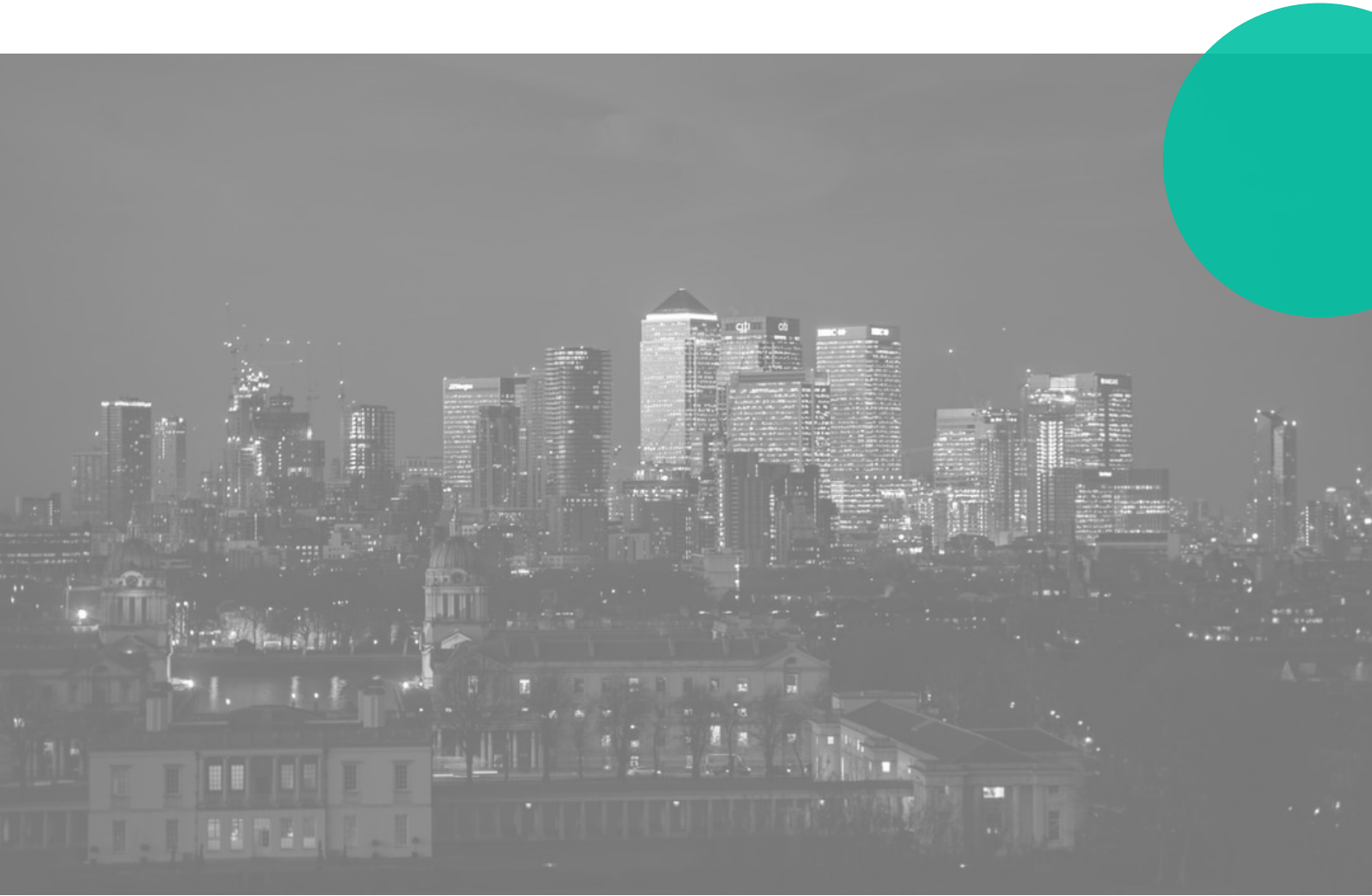


Under new management

Share ownership and the rise of UK asset manager capitalism



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Executive Summary

Over the past several decades, asset management firms – financial intermediaries who invest assets on behalf of ultimate beneficiaries such as pension holders or wealthy individuals – have grown explosively to become the dominant shareholders in corporations throughout the global economy, supplanting individuals and other institutional investors such as pension funds. This growth has been accompanied by a second trend: significant concentration of assets and power within asset management itself. BlackRock and Vanguard, the two largest asset managers worldwide, control \$9 trillion and \$8 trillion in assets, respectively – together more than four times the value of all UK corporations.

The emerging dominance of asset managers constitutes a new corporate governance regime, a clear understanding of which is vital to addressing corporations' roles in societal challenges from the climate crisis to wage stagnation and inequality. This new regime, which we call asset manager capitalism, is the product of two related trends in ownership without historical precedent: the combination of significant reconcentration of ownership within a small top cohort of minority shareholders, and the universal nature of these shareholders, meaning their ownership of assets is distributed across all geographies, industries, and asset classes. In contrast to the image of the activist shareholder, on which the prevailing 'shareholder primacy' regime of corporate governance is based, asset manager capitalism is defined by a structure of ownership in which the dominant owners of a corporation are primarily motivated not by the performance of individual portfolio companies, but by the accumulation of further assets under management.

In the US, the rise of the asset management industry and increasing domination of ownership by elite asset management firms of corporate shares, bonds, and numerous other asset classes is well documented. However, a comprehensive picture of the UK context does not yet exist. To address this gap, we analysed shareholding data in the FTSE350 index of UK companies from the end of 2000 to the end of 2020, assessing trends in ownership distribution as well as corporate behaviour. We found that although the total share of FTSE350 value controlled by the 10 largest investors remained relatively stable at approximately 20% over this period, concentration *within* the Top 10 became substantially more pronounced, with BlackRock and Vanguard together controlling 10% of all value by the end of 2020. At the level of individual firms, we found a substantial upward trend with respect to the fraction of shares held by the top 10 investors in a given firm. Finally, with respect to corporate behaviour over this period, our analysis found that while productive investment had declined, shareholder payouts as a proportion of profits had risen substantially, with dividends reaching nearly 80% of pre-tax profits at the end of 2020.

These results suggest the UK is closely following the US in the solidification of an economy defined by asset manager capitalism, with implications for policymakers and others concerned with an economy that is more just, resilient and ecologically sustainable. In the context of soaring inequality following the pandemic as well as a deepening environmental crisis, the case for reimagining ownership and governance of large corporations, who often have significant impacts on these issues, is urgent. To that end, we conclude by identifying two primary paths which could drive a shift beyond asset manager capitalism.

1 Introduction

Who governs our corporations? Much depends on the answer to this question. The power of workers; the distribution of income; the scale and allocation of investment; and the ecological implications of economic activity – all of these outcomes are influenced by corporate governance, which in turn is in large part a function of the shareholder structure.

The corporation is at the heart of the capitalist economy, an institution endowed with extraordinary legal privileges and mechanisms for coordinating production. It is, crucially, not a fixed, ‘natural’ institution, but rather one that is constituted by politics and law. Fundamentally, the public constitution of the corporate form means that its structure and governance are inherently malleable, and can be reoriented or altogether remade to serve different needs.^{1/2} Indeed, at many points in history, they already have.

In both the UK and the United States, the second half of the 20th century saw two very different corporate governance regimes. During the post-war decades, the dominant shareholders were individual households, and corporate governance was characterized by managerialism. Corporations were run by managers who feared the power of organized labour more than that of weak and dispersed shareholders. This changed radically beginning in the 1980s, when “shareholder value” emerged as the new corporate governance regime. Coinciding with policies which weakened organised labour, this new regime was characterised by a coalition between corporate management and newly empowered shareholders, to the detriment of workers.^{3/4} The era of “shareholder value maximisation” was associated with a particular share ownership structure: instead of individual households, institutional investors came to dominate the scene, notably pension funds and actively investing mutual funds.

Over the past two decades, another tectonic shift in the shareholder structure has upended the assumptions underpinning the shareholder value regime. Regardless of who the largest shareholders previously were in any given country, today the rankings are increasingly topped by a small number of global asset management companies.⁵ A small cohort of companies have become the dominant shareholders in thousands of firms distributed across the globe as a result of their sheer – and rapidly expanding – scale. For instance, the two largest asset managers worldwide, BlackRock and Vanguard, currently manage \$9 trillion and \$8 trillion, respectively; by comparison, the total market capitalization of all UK corporations together currently stands at about \$4 trillion. In effect, BlackRock or Vanguard could thus each hold *all* the shares of *all* the firms listed on the London Stock Exchange, twice over.

What are the implications of this shift for corporate governance, and for the political economy of UK capitalism more generally? And (how) does it change the prospects and strategies for creating a more just, sustainable, and resilient economy? As it stands, economic coordination and governance, both within the firm and the wider economy, remains rooted in capital ownership and fundamentally oriented toward the interests of asset holders.⁶ As shareholding is reconcentrated within the portfolios of intermediary asset management giants, prevailing corporate governance rules and norms stand increasingly in tension with democratic and economic justice, as well as with environmental and climate sustainability.

