed in his famous debate with E. Merrick Dodd in the pages of the *Harvard Law Review* in 1931 and 1932, *are* well known (Berle, 1931, 1932). However, Bratton and Wachter (2008) argue that they have been widely misread: "When modern scholars read the texts out of context, Berle appears to be the supporter of modern shareholder primacy, which is a position he did not hold" (pp. 134-135).[1] We thus revisit Berle's contributions which, like those of Keynes, have relevance for today.

Although Keynes did not live to see it, out of the crisis of the two world wars and the interwar years, a post-war "welfarist" vision of companies ultimately emerged (Bratton, 2017). This lasted until the crisis of the 1970s, which witnessed the return of laissez-faire – with similar outcomes to those experienced during the interwar years. These include economic and financial instability, rising inequality, social and economic insecurity, and the rise to dominance of shareholder primacy. 30 years later, starting with the corporate scandals of the early 2000s, the consequences of recurring economic and financial crises, and an increasingly fragile natural environment, have re-ignited the debate about corporate purpose. Although shareholder primacy has proven resilient, since the 2008 financial crisis and, more recently, the Covid-19 pandemic, the idea that companies should serve a social purpose appears to be gaining traction.

In his book *The Affluent Society*, John Kenneth Galbraith (1999) argued that "the first requirement for an understanding of contemporary economic and social life is a clear view of the relation between events and the ideas which interpret them" (p. 6). This, in turn, influences the direction of policy, which itself shapes the course of future thinking and events, in a dynamic, non-equilibrium process. He went on to contend that "ideas are inherently conservative. They yield not to the attack of other ideas but … to the massive

[1] Shareholder primacy refers to the principle that managers should prioritise the financial interests of the company's shareholders over those of all other stakeholder groups.

onslaught of circumstances with which they cannot contend" (pp. 6–7). This creates the environment in which different ideas find favor and reconstitute the conventional wisdom.

Keynes, too, drew attention to the importance of ideas in his conclusion to *The General Theory:*

> Is the fulfilment of these ideas a visionary hope? Have they insufficient roots in the motives which govern the evolution of political society? Are the interests which they will thwart stronger and more obvious than those which they will serve? … [T]he ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil" (Keynes 1936, pp. 383-384).

We argue that, like the crises of both the interwar years and the 1970s, we are currently in the throes of another "massive onslaught of circumstances" with the potential to usher in a shift in the conventional wisdom of economics as well as corporate governance and purpose. Today's debate challenges more recent ideas about the role of globalization and liberalized finance, drawing attention to the excessive power and questionable culture of the corporate and financial services sectors, and raising the issue of public bailouts. As in the interwar years, the policy response has included severe and prolonged austerity, resulting in high levels of unemployment, recession, and increased debt, both public and private (Konzelmann, 2019).

In this context – and at the time of writing – the timing of the Covid-19 pandemic could hardly be worse. In mid-March 2021, one year on from the first Covid-19 lockdown in the UK, the Office for National Statistics (ONS) issued a report, entitled "Coronavirus: A year like no other", providing a dismal picture of the social and economic impact of the pandemic. Not only was there a sharp contraction in GDP, which fell by 9 percent since the pre-pandemic peak in February 2020; there was a significant drop in average weekly hours worked, with nearly 10 million people on furlough and many businesses unable to trade as normal. Fear of unemployment rose sharply, while people's expectations of their financial situation fell at its fastest rate on record (ONS 2021).

It is too early to know what new ideas will ultimately emerge from the current debate about corporate purpose, as well as how, if at all, they will influence policy. But revisiting the ideas about the economic role and social purpose of business, which informed the interwar debate, has the potential to offer some much-needed perspective.

We now turn to the modern debate about corporate purpose, before exploring Keynes's and Berle's evolving interwar ideas about the role of companies in the economy and society, at a time when laissez-faire capitalism itself was being questioned. During the early 1930s, Keynes's attention shifted away from the questions of industrial structure, governance and purpose, to developing a macroeconomic theory both to explain the economic challenges that mainstream economic theory of his time could not, and to inform policy for addressing them. At around the same time, Adolf Berle's attention was turning to the newly discovered phenomenon of the separation of ownership from control in large publicly listed corporations and, in this context, to the problem of unrestricted management power. We conclude by considering what a modern reading of Keynes and Berle might mean for today.

The Modern Debate about Corporate Purpose

By the middle of the 20th century, the managerialist view of corporate purpose – that a company's purpose should be to produce satisfactory returns for investors, good jobs for employees and reliable products for customers, and to be a good citizen – was the dominant view. This reflected Keynes's and Berle's conception of the business enterprise as a social institution with an obligation to serve a public purpose that benefits society. It was bolstered by the post-war "Keynesian" conventional wisdom that the state had a legitimate role in managing the economy with the objectives of economic and price stability and full employment. Across the Western world, this understanding, combined with relatively strong national economies and appropriate domestic and international financial regulation, laid the foundations for post-war prosperity.

But this perspective began to be challenged during the 1960s, as shareholders reacted to a range of issues including recognition of the need to strengthen consumer protections and to prevent or mitigate environmental degradation (Wells, 2002). Another challenge came from the new phenomenon of the "hostile takeover," the first of which was launched in 1964 by UK corporate raiders. This set off a wave of other takeovers due to the enormous financial gains that could be made (Curtis, 1999, episodes 2 and 3). Hostile takeovers were typically followed by asset stripping to repay the debt used to finance them. This had a damaging effect on British – and, soon afterward, American – industry, as asset- and cash-rich companies, whose shares had been undervalued on the stock market, became targets (Konzelmann, Wilkinson, Fovargue-Davies and Sankey, 2010; Lazonick and O'Sullivan, 2000).