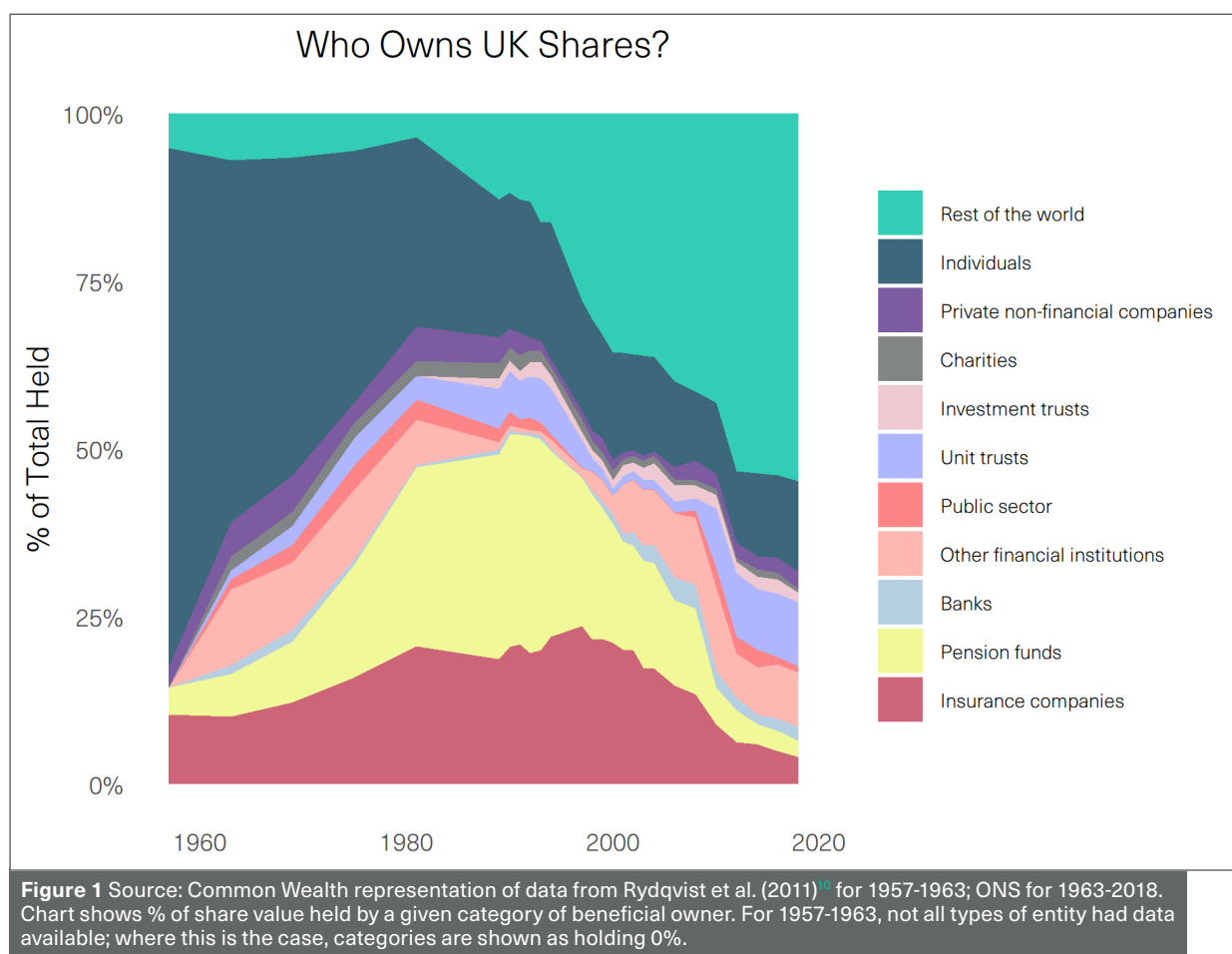
The central argument of this paper is that the UK is experiencing the emergence of a distinct and entirely new corporate governance regime: “asset manager capitalism”.⁷ The hallmarks of this regime are a newly re-concentrated share ownership structure in which the largest asset management firm – BlackRock – holds 7% of the shares of the average FTSE 350 company, and the top 10 investors together 20%; and – in a combination without historical precedent – fully diversified ‘universal’ portfolios as the defining structure of these asset managers, whose high degree of indexation means that they cannot, as a general rule, exit investments in individual firms, whether as punishment for undesirable corporate behaviour or otherwise. Documenting these developments with detailed, firm-level data on FTSE350 index of companies, this paper argues that the coming of asset manager capitalism adds to the pathologies of the shareholder value model, while at the same time fatally undermining the theory which has sustained and been wielded to justify that corporate governance regime.

2 Corporate ownership: The last 100 years

Shareholder structures evolve slowly and over long periods of time. The trajectory of the UK shareholder structure over the past century can, roughly, be divided into two phases: a long period of increasing shareholder dispersion was followed, in the 21st century, by a shorter period of rapid, still accelerating, reconcentration. The common trend across the two periods was the steadily increasing institutionalization of shareholdings – first in the hands of medium-sized insurers and not-for-profit pension funds, then in the hands of very large and often non-domestic asset management companies with for-profit, fee-based business models.

2.1 Institutionalization 1.0: Dispersion

Over the course of the 20th century, concentrated family control over corporations gradually gave way to a dispersed shareholder structure.^{8/9} The UK is an extreme case here – with the exception of the US, no other country saw more complete dispersion of shareholdings over this period. This dispersion took the form of individuals, families, and public authorities gradually selling off controlling stakes to insurers and, especially, to pension funds. Figure 1 charts this development, starting in the late 1950s, when households held two thirds of corporate equity. The institutionalization of shareholdings reached its peak at the end of the 20th century, at which time the household share had fallen to 15%.



Thus, by the end of the 20th century, the US and UK stood out from the rest of the world for their highly dispersed shareholder structures. Compared to other countries, very few corporations were controlled by large, strategic blockholders (single entities with majority stakes such as families, other corporations, or the government); nowhere else had the separation of ownership and managerial control advanced to such a degree as in these two countries.^{11/12} Importantly, up until the 1980s, the institutionalization of corporate ownership (that is, the shift toward institutional shareholders such as pension funds and insurance companies rather than individuals) was predominantly a domestic phenomenon, with domestic institutions remaining the major players. This changed radically thereafter.

2.2 Institutionalization 2.0: Internationalization and Reconcentration

Since the early 1990s, the UK's shareholder structure has seen a dramatic internationalization and reconcentration. These two developments are two sides of the same coin: the equity holdings of domestic pension funds and insurance companies peaked in the early 1990s. Since then, these institutional investors have somewhat reduced their exposures to equities. However, the main explanation for the shift shown in Figure 1 is that domestic

institutional investors have increasingly delegated investment to asset management companies, which frequently are based abroad, especially in the United States.

In comparative perspective, the resulting configuration stands out for three reasons. First, more than in any other country except the United States, the UK's shareholder structure is dominated by institutional investors (see Figure 2). Second, more than any other country except the Netherlands, the UK's shareholder structure combines high institutional ownership with very high foreign ownership – which is congruent with the fact that so many of the largest asset managers are US-based (see Figure 3, below).

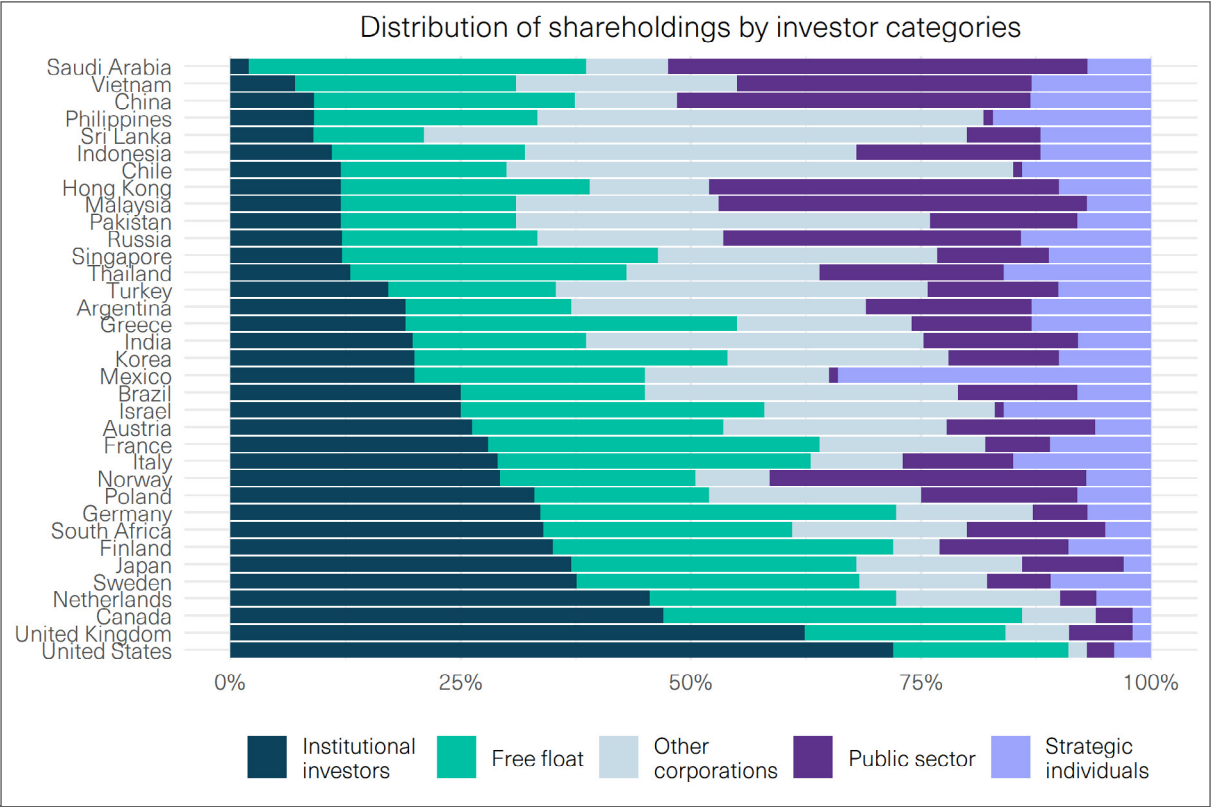
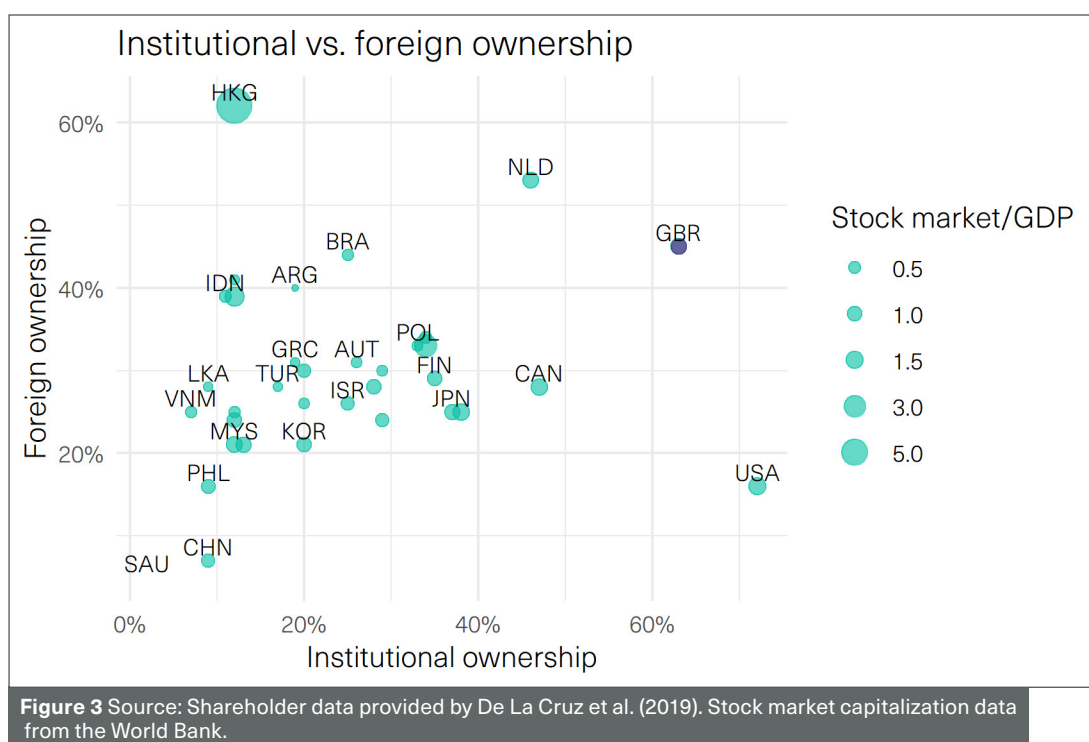


Figure 2 Source: Data kindly provided by De La Cruz et al. (2019).



The structure of share ownership in the UK also stands out for a third critical, if more subtle reason: the UK has the *lowest* degree of concentration when measured by the share of companies controlled by a single shareholder (owing to the relative absence of 'blockholders', such as single families or the state) but, together with the US, the *highest* degree of concentration when measured by the size of the combined holdings of the ten largest institutional shareholders. This hallmark of asset manager capitalism – the combination of diffusion (absence of controlling shareholders), concentration (large stakes held by minority shareholders), and universality (shareholders with large minority stakes across the whole economy) – is historically new, and its implications not yet well understood.

3 Asset manager capitalism as corporate governance regime

Asset manager capitalism thus marks a departure from the hegemonic corporate governance regime of the past three decades, commonly referred to as “shareholder value”, or “shareholder primacy.” Since the theory underpinning the shareholder value regime continues to be taken for granted by many, a brief explanation of its underlying assumptions is in order.

The first core assumption underlying the shareholder value regime is that (shareholder) ownership and (managerial) control, after having been united in most corporations, became separated. Whereas Adolf Berle and Gardiner Means diagnosed this separation for the US as early as 1932,¹³ it took another half century for family control in the majority of UK corporations to give way to dispersed ownership. The second core tenet was articulated by Michael Jensen and William Meckling's (1976) agency theory of corporate governance. They cast (outside) shareholders as the sole “principals” of the corporation – the only stakeholder group with a long-term interest in maximising corporate profits.¹⁴ Agency theory rests on the implicit assumption that shareholders have skin in the corporate governance game – that they invest in selected companies, possibly use their voice as shareholders to influence corporate strategy and, if the company underperforms, exit the investment. At the same time, agency theory conceptualized shareholders as structurally weak vis-à-vis inside shareholders and managers, and hence requiring special protection.

The field of corporate governance melded these theoretical assumptions into a rock-solid ideological foundation for the reorganisation of corporate governance around the rights and interests of weak and dispersed, but economically interested shareholders. In short, the shareholder value regime is justified based on the assumptions that ownership and managerial control are separated, and that institutional investors are active but weak shareholders, in need of maximum legal protection.

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The rise of giant asset managers has upended these assumptions. Asset manager capitalism as a corporate governance regime is defined by four hallmarks (see Table 1 in Braun 2021). First, contrary to the long-standing reality of dispersed shareholdings in the US and UK, stock ownership in these countries has become concentrated. Today, BlackRock's share of the total market capitalization of the FTSE 350 is over 7 per cent, and in many individual companies is considerably higher (see Section 3 for further details). While this may not seem enormous at face value, the share of the FTSE350 controlled by the 10 largest shareholders today is over 20%. To take a simple analogy, if the corporation were a small country, a full fifth of its entire voting power would be controlled by just 10 citizens among thousands – hardly a democratic arrangement. Then imagine those same 10 citizens also had a similar degree of control in hundreds if not thousands of other countries, and the picture becomes less democratic still.

Due to the growing size of their stakes, large asset managers are, in principle, strong shareholders with considerable control powers vis-à-vis corporate management. Additionally, unlike the speculative investors imagined by Jensen and Meckling, large asset managers hold fully diversified, or 'universal' portfolios. Thus, instead of investing in the performance of one airline, pharmaceutical company, or bank, they hold shares in all airlines, pharmaceutical companies, and banks. Finally, unlike the pension funds that dominated the corporate governance scene during the 1990s, asset managers are for-profit financial intermediaries with a fee-based business model wherein fees are proportionate to the size of the asset pool they control. As a result, rather than the economic performance of individual portfolio companies – the purported motive of shareholders with the shareholder value regime – they are concerned first and foremost with growing the pool of assets under their management.

More often than not, asset managers have chosen not to actively wield the power associated with such major shareholdings.^{15/16/17/18/19} That does not, however, mean that these asset managers do not exercise power, whether this means operating outside of conventional routes such as votes in corporate annual general meetings (AGMs), or by withholding this power in a strategic way.

For instance, research from ShareAction has suggested that in 17 out of 102 votes on shareholder resolutions pertaining to climate change in 2020, the support of just one of the 'Big 3' US managers – BlackRock, Vanguard or State Street - would have been sufficient for the resolution to pass.²⁰ Similarly, Friends of the Earth found that the 'Big 3' abstained on or voted against all resolutions pertaining to deforestation at companies for which this has been raised as a serious concern within supply chains (Friends of the Earth 2020).²¹ And in the 2018/2019 AGM season, a briefing from stewardship-focused asset management firm Sarasin & Partners noted “the overall percentage of votes against executive remuneration proposals was a mere 6% for FTSE100 companies and 9% for S&P500 companies”.²² Although some larger firms have made some recent moves on issues pertaining to climate risk, such as BlackRock’s vote against BP management on an emissions related resolution, this has not yet developed into a groundswell that is strongly shifting company behaviour; indeed, although BlackRock voted in favour of the resolution at BP, even with their nearly 7% stake, the resolution achieved just 20% total support, suggesting other major asset management firms remain resistant to ‘activist’ shareholder behaviour.

More fundamentally, the fact that a group of ten, primarily highly indexed asset managers with near-identical business models hold more than 20% of the shares of the average FTSE 350 company certainly is not without consequences, nor is the emergence of a handful of investor superpowers whose influence increasingly spills beyond the domain of straightforward portfolio management. We will return to these issues in the section “What do asset managers want?”.

4 Zooming in: The top of the shareholder crop

Despite its importance, the structure of corporate shareholdings rarely features in public debates about the economy and economic policy. The first and foremost obstacle is knowledge – even daily reading of the Financial Times affords only a vague sense of which shareholders own which stocks. Corporations tend to have thousands of shareholders, and comprehensive data about them are generally available only at a steep price from commercial providers. In order to lift the veil on the UK economy’s shareholder structure, we made a deep dive into that data, focusing on the 350 largest companies by market capitalization – the constituents of the

FTSE 350 stock index. In order to get a sense of what has changed over the past two decades, we compare data from 2000 to data from the end of 2020.

4.1

The age of the asset manager

As Figure 1 highlighted, the distribution of share ownership in the UK economy has changed substantially over the past several decades, marking a significant departure from the idealised vision of a 'shareholding democracy' toward reconcentration and, particularly, the concentration of shareholding within asset management firms and mutual funds. However, the breakdown of entities offered in the ONS statistics obscures key shifts in ownership in the UK, particularly the dramatic ascent of US-based asset management firms, which are lumped into the 'Rest of World' category.

The following chart uses data from the Refinitiv database to show the portion of the total value (aggregate £ Market Capitalization) of the FTSE350 that is held by different categories of investor, providing an insightful disaggregation of the 'Rest of World' category available from public data. As the chart demonstrates, asset management firms are entirely dominant, controlling nearly 40% of the £2.5 trillion value of the FTSE350 at the end of 2020, and have in fact doubled their relative control of the FTSE350 over the past two decades. Over the same period, the relative share of other key categories of institutional investor, including banks, insurers and pension funds, declined.