As we will see, Berle had argued that the legitimacy of management power depended upon economic performance, and that economic failure stripped management of legitimacy and triggered clear and forceful public demands for economic stability as well as employment and income security. From this perspective, once the post-war economy was effectively regulated, management power had disappeared as a political problem, which Berle did not expect to re-emerge, at least not without an economic crisis. But his death in 1971 meant that he would not live to see the crises of the 1970s that followed – and proved him right. This ushered in a return to laissez-faire and the currently dominant shareholder primacy model of corporate purpose.[2] Together these have produced much the same conditions that Keynes and Berle were responding to during the 1920s and 1930s. In consequence, the debate about the economic role of both the state and business in the economy and society has returned.

Today, more than a decade after the 2008 financial crisis, as countries around the world begin to develop plans for recovery from the Covid-19 pandemic, not only is trust in government and big business at an all-time low; there are also growing concerns about environmental sustainability and high levels of social and economic inequality. In this context, alternative ideas about corporate purpose are beginning to emerge and attract attention, in business and policy-making circles as well as in academia.[3] This resonates strongly with the interwar period, when voters' confidence in capitalism was also severely shaken; and there were heated debates about corporate purpose, which, during the early post

[2] Millon (2013) provides an excellent discussion of the origins and rapid expansion of "radical" shareholder primacy (see, especially, pp. 1025–1034).
[3] See, for example, British Academy, 2018; Business Roundtable 2019; Davis, 2021; Mayer, 2018, 2021; Patriotta, 2021; and Veldman, et al., 2016.

war period, ultimately led to positive reforms, decades of improved corporate and economic performance, and improved social outcomes.

A catalyst for prominent business leaders to call on companies to put "purpose" before profit was an annual letter sent to CEOs in 2018 by Larry Fink, CEO of *BlackRock*, one of the world's largest asset management companies. With "governments failing to prepare for the future", Fink wrote, "society increasingly is turning to the private sector and … demanding that companies, public and private, serve a social purpose" (Fink, 2018, para. 3). A year later, in his 2019 letter, Fink reiterated his argument about government failure and society's demand for companies "to address pressing social and economic issues" (Fink, 2019, para. 3), going on to explain the "inextricable link" between corporate purpose and profit. Seven months later, in August 2019, the *Business Roundtable*, a group of CEOs of major U.S. corporations, issued a "Statement on the Purpose of a Corporation," signed by 181 CEOs. This expressed confidence in the "free market system" but abandoned the idea that a corporation's purpose is first and foremost to maximize profits for its shareholders. Instead, they committed themselves to prioritizing the long-term interests of all corporate stakeholders. In 2020 – and again in 2021 – Fink repeated his call for companies to commit themselves "to embracing purpose and serving all stakeholders" (Fink, 2020, para. 24), again connecting this with driving long-term profitability.

In the United Kingdom, since 2015, Will Hutton, Chair of the *Big Innovation Centre*, and Clare Chapman, then a director of *British Telecom (BT)*, have co-chaired the "purposeful company" initiative, gathering evidence that corporate purpose adds value, issuing guidance for putting it into practice, and pressing for changes in policy, regulation and law. One outcome can already be seen in the new UK Corporate Governance Code, which came into effect in January 2019, requiring all companies with a premium listing, whether incorporated in the United Kingdom or elsewhere, to declare and report on corporate purpose.

Academics have also been developing and advancing new ideas about corporate purpose.[4] Arguably, these emerging frameworks could still be accused of lacking the economic precision of the principal-agent model. But, as we know, "precision primacy", though seductive, can lead one astray: "It is better to be vaguely right than exactly wrong" (Read, 1898, p. 272). A step forward is "enlightened shareholder" thinking, which would allow directors and executives to focus on the long-term interests of not only shareholders but all corporate stakeholders, as well as the company itself. The new corporate purpose models are also much closer to the reality of corporate law, economics and organization (Salter, 2019; Stout, 2012, 2013a, 2013b).

Whether all of this represents, on the part of those involved, a genuine commitment to change – which will ultimately produce a shift in corporate purpose akin to the one that followed the Second World War – remains to be seen. But their resonance with the earlier debates that did, offers reason for optimism. We now turn to these debates.

Keynes's Views on Business and Society

In Britain between the wars, economic and industrial developments implied a fundamental change in thought. During the 1920s, the collapse of export markets combined with conventional economic thinking and policy – the return to the gold standard at pre-war parity and austerity to reduce wartime debts and balance the budget – to cause massive involuntary

[4] See, for example, Stout, 2012, 2013b; and Mayer, 2018.

unemployment. This served to intensify industrial distress and unrest, which was only made worse by a world-wide deficiency of demand and purchasing power during the 1930s. It also shattered the 19th century belief in the unlimited extension of markets and parallel extension of productive capacity. The main task was how to use the technological, organizational and administrative resources available to cater for stagnant demand without generating excess unemployment (Pollard, 1962, pp. 161–74).

The main debate about business and society was between believers in laissez-faire, who maintained that businesses were purely private concerns that could do what they wished within the law, and advocates of what Keynes variously called "state socialism" or "Labour socialism," who favored nationalization. Many others, including most of the Liberal Party, to which Keynes was allied, preferred a middle way, which might be called "reformed capitalism," "social democracy" or "liberal socialism" (Konzelmann, Chick & Fovargue-Davies, in press). Most of the modern debate excludes nationalization and typically treats the business enterprise as a purely economic organization, in isolation from its wider social context. By contrast, the signatories of *Britain's Industrial Future* were clear: "Industry is not an end in itself; it exists to provide livelihood for the whole community" (LII, 1928, p. 181).