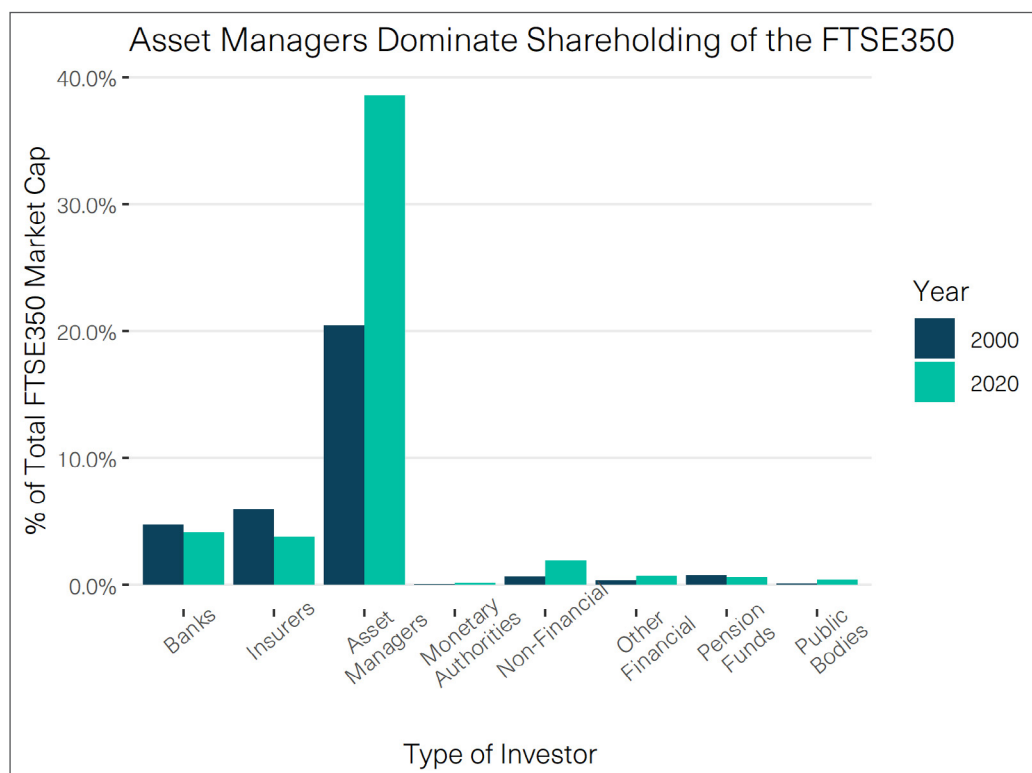


Figure 4

Note that in the chart, the total does not sum to 100% as certain categories of investor, such as individual retail investors and family trusts, are not shown. Direct holdings by sovereign wealth funds fall under 'Public Bodies'. Further, due to gaps in disclosure, our data covers approximately 60% of outstanding shares in the FTSE350 companies, with remaining shareholdings excluded often because positions are too small for required reporting, at a small fraction of a per cent. Values shown reflect fractions of the total % value of the FTSE350, rather than fractions of our shareholder coverage. In other words, the 39% stake for asset managers is 39% of the £2.5 trillion total, rather than 39% of our 60% coverage of that total value. Source: Common Wealth analysis of Thomson Reuters Refinitiv database.

4.2

The Rise of the Big 10

While there has been a substantial shift toward ownership by asset management firms over the past two decades, a second shift in ownership lurks beneath this trend: the significant re-concentration of shareholder power within the very upper echelons of asset management itself.

Figure 5, below, highlights the upward drift in the concentration of share ownership among the top 10 investors of a given company. There has been a clear trend over the past twenty years of reconcentration of shares among the 10 largest investors in a given company, with both less variation in the total fraction controlled by the top 10, and a higher average fraction. Though the FTSE 350 is of course just a representative sample, as a cohort comprising the 350 largest corporations in the UK economy, the chart below is a strong indication of the extent of re-concentrated ownership of the UK economy, standing in stark contrast to the vision of a 'shareholder democracy' advanced in the neoliberal shift that began in the UK in the late 1970s.

As an important methodological note, our analysis is unique, insofar as our system aggregates the shareholdings of individual subsidiary firms (e.g. BlackRock UK) up to the level of the financial group (BlackRock). With respect to the average stake controlled collectively by the Top 10 shareholders, the analysis presented herein will therefore often show a higher total % share for a given financial group (and consequently for the top 10 as a whole) than 'on paper' financial data. Thus, while the top 10 individual shareholders of, for instance, Anglo American PLC, together held 39% at the end of 2020, our analysis finds the true extent of concentration is 51%, owing to the presence of multiple holdings among several major groups.

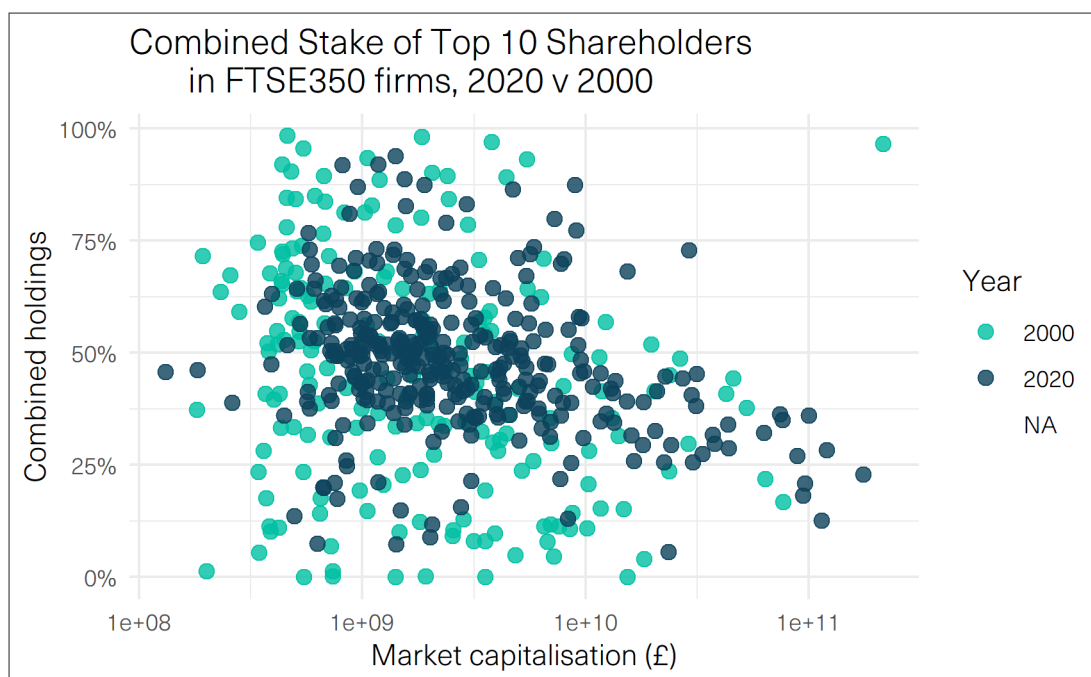


Figure 5 Source: Common Wealth analysis of Thomson Reuters Refinitiv database.

This upward drift is even more pronounced in the FTSE100. As highlighted by Figure 6, of the 55 FTSE100 firms present in the index in both 2000 and 2020, just 5 had greater concentration among the Top 10 shareholders in 2000; the remainder for which data were available at both time points were often significantly more concentrated 20 years later.

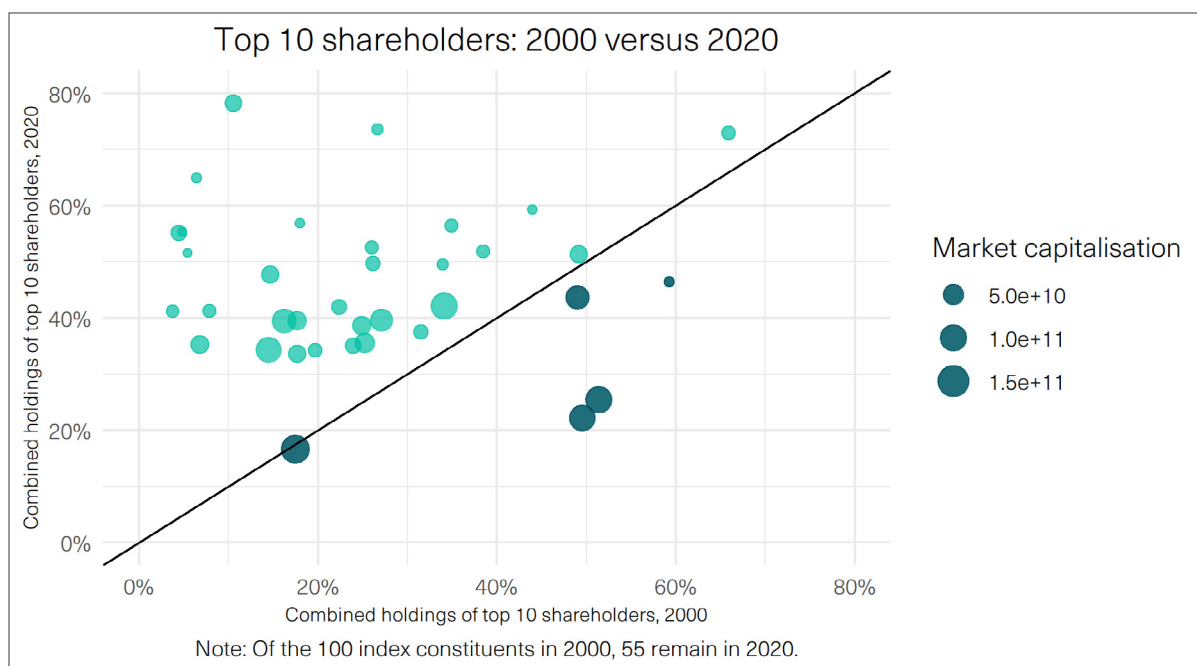


Figure 6 Source: Common Wealth analysis of Thomson Reuters Refinitiv database. Note Figure 6 refers to the FTSE100 rather than the FTSE 350.