Keynes's objection to laissez-faire was that the evolution of business institutions had rendered it obsolete. Although he disliked its harshness, he acknowledged the great motivating force of a system which could yield attractive returns to those who were successful; and he appreciated the efficiency of its ruthless competition, which would quickly drive out of business the less astute and the unlucky. During the 19th century, failure, though an unfortunate consequence for the individuals involved, had little consequence for society overall, because firms were relatively small.[5] In summary, the laissez-faire capitalist system, though objectionable in many ways, had yielded both great improvements in the standard of living and many life-enhancing innovations, at low social cost.

But by the time Keynes was writing, the nature of companies and industrial organization had changed dramatically. Laissez-faire industry had begun as small sole proprietorships or partnerships, but they grew in response to economies of scale and ready markets for mass-produced goods, until a small number of people were unable to furnish adequate capital. The creation of the easily registered joint-stock, limited-liability company in acts from 1844 to 1856 resolved this problem and resulted in yet further growth, such that, by the beginning of the First World War, many firms were very large, some of them occupying oligopolistic or monopolistic positions in their industries (Pollard, 1962, pp. 161–174). Their failure would thus have repercussions not only for their owners but for society at large; and their size gave them scope to devote resources to self-preservation by means other than their core purpose. Many firms now wielded too much power, tended to be inefficient when in operation and had consequences well beyond themselves should they fail. They could no longer be viewed as a purely private matter.

Profit

Under laissez-faire, it was an article of faith that private profit meant industry was producing something society wanted; it was an indicator of public benefit. Keynes rejected this idea: "It is *not* a correct deduction from the principles of economics that enlightened self-interest

[5] See, for example, Johnson, 2010, and Perrow, 2002.

always operates in the public interest. Nor is it true that self-interest generally *is* enlightened" (Keynes, 1926, p. 288, emphases in original).

Yes, there should be profit sufficient to keep the firm going, but profit should not be the sole objective, to the exclusion of other considerations. In Keynes's view, when the profit motive becomes all-consuming, it distorts priorities:

> [When the] rule of self-destructive financial calculation governs every walk of life[,] [w]e destroy the beauty of the countryside because the unappropriated splendours of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend (Keynes, 1933, p. 242).

At its worst, profit represents the love of money for its own sake rather than the good it can do:

> The love of money as a possession – as distinguished from the love of money as a means to the enjoyment of realities of life – will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease." (Keynes, 1930, p. 329)

In the 19th century, concentration on profit was understandable, given the fierceness of competition; and social priorities – progress, prosperity, alleviation of hardship – were achieved almost by accident. That system, combined with the size and power of the typical interwar joint-stock company, did not, from Keynes's perspective, justify the continuation of the single-minded pursuit of profit to the exclusion of public goals. But there was a problem of persuasion:

> To suggest social action for the public good to the City of London [i.e., finance] is like discussing *The Origin of Species* with a bishop sixty years ago. The first reaction is not intellectual, but moral. An orthodoxy is in question, and the more persuasive the argument, the graver the offence. (Keynes, 1926, p. 287)

This way of thinking was not confined to the City: It was fundamental to the doctrine of laissez-faire, held not only in industry and finance, but even the state.

Profit and the State

If any entity should be reliably focused on the public interest, it is the state. But the carry-over of laissez-faire thinking from the 19th century was such that the state itself could be found adopting the commercial criterion of return. At this, Keynes was scathing: "It is the state, rather than the individual, which needs to change its criterion. It is the conception of the Chancellor of the Exchequer as the chairman of a sort of joint-stock company which has to be discarded" (Keynes, 1933, p. 243). Instead, he argued that the state should focus on broader objectives which serve a public purpose, such as "what, broadly speaking, shall be produced within the nation and what shall be exchanged with abroad" (Keynes, 1933, p. 243), so as to provide both full employment and other benefits associated with national self-sufficiency and international trade.

For Keynes, if the state could not be relied upon to look after the public interest, what hope was there to persuade private companies, accustomed to having their own way, to take account of the common weal?

> It is curious how common sense, wriggling for an escape from absurd conclusions, has been apt to reach a preference for *wholly* 'wasteful' forms of loan expenditure rather than for *partly* 'wasteful' forms, which, because they are not wholly wasteful, tend to be judged on strict 'business' principles. (Keynes, 1936, p. 129, emphases in the original)

There follows the famous satirical attack on the Treasury about putting bottles in holes in the ground and digging them up again. Keynes knew he could not *prove* the case against the laissez-faire view and the reliance on profit to the exclusion of public purpose: He remarked in another context that you cannot convict your opponent of error; you can only convince him. Satire and exaggeration were an attempt to jolt people out of their accustomed ways of thinking: "Words ought to be a little wild, for they are the assault of thoughts upon the unthinking" (Keynes, 1933, p. 244).

The "Public Concern"

According to Sidney Pollard (1962), during Keynes's time,

> a large share of industry and transport was, even in the 1920's, not controlled by private enterprise at all, but by various types of public or non-profit-making organizations and their growth is one of the most significant aspects of the period. (p. 162)

Among these were "public corporations," which were very much like joint-stock companies in which the public interest was substituted for the profit motive (Pollard, 1962, p. 173). They were "a form of organisation which departs in one way or another from the principles of unrestricted private profit and is operated or regulated in the public interest" (LII, 1928, p. 63). These were organizations which did the work of business firms but were governed differently, such as autonomous bodies with a publicly accountable board to oversee them (such as the Metropolitan Water Board), or run by local authorities. They were considered an arm of the state, with a few concerns being run directly by the state.