Second, despite the share held by the very top investors growing substantially (BlackRock has doubled its share over the period to >7%), the average share of the remaining 9 shareholders has remained markedly consistent, meaning that a single firm - BlackRock - almost exclusively accounts for the significant increase in firm concentration among the Top 10 shareholders.

Meanwhile, Vanguard (highlighted in purple for reference in Figure 7, below) emerged from the fringes of UK share ownership to become the second largest shareholder of this flagship UK corporate index, followed closely by Capital Group, another American giant. Indeed, Vanguard was absent altogether from the Top 10 cohort just two decades ago with a cumulative stake of just a fraction of a percent but has since grown to become the second largest shareholder in the UK.

As of the end of 2020, the stakes of just 10 investors accounted for a full fifth of all value in the FTSE350 (measured as cumulative market capitalisation). Interestingly, while in 2000 the top 10 shareholders in the FTSE350 controlled a similar total fraction of the index's value (see Figure 8, below), a significant change has taken place within this cohort: in 2000, the ownership of the top 10 was relatively evenly distributed, while today, just two investors - BlackRock and Vanguard - together controlled an astonishing 10% of the total value, endowing these two US-based passive investment giants with a uniquely powerful position in UK shareholding and corporate governance.

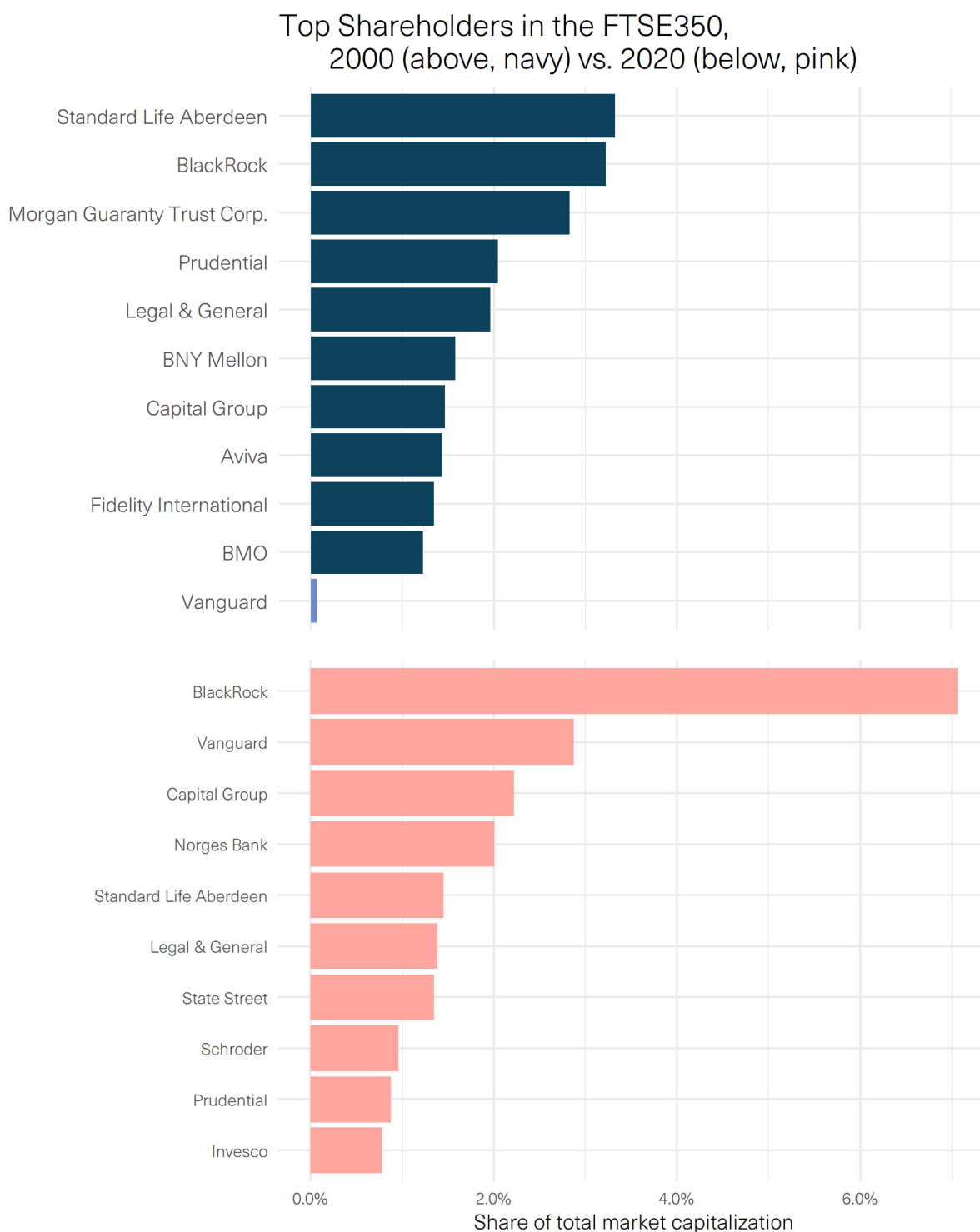


Figure 7 Source: Common Wealth analysis of Thomson Reuters Refinitiv database.

Another notable change in the composition of the top shareholders is the prevalence (or lack thereof, in the case of 2020) of domestic UK firms as top investors (Aviva, Legal & General, Schroder, Prudential, Standard Life Aberdeen) – an ‘internationalisation’ that is echoed in the ONS national shareholding data presented in Figure 1. According to Factset Ownership, the ‘internationalisation’ of shareholding is also related to the size of the corporations in question, with higher market capitalisation firms having the lowest UK-based ownership (e.g. UK-based

entities own less than half of the FTSE100).

The final observation relates to the diversification and indexation of the largest shareholders. The idea that large, institutional shareholders make informed bets, investing in some companies but not in others, is increasingly at odds with reality. The most important reason is the rise of index and exchange-traded funds (ETFs), and the fact that BlackRock, Vanguard, and State Street have effectively cornered this market.²³ The majority of these asset managers' equity holdings are invested via index-tracking funds.^{24/25} Figure 8.1 shows the highly indexed nature of BlackRock and Vanguard's shareholdings. Capital Group, the third-largest shareholder, although more reliant on active funds, is still a fully diversified holder of the entire FTSE 100 market portfolio. What is more, full diversification and indexation are not limited to asset managers managing trillions. This is illustrated by US public pension funds, the largest of which manage hundreds of billions of dollars. As shown in Figure 8.2, these funds, too, are fully diversified and, in the case of the largest funds from California, fully indexed.

Universal Shareholding in the FTSE100 (2020)