As a result, the British state was an organization which, given the institutional structure of the day, was rather larger than "government" as usually understood. Pollard (1962) describes them as being

> an attempt to cope with the problem of the administration of large and nationally important industries, mostly requiring large capital sums, secure control of their market and a strong interest in general or social, as distinct from sectional, welfare. It was a compromise, to avoid both the exploitation of the public by a private monopoly, and the day-to-day political interference to which ordinary Departments of State were normally subjected. (pp. 172–173)

In addition, there were private organizations, such as charities, cooperative societies and building societies, which belonged to the private sector but shared their aim to serve a public purpose rather than profit. The Inquiry had found that the capital administered by public concerns amounted to around £4 billion (LII, 1928, p. 75). This was "of the same order of magnitude as the aggregate capital of all joint-stock companies" in the United Kingdom

(Pollard, 1962, p. 163). Most of these institutions have long since disappeared during subsequent waves of deregulation and privatization.

The Liberal Industrial Inquiry (LII) committee raised concerns about inefficiency in some of these bodies, but not that their hearts were in the wrong place. They proposed leaving the sector at its then-current size and scope for the near future. This experience of a large sector devoted to the public interest may have been a significant influence on differences between British and American points of view on monopolistic and oligopolistic competition.

The Inquiry, which would have been aware of the case of the American railroads – the first private joint-stock companies to escape any form of state regulation and use their power against the public interest[6] – made one surprising prediction. The 1921 Railways Act took steps to curb the railways' profits, [7] foreshadowing Keynes's later (1936) call for the euthanasia of the rentier:

> If the railways are successful in earning their standard revenues as a regular thing, the functions of the private shareholders will have atrophied as much as those of the shareholders of the Bank of England. ... Generally speaking, the functions of private shareholders must tend to atrophy as soon as it has proved necessary to adopt the principle of limiting or of fixing profits. (LII, 1928, p. 82)

The Inquiry thus advocated exchanging railway shares for fixed-interest bonds and having the railways governed by a public board: "The choice between a Public Concern and a Private Concern then resolves itself" (LII, 1928, p. 82).

The Large Enterprise

In the United Kingdom, the formal link between incorporation and public purpose was broken in 1856 when the Joint-stock Company Act allowed incorporation without an act of parliament. In the United States, it was broken even earlier. Despite the inheritance from English common law, of the requirement that chartered companies serve a public interest and have public representatives on their boards, as a consequence of regulatory arbitrage among the American States, this broke down in 1819 (Perrow, 2002, p. 219).

Nevertheless, despite all that has just been said, Keynes in 1926 looked favorably on some large joint stock companies. His ideal was a form of organization and control somewhere between the level of the individual and the state – autonomous bodies with their origin in mediaeval guilds. In Britain the word "corporation" is usually reserved for this form of organization. They had certain privileges: They were "legal persons" whose life extended

[6] See, for example, Roy, 1997, chapter 4; see also Perrow, 2002, chapter 5.
[7] The Railways Act required that charges be set, from 1928 onwards, at their 1913 level plus a 5% return on capital expenditure. Revenue for the system as a whole was set annually. This was the "standard net revenue." If exceeded, charges would be reduced. We are indebted to Edward Humphries for this information.

beyond the lives of their members and which could enter into contracts. But as a condition of incorporation, they were expected to engage in some form of public service.[8]

Keynes argued that some institutions already approximated that form of governance. These included the universities, the Bank of England, the Port of London Authority, "even perhaps the railway companies" (Keynes, 1926, p. 289). He saw the same trend in joint-stock companies:

> When they have reached a certain age and size, [they] approximate to the status of public corporations rather than that of individualistic private enterprise. One of the most interesting and unnoticed developments of recent decades is the tendency of big enterprise to socialise itself. (Keynes, 1926, p. 289)

Owners – the shareholders – become divorced from management; and managers, who are salaried, are not motivated by profit in the manner of 19th century proprietors. They are instead, Keynes (1926) argued, concerned with the "general stability and reputation" (p. 289) of their organizations and, once shareholders are "satisfied with conventionally adequate dividends" (p. 289), avoiding criticism from their customers and the public.

But after nearly two years of studying the structure of British industry for the Inquiry, Keynes seems to have changed his mind. *Britain's Industrial Future* gives a great deal of thought to the problem that many large firms occupied a position of monopoly or oligopoly. The Inquiry proposed certain criteria in relation to concentration, diffusion of share ownership and size which, in their view, should cause a firm to be registered not as a "public company" but as a "public corporation," which "should be required to conform to conditions appropriate to … a semi-public concern" (Keynes, 1926, p. 95).

This is perhaps unsurprising because, historically, the British state, tended to regulate private interests. Because of restrictions placed on finance capital – requiring partnerships rather than allowing limited liability companies – Parliament allowed cartels in industry. But it regulated them in the public interest (Perrow, 2002, pp. 108–111).

Social Responsibility within the Firm

Having explored the responsibility of the business firm to the society in which it operates, we now turn to those who are part of the organization: its employees and shareholders. In *Britain's Industrial Future*, the firm is viewed as a social organization brought together to produce something the public is expected to value. Its function is not solely economic. This attitude is in sharp contrast to that of laissez-faire, in which the obligation of owners or managers toward employees ends when the wage bargain is struck and safety regulations put in place.