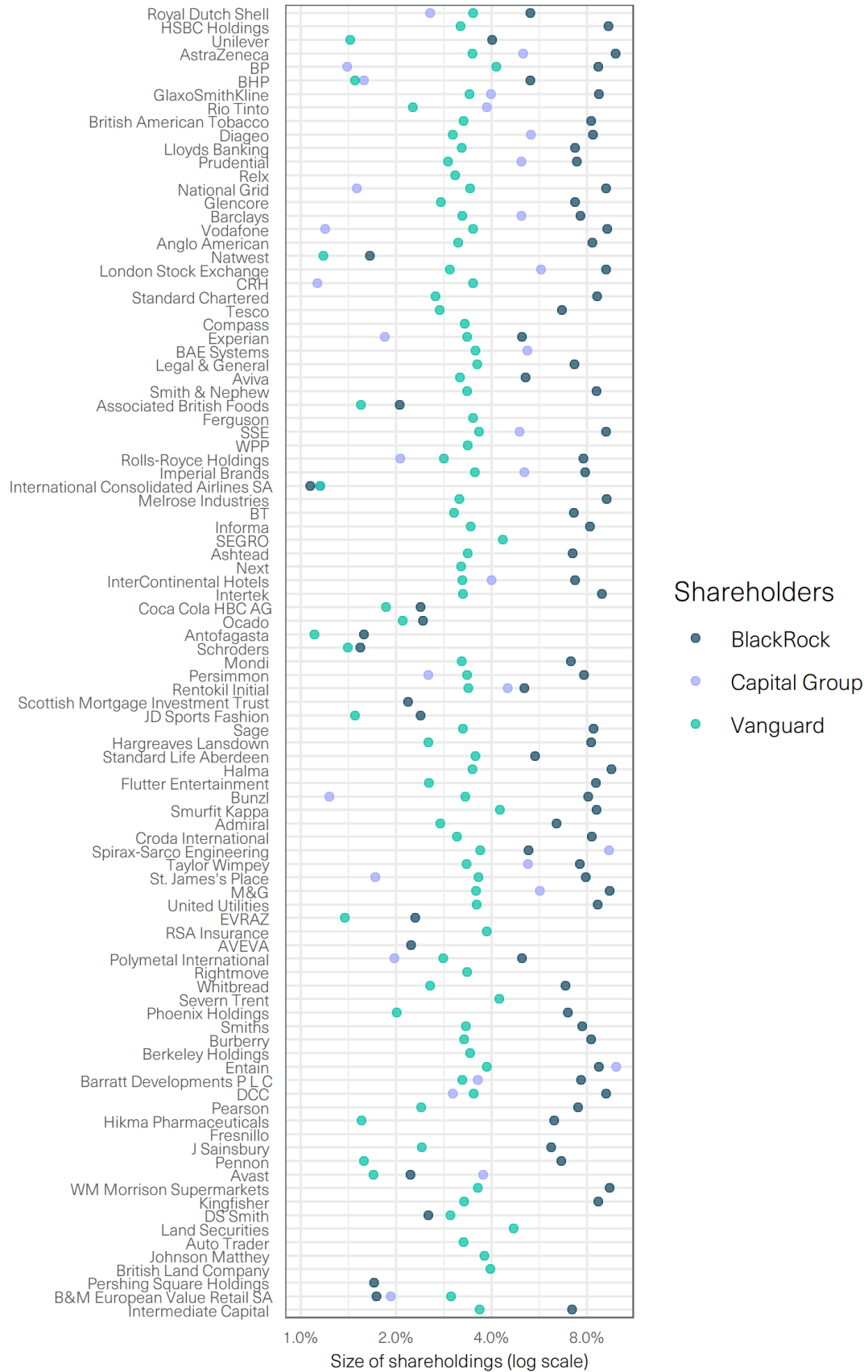
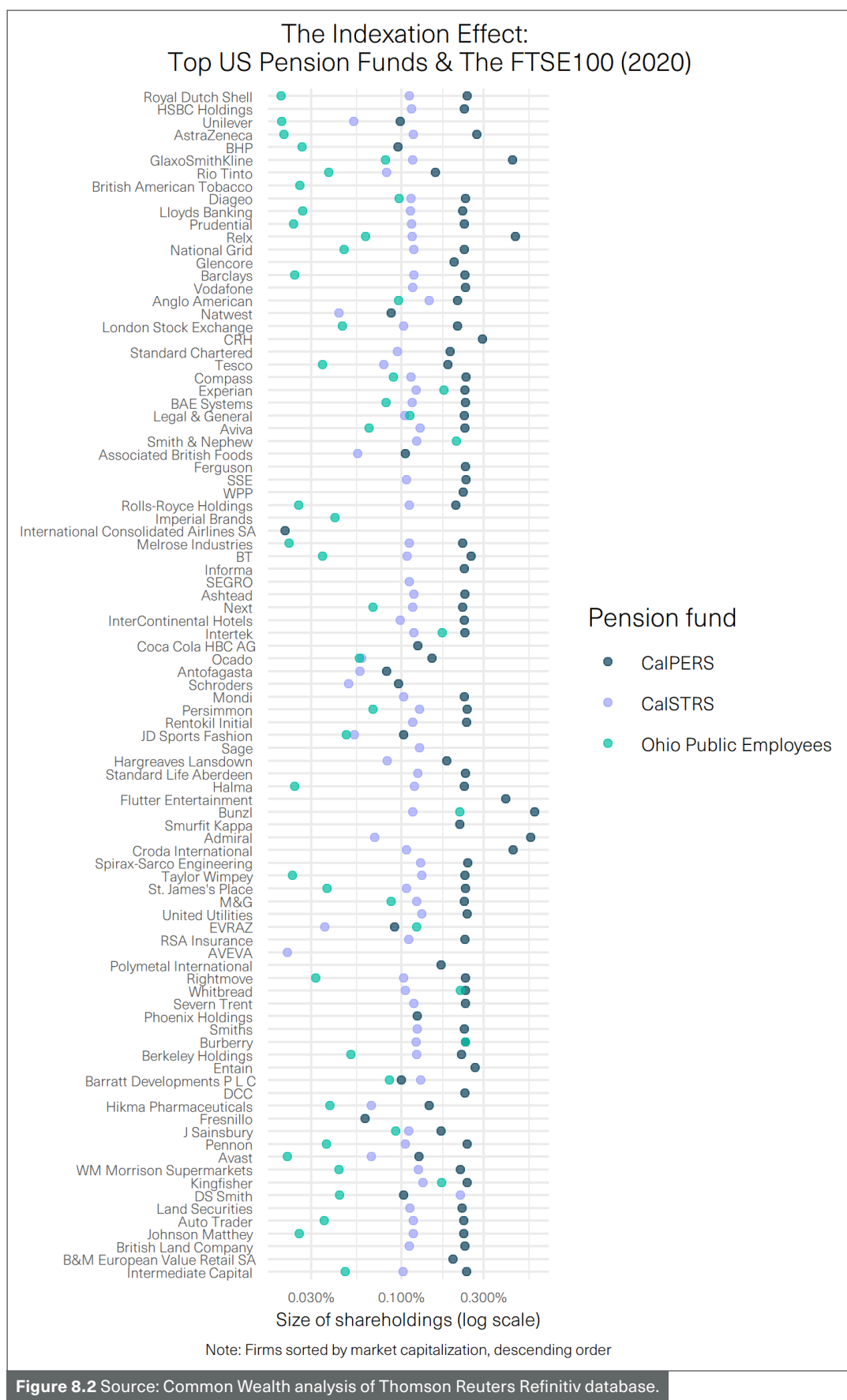


Figure 8.1 Source: Common Wealth analysis of Thomson Reuters Refinitiv database.



5 Corporate governance under asset manager capitalism: what do asset managers want?

For better or worse, shareholders are not what they used to be. We no longer live in the Berle-Means-Jensen-Meckling world (Braun 2021),²⁶ in which shareholders have skin in the game when it comes to the governance of each corporation they own. If the stock market is no longer about financing corporations, nor about allocating capital efficiently by betting on companies, then what are shareholders for?^{27/28}

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To date, the relentless rise of BlackRock and Vanguard has generally been rationalized as a continuation, and intensification, of the shareholder value regime. However, asset managers with fully indexed portfolios, large and illiquid stakes, and fee-based business models are fundamentally different from the not-for-profit, comparatively small and exit-happy pension funds that were at the heart of the shareholder value model. The displacement of the latter by the former as the dominant shareholders fundamentally changes the political economy of capital markets and corporate governance.^{29/30/31/32} If indeed asset manager capitalism constitutes a new corporate governance regime, then understanding its governing logics is pivotal to addressing major global challenges from inequality and wage stagnation to the climate crisis, as these logics shape the actions of the corporations at the heart of capitalist economies - and many of their pathologies. The question then begs: what do asset managers want?

This question motivates a significant body of ongoing corporate governance research due to its importance to the functioning of the economy as a whole. One key concept in this debate is that of 'universal ownership'. The largest asset managers are quintessential *universal owners* because they tend to hold the entire market in their portfolio, spanning industries and geographies.^{33/34} The promise for investors of universal ownership is that there are no externalities - that is, a consequence of an economic activity that affects other parties without being reflected in market prices] - for universal owners. If the conduct of one firm in BlackRock's portfolio creates negative externalities for other sectors of the economy, then BlackRock will be exposed to those externalities via its holdings of companies operating in that sector. As a result, it should be expected to aim for that level of externalities that is "efficient" at the macro-level - that is, balancing the negative impacts of externalities on affected companies with

the benefits of the activities in the source companies that cause those externalities. While seemingly persuasive (albeit from a purely economic perspective, as this logic neglects the impacts of those externalities that may not impact upon businesses but instead on communities, nature etc.), a closer look reveals that the promise of universal ownership rests on three rather demanding conditions.

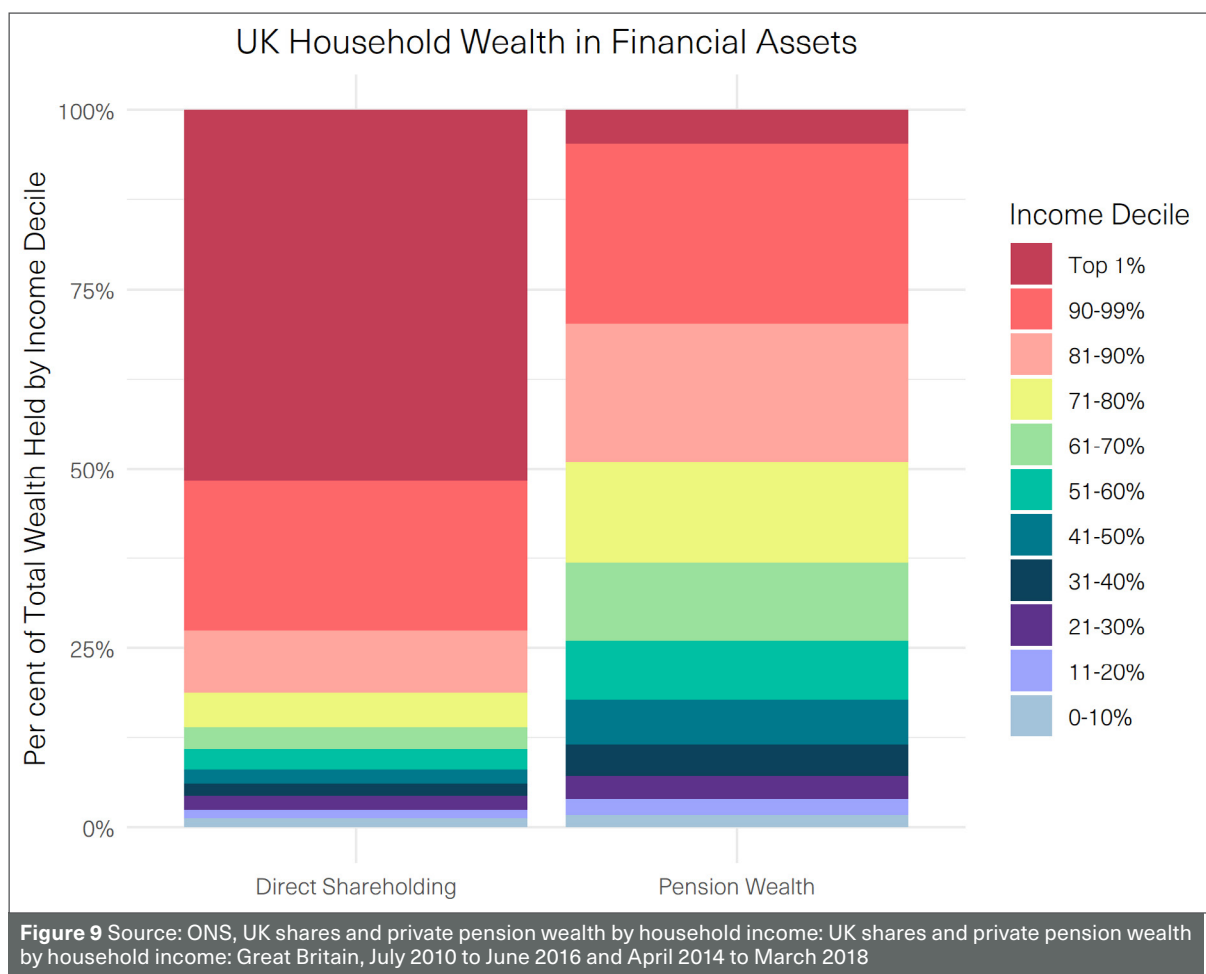
First, for BlackRock to actively wield its power, the gains from engagement must outweigh the costs. Here, the evidence shows that the largest and therefore most influential asset managers have been extremely reluctant to wield their power against corporate management. In practice, immediate cost-benefit considerations (engagement is expensive), conflicts of interest (corporate managers control a large portion of the retirement assets that account for much of asset managers' business), and fear of attracting unwanted attention from regulators and others often prevent asset managers from making open and explicit use of their power.^{35/36/37/38/39} While several large asset managers, including BlackRock, have begun to describe the climate crisis as a priority issue for their business, analyses have shown their actions have not generally reflected this professed concern.⁴⁰

Second, for universal ownership to be normatively desirable, for the argument to hold normative water, large asset managers' definition of "efficient" needs to align with that of the democratic majority in a given society. If that sounds too good to be true, that's because it is. The reasons are many. In any given industry, asset managers tend to be "common owners" of the largest competitors – a configuration that creates incentives for shareholders and managers to engage in anti-competitive, oligopolistic pricing in order to maximize profits at the industry level.^{41/42/43/44}

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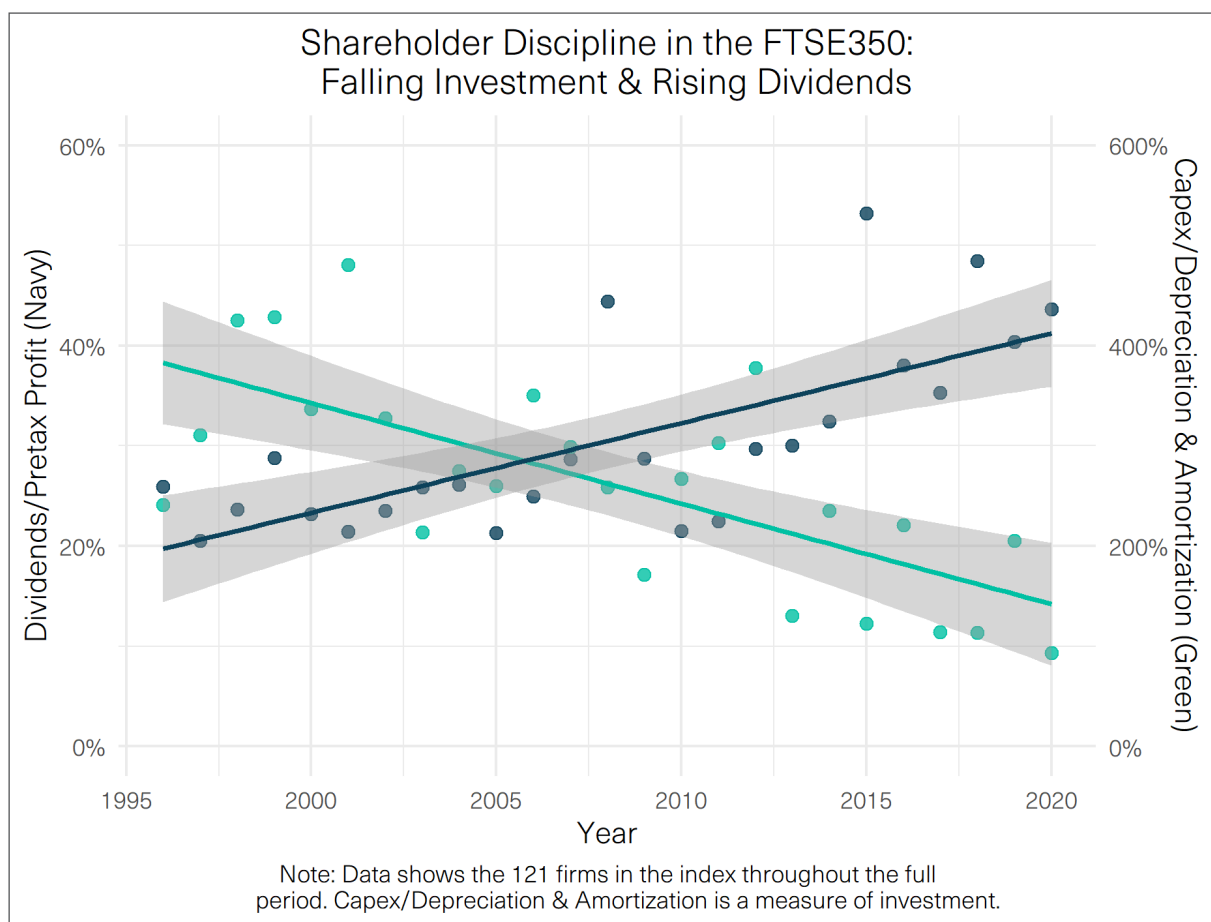
While the logic of the common ownership argument converges with the logic of the universal ownership argument for the largest asset managers,⁴⁵ that does not imply that the latter will deliver on the promise of universal ownership with regard to sustainability. The fact remains that asset managers pursue a fee-based business model, and are run by fund managers and executives whose economic interest is tied to annual bonuses rather than to the state of the planet in 10, let alone 100, years. What is more, even the most long-term oriented fund manager is under fiduciary obligation to obtain financial returns for their clients, which in a world in which social and environmental externalities are not – and arguably will never be – fully priced creates systemic "myopia".^{46/47}

Third, there is a rarely acknowledged, but absolutely fundamental, class-related reason that makes the promise of universal ownership, in practice, bound to be an empty one. Even if we assume that all agency problems are overcome and that asset managers act as faithful agents of their principals, the fact remains that those principals are not society, nor the democratic majority, but a small and unequally distributed class of asset owners – whether pensions, charitable foundations, or wealthy individuals. Holdings of corporate equity are extremely unequally distributed. As shown in Figure 9, in the UK between 2010 and 2018, the fraction of all corporate equity assets directly owned by the wealthiest 1% of households averaged over 50%. The distribution of retirement assets is somewhat less extreme, but even here – as shown in Figure 9 – the bottom half of all households held less than 20% of all private pension wealth over this period.



What follows is that shareholders' welfare is a poor proxy for societal welfare. Consider an economy in which shareholders of listed firms reap the largest share of productivity gains while real wages for workers stagnate – a good description of the UK economy since 1995, as illustrated by the data on corporate pay-outs shown in Figure 10. In such an economy, what looks like corporate conduct with *negative* externalities for society as a whole may well be perceived as a *positive* externality near the top of the wealth distribution.

Our analysis of key financial data for the FTSE350 over the past 20+ years shows a distinct trend toward stronger financial motives and behaviour among the FTSE350 firms, consistent with the expansive literature on financialisation of the firm - that is, behaviour which prioritises benefits for shareholders and managers (who are typically significant shareholders themselves).^{48/49/50} In 2020, despite the pandemic, aggregate dividend payouts by the FTSE350 companies represented some 90% of aggregate pre-tax profit - the outcome of more than two decades of upward drift which has seen shareholders reaping an increasing share of corporate profits, even as UK corporate debt has seen all-time highs in recent years and real wages have stagnated. Though some 80 firms did not pay a dividend during the pandemic year, a majority of these payments remained in place. Importantly, over the same 20 year period, as dividends rose, investment - measured as the ratio of Capital Expenditure to Depreciation and Amortization - trended downward (Figure 10).⁵¹



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Figure 10 Source: Common Wealth analysis of Thomson Reuters Refinitiv Datastream.

These trends are consistent with substantial literature on the ‘financialisation’ of the real economy as a consequence of the doctrine of shareholder primacy. However, this mode of corporate governance - and several of its critics - continue to operate under the assumptions of a system of ownership that is no longer relevant. Where does this leave us regarding the political economy of asset manager capitalism? Critiques of the negative effects of shareholder value maximisation on corporate behaviour in the ‘real economy’ are many.^{52/53/54} However, as corporate governance and ownership structures transition away from the shareholder regime from which the concept of shareholder value maximisation arose, it will be essential to understand why the new regime of asset manager capitalism has thus far failed to change these horizons, and indeed what the horizons of shareholders under asset manager capitalism really are.

While the wellbeing of shareholders is certainly a poor proxy for the wellbeing of workers or the whole of UK society more broadly, prioritising shareholder wellbeing has to date also proven to be a poor approach for minimising externalities that pose systemic threats to the corporations themselves, most saliently the climate and nature crises. This comes despite the increasingly ‘long-term’ positions that typify asset manager capitalism, often owing to the reduced availability of exit strategies available to indexed providers.