Workers. *Britain's Industrial Future* was written against a background of bitter industrial strife. Trades unions had acquired considerable power, to counterbalance that of autocratic management. But relations had reached a point where capital and labor were seen as having no common ground. Labor relations had become a zero-sum game. The Liberal Industrial Inquiry argued that quite the opposite was the case: each "side of industry" needed the other

[8] This meaning exists to the present day: for example, the *BBC*, originally an ordinary commercial business, was called the *British Broadcasting Company Ltd.* until transformed into a public service broadcaster, when it became the *British Broadcasting Corporation*.

(LII, 1928, pp. 181-204). Contrary to the thinking of "capital," high wages and low prices were *good* for business, at the macroeconomic level.

The Inquiry proposed a number of remedies for the comparative powerlessness of workers (as opposed to unions), all of which were governed by one principle: to ensure that "the worker may have a personal interest in the concern for which he works, and feel that he is treated as a partner and not merely a tool" (LII, 1928, p. 199). Comparing the position of the worker with his role as a citizen, the Inquiry pointed out that as a worker, "he may be dismissed at a week's or a day's notice … without redress or appeal … While, as a citizen, he has an equal share in determining the most momentous issues" (p. 148). The factory life in which "workers tramp in in the morning, and after their allotted tale of work hasten out in the evening to find their real life elsewhere, never once feeling that they are members of an organised company [which is] mutually interdependent" (p. 237) was not acceptable.

The Inquiry proposed several remedies, including consultation, improved collective bargaining, profit-sharing, share ownership, and supervisory councils. The latter would work alongside boards of directors to look after the interests of both workers and shareholders. A large employer told the Inquiry that profit-sharing, in particular, encouraged workers to feel that "the prosperity of the business was their concern … and that the effect of this in improving relations and making real cooperation was marked" (p. 200). The Inquiry foresaw a "new order" which would be "quite unlike the harsh individualism and employer autocracy of the nineteenth century" (p. 205).

Directors and shareholders. Shareholders get little attention in *Britain's Industrial Future*, although the Inquiry did recognize that shareholders have the ability to exercise some control over management. Thus it is perhaps unexpected that they favored worker ownership of small amounts of shares and proposed a channel for the shareholders' voice, as mentioned above. In general, however, shareholders were regarded as ignorant of the work of their companies and generally passive. This evaluation is not new: It was voiced by Adam Smith (1904):

> This court [of directors], indeed, is frequently subject, in many respects, to the control of a general court of proprietors [the shareholders of his day]. But the greater part of those proprietors seldom pretend to understand anything of the business of the company, and when the spirit of action happens not to prevail among them, give themselves no trouble about it, but receive contentedly such half-yearly dividend as the directors think proper to make them. (p. 107)

The last clause has echoes in Keynes (1926, p. 289), quoted above.

Directors, in the Inquiry's view, too easily saw themselves as in post for life – a not unreasonable expectation in the light of shareholder dispersion and passivity. They therefore did not take the view that boards of directors, "as at present constituted, of Public Companies of diffused ownership are one of the strong points of private enterprise" (LII, 1928, p. 91). But the problem was difficult to address through legislation. To deal with it, they could only propose "publicity" – transparency in today's language – to inform potential investors. Of interest in the light of later developments is their singling out of an "increasingly frequent" abuse by directors, "for which the secrecy of accounts is at least partly responsible": the publication of balance sheets that conceal as much as they reveal, putting a premium on "insider information" (LII, 1928, p. 85). They also deplored "the growing practice of directors dealing directly or indirectly in shares of their own companies" (LII, 1928, p. 86), against which they proposed that directors' holdings of shares be published.

Britain's Industrial Future was in effect the Liberal Party's manifesto. But the Liberal Party did not win the 1929 election – indeed it was in the process of being eclipsed by Labour – so the industrial policies it espoused were not implemented. A year after *Britain's Industrial Future* was published, the American stock market crashed, and the Great Depression and Second World War followed. Keynes's attention thus turned away from the questions of industrial structure, governance and purpose, never to return.

Meanwhile, in the United States …

The United States had emerged from the First World War in much better shape than Britain; and from 1922 to 1929 the economy grew rapidly and employment remained high.[9] This was supported by rapid organizational and technological change, high levels of investment in manufacturing and construction, and a sharp increase in consumer expenditure, especially on cars and consumer durables. However, this revolution was not confined to the level of expenditure and the way the economy was organized; it was also related to the way the economy was theorized.

In economics, there had developed a "vigorous, diverse and distinctly American literature dealing with monetary economics and the business cycle" (Laidler, 1999, p. 211). The analysis was essentially institutional; and there was little opposition amongst American economists to the idea of counter-cyclical fiscal and monetary policy. There was, however, considerable debate about the effectiveness of such intervention and how it should be financed.[10] Elements of American economic thinking during the 1920s had in many ways anticipated Keynesian analysis and policy recommendations, particularly with respect to stabilizing the trade cycle. The onset of the Great Depression reinforced these theories and added urgency to the debate about policy (Konzelmann, 2014, pp. 712–714).

During the 1920s and 1930s, the general consensus was that the period's economic difficulties were a consequence of inherent instabilities of laissez-faire capitalism, and that modern corporate institutions, as an important part of the system, were part of the problem (Bratton & Wachter, 2008, p. 102). The question was whether corporations had obligations extending beyond the pursuit of private profits. At the same time, recognition of the separation of ownership from control in large joint-stock, limited-liability corporations, caused some, including Adolf Berle, a Wall Street lawyer and Columbia University Law School professor, to question the resulting increase in managerial power. Traditionally, this power had been restricted by a company's articles of incorporation or by owner-shareholders. But public corporations now had general charters without this restriction, giving management powers to enter new businesses, and issue stock to fund them.

Prior to the 1930s, unlike Britain, with its relatively strong state and restrictions on finance capital, the United States had a weak state, especially at the federal level. The American state was divided into three levels (federal, state, and local), each with its own executive, legislature and judiciary. Historically, power was vested at the level of the individual states; and there were no restrictions on finance capital. So private companies could easily become large national monopolies, rivaling the power of the state.

[9] The exception to this was agriculture, which was in recession throughout the 1920s.
[10] For an analysis of U.S. policy during the inter-war years see, especially, Arndt, 1944, and Laidler, 1999.

Perrow (2002) describes how during the 19th century, the railroads, "which had started out as public-private enterprises, … did more than privatize a public good of major consequence" (p. 20), free from regulation in the public interest. They purchased court rulings that made companies "persons" and allowed them to gain control over close competitors by purchasing their shares. All of this helped to create a continent-sized national economy with capital centralized in New York City (Wall Street). It also enabled the massive merger movement of the 1890s through which, by 1905, American industry came to be dominated by the 200 largest corporations, operating as national monopolies and oligopolies, with minimal regulation by the state.

During the 1920s, Berle was concerned about the problem of unrestricted management power and shareholders' inability to control it. He saw this as a governance problem to be treated within the financial community; and he advocated that managerial discretion be constrained by "businessmen themselves," through self-regulation, monitoring by investment institutions and stricter stock market rules (Berle, 1928, pp. 37–39). At the time, he did not believe that the courts or the government could serve as agents of reform. But Berle's attitude towards regulation and corporate purpose would change even before the Wall Street stock market crashed.

The catalyst was Gardiner Means, his statistical and economic research assistant on a five-year project funded by the Rockefeller Foundation that would ultimately produce *The Modern Corporation and Private Property*. Means's empirical research revealed that two thirds of the national wealth was held by the 200 largest U.S. corporations; and he predicted that by 1950, this figure would rise to seventy percent. This would further concentrate power in the hands of a small cluster of corporate managers, whose level of responsibility had already come to worry Berle greatly. Means's projection would later prove wrong; but it sent a clear message that something had to be done about corporate power, causing Berle to change his views accordingly. He now saw a case for judicial control in the name of shareholder interest (Berle and Means, 1932, pp. 9, 37, 40).

The gestation period of *The Modern Corporation* spanned five years, beginning in 1928, at the end of the long American boom and a year before the Wall Street stock market crashed. It was published in 1932, in the throes of the Great Depression, and on the eve of the election of President Franklin Delano Roosevelt and the progressive legislation of the New Deal. In the rapidly changing context of the 1920s and 1930s, Berle's ideas (like those of Keynes) were evolving in response to unprecedented political, economic and societal developments. Bratton and Wachter (2008) point out that understanding this context – and Berle's political viewpoint – is crucial for understanding what he *actually* meant in his writings of the early 1930s. Otherwise, it is easy to interpret Berle as advocating shareholder primacy, in the now familiar form that is understood today.

The Berle-Dodd Debate

In a very influential article, "Corporate powers as powers in trust," published in the *Harvard Law Review* in 1931, Berle developed his trust model of corporate law. In it, he focused on the problem of managerial power, arguing that managers, as the trustees of shareholders, owed them a fiduciary duty to maximize the company's wealth, and that that duty should be enforceable at law.

In May 1932, E. Merrick Dodd, a Harvard Law Professor, attacked Berle's position, arguing that the view that corporations exist for their shareholders' financial benefit made no

sense in the context of the Great Depression. Corporations should instead act as social institutions, providing economic security for their employees, quality products for consumers and contributions to broader society; and managers could be relied upon to undertake these responsibilities. According to Dodd, the public corporation was a legal entity, created by the state for public benefit, and run by professional managers seeking to serve not only shareholders but also stakeholders and the public interest (Dodd, 1932, p. 1148).

Taken at face value, these texts have been widely interpreted as positioning Berle as the father of shareholder primacy and Dodd of corporate social responsibility. However, Bratton and Wachter (2008) argue that this is to fundamentally misinterpret them:

> To understand the Berle-Dodd debate is to see Berle and Dodd participating in a national political discussion over the outlines of the new American corporatism … This was the key political issue at the time … The question went to the allocation of power as between corporate managers and the state (p. 122).

On one side of this debate were those like Dodd, who wanted to delegate authority to management to run the economy, with the government assuming a supporting role. On the other side were those like Berle, who wanted strict government oversight of the economic planning process, with labour also being brought to the negotiating table (Hawley, 1966, pp. 43-46). Thus, "the Berle-Dodd debate emerges as a clash between the different visions of corporatism whose advocates were then vying to capture Roosevelt's attention" (Bratton & Wachter, 2008, p. 124).

By now, Berle was a member of Roosevelt's Brain Trust, advising him on policy which after the November 1932 election would influence the First New Deal. His response to Dodd, in the *Harvard Law Review's* next issue, thus avoided any mention of policy goals, focusing instead on weaknesses of the business model Dodd was advocating (Berle, 1932). In a context where unbridled management power was the problem, further management empowerment was *not* the solution. Rather, controls in the form of trust duties were needed. But Berle did not advocate shareholder primacy. Instead, he held that shareholders derived legitimacy from being passive recipients of the wealth created; and as such, they to some extent represented the welfare of the general public.

The Modern Corporation

In the preface of *The Modern Corporation*, also published in 1932, Berle acknowledged that corporations are "human institutions" that were being expected to take on "a steadily growing degree of responsibility for our economic welfare" (Berle & Means, 1932, p. viii). The authors went on to argue that during the early 20th century, in large joint-stock companies, the entrepreneurial function had been split between salaried executives, with control over large hierarchical organizations, and anonymous investors, each holding relatively small amounts of equity, with an interest in liquidity rather than participation in management. Management had been empowered and shareholders, who for the most part were ordinary working people who relied on their dividend payments to make ends meet, had been reduced to passive collectors of dividends, with no productive role to play in the political economy.

In this context, as trustees of shareholders, managers owed them a fiduciary duty to prioritize their financial interests in the corporation's wealth; and because markets could not be relied upon to provide a stable economy, managers should cooperate with the government in regulation designed to achieve a social purpose. Thus, what Berle had, in the 1920s,

considered a problem for private actors in a world of finance, he now saw as a problem for government (Schwartz, 1987, p. 56). In the final chapter, "The new concept of the corporation," Berle built upon the point that those who have power in society will inevitably come into conflict with the populace because the exercise of power impacts the public interest; and he went on to argue that managers' primary allegiance was to the national interest (Berle & Means, 1932, p. 356).

Evolving Ideas about Corporate Purpose

In September 1932, Roosevelt gave his famous Commonwealth Club Address, a speech written by Berle and his wife, Beatrice. In it, everyday management practice was viewed as a political problem because corporate managers, the "princes of property," had infringed the rights of ordinary citizens to economic security. To address this problem, Berle used his trust model, this time substituting "citizens" for "shareholders" as the beneficiary (Roosevelt, 1932). Roosevelt won the election; and New Deal legislation swiftly followed.

Dodd soon adjusted his thinking. In response to abuses of the corporate system that had contributed to the 1929 Wall Street crash, one of the first laws enacted under the New Deal was the Securities Act of 1933, followed closely by the Securities Exchange Act of 1934. These required disclosure by all publicly listed companies, of the financial condition of the firm as well as of the compensation (including stock options) received by their three highest paid executives. Failure to do so would mean removal from the stock exchange. In Dodd's view, this new securities legislation was successful in rebalancing the power of managers and shareholders. In 1941, he published an essay abandoning his previous position and supporting the corporation's private profit seeking motive, arguing that the purpose of corporate law was to protect shareholders from powerful managers, who could no longer be trusted (Dodd, 1941).

After Dodd's death in 1951, Berle also returned to the debate. In a series of lectures entitled "The twentieth century capitalist revolution," he made a famous concession: Dodd had been proven right over time; managers could be trusted after all. But this no more meant what it seems to than Berle's 1931 and 1932 *Harvard Law Review* articles did. Berle only admitted that later events had produced a corporate system that Dodd had described in his 1932 *Harvard Law Review* article, *not* that Berle had been wrong at the time of publication.

By this point, Berle believed that the New Deal had created a political economy in which corporate power had been rendered benign:

> The 1929 crash, the slow recovery of 1930, and the ensuing spiral descent into an abyss of unemployment, bank failures, and commercial paralysis was not corrected by market processes. … [T]he public … increasingly asked that the political state propose a program and act. Necessarily, this meant considerable reorganization of private business. … Out of the crisis was born the American economic republic as we know it today. (Berle, 1963, p. 91)

In Berle's new "American economic republic," the state and economy were interdependent, with the state taking ultimate responsibility for economic outcomes and exercising a high level of political and economic authority (Berle, 1963, pp. 95-99). Managers, whether they liked it or not, were caught between the post-war regulatory state and the public political consensus, which, in turn, depended on corporate performance – the delivery of price stability and employment and income security. Failure to satisfy the general public meant new

regulation; and avoidance of new regulation required satisfying the public. Thus, as a practical matter, managers could not avoid public duties. They thus emerged as quasi-public servants, caught inside a web of countervailing forces which served to restrain their use of power (Berle, 1954, pp. 172–173). In Berle's words: "Since they are not owners but only managers, they really are a variety of non-Statist civil servant" (Berle, 1954, p. 8). By contrast, shareholders remained as they had been in 1932, passive collectors of dividends.

During the 1950s, the American corporate system did seem to approximate Berle's American economic republic. While other countries, like Britain, were setting up national health systems and generous state pension schemes, American corporations were voluntarily taking responsibility for a significant part of the welfare burden. This was not out of a concern for society's welfare in general, but because it was in their sectional interests to provide social and economic security for their employees. Powerful corporations, like *General Motors*, and their trade unions negotiated generous collective bargaining settlements, providing pension provisions and health insurance benefits. These set patterns that were copied across the industrial landscape and modified over time to labor's advantage (Davis, 2016, p. 42).

Thus, although Berle is remembered for having drawn attention to the separation of ownership from control in large publicly listed corporations, and the problem of corporate power being concentrated in the hands of a small group of senior managers, in the last chapter of *The Modern Corporation*, published in 1932, and for most of the rest of his life, he stood for the opposite proposition.

Conclusions: Keynes and Berle for Today

Nearly a century after the interwar period, the debate about corporate purpose has been revived, with remarkable similarities. Much of this debate has been rooted in the relationship and balance of power between the private sector and the state, and the related question of regulation.

Keynes and Berle, who saw companies as human institutions with an important role to play in the economy and society, believed that with an appropriate balance in the relationship between the state and the private sector – led by managers who accepted the need for wider accountability – companies would come to serve a public purpose; and they considered the economy and business community to be a means to that end. They both opposed nationalization but saw a role for the state in supporting and partnering with both sides of industry in order to facilitate the delivery of economic efficiency and a better life for the majority; and they recognized that the business and economic system of their day – laissez-faire corporate capitalism – could not be relied upon to deliver these dual objectives. However, across the Western world, the political economy that emerged from the Second World War appeared to deliver this; and the managed capitalism of the "Keynesian" consensus and Berle's "American economic republic" – social models located between a planned economy and corporate capitalism – were not alone.

Keynes had anticipated that large companies would be stable institutions of capitalism, and that the position of the shareholder would be atrophied. Berle believed that the political economy that emerged from the Second World War had rendered management power benign and that shareholders, who always had been passive collectors of dividends, would remain so. Given the nature of shareholding during the first half of the 20th century – and the post-war relationship between the state, business and organized labor – they could not

have foreseen that the power of shareholders would become a threat to the idea that companies should serve a public purpose.

But the 1970's "massive onslaught of circumstances" produced a counter-attack by corporations that involved a frontal attack on both organized labor and the state – especially in Margaret Thatcher's Britain and Ronald Reagan's America (Mizruchi, 2004). This ushered in a return to laissez-faire and the rise to dominance of the shareholder primacy model of corporate governance, which assigned control rights to shareholders. Both Keynes (who called for the euthanasia of the rentier) and Berle (who would have seen this as stripping shareholders of legitimacy) would have strongly opposed the idea that shareholders should have control rights. And they would not have been surprised that once these rights had been assigned, they would be used to shift corporate purpose away from society's interest to shareholder primacy, where it remains today.

The contrasting perspectives on corporate purpose between the interwar years and today are also striking. Not only has the debate narrowed considerably; but concern about the relationship between business firms and society, which was centrally important to Keynes and Berle, is much less pronounced. Today's business leaders make the link between companies and the economy; and they talk about the interests of other stakeholders, alongside shareholders, using language that is strikingly similar to that of *Britain's Industrial Future*, nearly a century earlier. But these are now conceived as primarily economic, as opposed to social as in Keynes's and Berle's time.

A notable British exception is the "purposeful company" initiative which, in defining "intrinsic purpose," contends: "We are recovering the idea that business exists to pursue a purpose that benefits society" (The Purposeful Company Steering Group 2018, p. 2). And in its June 2020 response to the UK government's Business, Energy and Industrial Strategy (BEIS) Committee's Post-pandemic Economic Growth Inquiry, it reiterated the view that – rather than having profit as its end goal – "in a purposeful company, *creating value for society* is the end goal" (The Purposeful Company Steering Group, 2020, p. 3, emphasis added).

Academics are also drawing attention to recent technological and other changes that are impacting the nature of the corporation and its relationship with society. These are making the forms of business organization that Keynes and Berle studied increasingly unsustainable. Gerald Davis (2011), for example, notes that by the arrival of the 2008 financial crisis, from a peak in 1997, half of America's public corporations had disappeared as a consequence of "multiple rounds of bubbles, scandals and corporate failures" (p. 1138); and he argues that

> today, we face a set of challenges similar to those at the turn of the last century: rising inequality, lower mobility, a ragged social safety net, and politics dominated by the wealthy. But this time the cause is not the *growth* of the corporate sector, but its *collapse* (Davis, 2016, p. xi, emphasis in the original).

Distinguishing "corporations" from "business," Davis concedes that corporations will continue to exist in sectors that involve significant risk and require long-lived assets and large-scale investment. But they will not provide employment for the majority of the population, as earlier public corporations did.

However, these same developments are also offering a potential means of achieving Keynes's and Berle's objective of the betterment of society. Davis (2011), for example, points to a possible "silver lining" in the opportunities being opened up by the coexistence of "organizational technology for disaggregated production … alternative means of large-scale financing … and a proliferation of new legal forms (such as LLCs and B Corporations)" (Davis, 2011, p. 1139). Whilst companies like *Uber* have used new platform technologies to exploit workers through precarious employment arrangements and zero-hour contracts, Davis sees these technologies as also providing opportunities for more local, democratic and environmentally sustainable forms of business organization. There is no reason why drivers couldn't use them to organize worker-owned cab or delivery collectives, for example, or why communities couldn't set up local facilities equipped with new (and ever less expensive) computer aided design and manufacturing technologies to re-shore the production of almost anything locally.

Whilst advocates of shareholder primacy continue to reduce the relationship between corporate actors to a principal-agent or nexus of contracts relationship, Keynes and Berle would be studying these developments empirically. They would see these newly emerging organizational forms and technological developments as part of a dynamic and continually evolving system composed of social institutions; and their objective would be to find ways in which they might be used to achieve a public purpose.

As we've seen, a "massive onslaught of circumstances" like the one we're living through today has the potential to generate significant and positive change, although this will require both a better balance between the private sector and the state and the ability to mobilize such change, socially and politically. The Covid-19 pandemic, which at the time of writing remains unresolved, has, however, produced some evidence that positive change is possible. In Britain, for example, for the first time in half a century, the state and large sectors of industry faced an unprecedented public health crisis. The result was a call by government to manufacturing companies for a major boost in medical supplies, to which many responded. Teams of highly skilled people and organizations made themselves available to design and manufacture new products. In this context, cooperation between large and small manufacturers, universities, medical companies and even *Formula 1* racing teams – with their ability to rapidly design and produce prototypes – allowed the production of needed supplies to begin within weeks, if not days. This revealed not only a willingness to contribute, but also an ability to react extremely quickly, to cooperate with both each other and government, and to mobilize high performance networks of specialists. Where new products – such as breathing machines and Personal Protective Equipment (PPE) – emerged, the designs were often open-sourced, for others around the world to use, free of charge. Corporate purpose became a reality (Konzelmann & Fovargue-Davies, 2021).

It remains to be seen how, if at all, current experience will change the way business is conducted, or indeed, who will benefit. But the current interest in and evidence of businesses assuming a social and public purpose – and in the context of the Covid-19 crisis, cooperating to deliver it – is reason for optimism.

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