With respect to failures on issues such as climate change it may also be that, in the same way that many banks became 'too big to fail', mammoth asset management firms like BlackRock and Vanguard are now so influential and structurally embedded within the global economy that there may be an implicit understanding that their interests will be protected by government in major shocks. In other words, while climate change poses a uniquely systemic risk to universal owners which could, in theory make them *more* concerned with mitigation, their sheer size and universality endows the largest asset managers with a privileged position whereby they - and the assets of their ultimate beneficiaries - could be protected from major shocks.

While they are not subject to the same vulnerabilities as banks, as they don't own the majority of their assets (which belong to the ultimate beneficiaries), large, universal and increasingly passive asset management firms have been associated with the amplification of market swings and volatility.⁵⁵ In a system defined by increasing concentration of ownership in passive titans, these swings could become substantially more risky, threatening financial stability. The response of several central banks to the shock of the Covid-19 crisis, as well as years of quantitative easing following the 2008 financial crisis, reflect this policy priority, as sweeping asset purchase programmes by the Federal Reserve, European Central Bank and Bank of England have kept asset prices afloat, ensuring stability for asset managers and security for those whose assets they invest. This increasing influence has led some, including Senator Elizabeth, to suggest that large asset management firms receive the Systemically Important Financial Institution designation given to particular banks, though in light of the different risks posed by the current structure of asset managed, others such as Treasury Secretary Janet Yellen have proposed new designations and regulation based on types of activity rather than firms themselves.

The growing influence of the world's largest asset managers is also evidenced by recent examples of asset managers engaging directly in governance, including in drafting legislation that would regulate their activities.⁵⁶ For instance, owing to its supposedly unmatched expertise, BlackRock was hired to carry out the Federal Reserve's asset purchase programme in response to the economic shocks of the Covid-19 pandemic (purchasing several of the company's own ETFs in the process). Similarly, BlackRock was tapped to help in the drafting of sustainable finance regulation for the EU before drawing concerns from the EU Ombudsman. Indeed, the extent of their influence in state operations led two Bloomberg journalists to describe BlackRock as a 'fourth branch of government'.⁵⁷

6 Conclusions and Recommendations

6.1 What's the purpose of shareholders, anyway?

The above analysis provides a clear indication that prevailing understandings of ownership structures and corporate governance are no longer adequate.⁵⁸ In contrast to a world of diffuse, weak shareholders with clear and specific interest in the performance of the companies in which they have stakes, the UK economy is increasingly defined by asset manager capitalism, wherein a small number of ever more powerful - and critically, universal - investors dominate corporate share ownership. As we have argued, this structure is not aligned with arguments in favour of a system of corporate governance marked by activist shareholders and the imposition of 'financial market discipline' on individual firms. By contrast, the dominant shareholders of today, who often wield considerable veto power, are motivated not by the profitability of a few companies, but by the stable growth of the assets under their management, resulting in a consistent trend of reconcentration among a shrinking number of behemoth players.

We therefore find ourselves in relatively uncharted territory with respect to the structures and logics that govern the UK (and US) corporate economies today. Given the centrality of the corporate form to capitalist economies, it is vital to understand these new logics, and how they relate to the many pathologies which corporations embody and generate today, be it eye-watering wage discrepancies and executive pay packages, rent extraction and falling productivity, labour abuses, or immense environmental damage.

To do this, we must return to the fundamental question: what are shareholders for? The legal structure of the corporation grants shareholders an extraordinary privilege - limited liability - which shields them from liability for a corporation's actions, restricting their losses to the scale of their investment, while shifting the risks of the business to employees, creditors, and, ultimately, the state,^{59/60} thereby providing a form of public insurance for shareholders enabled and maintained by the state. What are the justifications for this profound privilege?

Within the Berle-Means-Jensen-Meckling world, shareholders are in theory the means of disciplining corporations to achieve optimal outcomes (defined narrowly as profitability). For corporations, shareholders (via the stock market) are theoretically a means of raising capital for productive investment. However, these premises are not borne out by reality. As Doug Henwood and others have forcefully articulated, compared to the volume of trading as well as share repurchases, very little productive capital is raised on the stock market through new share issuance.^{61/62} The stock market can be better understood as a source of liquidity for investors, and a tool for the asset owning to grow their wealth. Moreover, when it comes to shareholder behaviour, the stock market is an increasingly far cry from the ideal-type "efficient" allocation of capital that would, in theory, result from shareholders placing bets on winners; indeed, the bulk of share ownership and purchasing is now done by universal and increasingly passive, index-tracking investors with a correspondingly reduced ability to exit poorly performing companies in protest. Thus, the structure of ownership under asset manager capitalism means the justification for shareholder primacy fails even by its own terms.

In light of this reality, what is the future of the corporation, its governance and ownership? In its current arrangement, the corporation serves as an engine of wealth extraction, funnelling vast sums of money to shareholders - and not the oft-assumed inverse relationship - thereby

reducing productive investment and squeezing wages. Moreover, although universal long-term shareholders should, in theory, have a strong structural interest in tackling the climate and environmental crises, shareholder discipline has thus far proven unable to bring corporations on track to a 1.5 or even 20C world, and the investment firms with the most influence are often using this influence in direct contravention of ecological goals. This is not inevitable. The extraordinary legal rights endowed to shareholders and the corporate form itself are not fixed or 'natural', but constituted by politics and law.^{63/64} Economic coordination rights in the corporation are currently assigned exclusively to capital via property; labour is (in virtually all cases) excluded from the governance of the company.⁶⁵ Yet these rights and powers are publicly granted, legally defined, and re-codable. Rewriting these rules involves transforming corporate ownership and governance from a system of oligarchy toward an institution of the [commons](#).⁶⁶

Is the solution to simply 'de-financialise' the firm by returning to the ideal-type distribution of weak, acutely motivated shareholders, breaking up the increasingly oligopolistic landscape of asset management? Do we democratise the existing asset management system by changing the structural disconnection between ultimate beneficiaries and the vast firms who manage their pension assets? Or are there more fundamental questions to be asked about how we organise this critical institution?

6.2

Cutting out the middleman? Alternative models of ownership

As we have argued, the consolidation of the asset manager capitalism regime further calls into question longstanding norms of corporate governance and raises acute questions of the distribution of economic power in society and the speed and ambition of our response to crises including, most saliently, the overlapping challenges of securing a fair recovery from Covid-19 in the context of a deepening climate emergency. These structural problems rest on top of the already unjustifiable claims shareholders currently exercise against the corporation given their role is more akin to passive rentiers. In this context, a more ambitious reform agenda is urgently needed if the corporation is to be recovered as a social institution capable of generative enterprise and collective endeavour.

Two potential routes present themselves in terms of strategies toward that end; however, as this paper is focused on a detailed mapping of the UK's transition to an asset manager capitalism regime, this is not the place to explore these strategic visions in greater depth. These alternative paths will be explored and evaluated in greater detail toward the end of this year-long programme of work.

The first potential route toward a more just and sustainable model would be to harness the trends we have examined, namely the growing concentration of corporate ownership and spread of the 'universal' owner. But, in place of vast private for-profit firms discharging this function and charging beneficiaries and asset holders – the distribution of which is highly unequal in society – considerable fees and monopolising voting power in the economy, we would move toward a public utility asset manager model.

A 'People's Asset Manager' (PAM) could be a public, not-for-profit vehicle that would operate at arms-length from the government but have its investment and operational mandate defined democratically by Parliament. Its role would be to grow collective public wealth while ensuring it votes in the corporations in which it holds stakes in line with vital societal objectives such as reducing inequality, building just supply chains, and driving the rapid transition to a decarbonised economy. Over time, the PAM could develop into a vehicle comparable to a sovereign wealth fund such as the Norwegian Government Pension Fund.

However, to avoid the PAM simply replicating the features of private sector-based asset management or some shortcomings of existing sovereign wealth funds, a number of features could be built into its design:

- An ownership advisory committee formed of civil society representatives, trade unions, and other organisations which could define clear rules for the type of assets the body could hold;
- A robust and comprehensive shareholder voting policy on key issues based on pro-labour, anti-inequality, transformative climate guidelines;
- A strategic responsible investment policy based on public polling on key issues as well as a comprehensive view of fiduciary duty which considers the long-term interests of beneficiaries including a stable, sustainable economy rather than near-term financial returns;
- A robust corporate engagement programme based on key strategic objectives such as decarbonisation and labour rights, subject to democratic oversight and review.

The PAM could initially receive funds from public pensions as well as contributions from auto-enrolment. It could also be the institutional site of a potential social wealth fund, capitalised by public sector debt-financed acquisition of assets as part of a countercyclical tool of public policy. Over time, as it grew, the PAM could act as a growing voice for social equality and climate transformation in corporate governance in the UK. The PAM could also be a route of harnessing the features of universal ownership in a positive way. Theoretically, universal asset ownership should make an owner uniquely concerned with systemic risks such as the climate crisis. Endowed with democratic accountability and a clear mission for investing, the PAM would represent the potential of universal ownership for driving change on systemic crises.

However, what is clear is that even a significant PAM would not be a panacea for all issues related to the current distribution of corporate share ownership and its relationship to corporate behaviour and generative enterprise. An alternative approach would pursue a quite different strategy: shrink the disciplining force of financial markets on corporate decision-making, a force that currently puts pressure on the corporation to pursue the high-distribution, low-investment model that holds back UK PLC; democratise governance rights, replacing the oligarchic present, where shareholders monopolise control rights, to a stakeholder model in which labour is central and there is strong representation from civil society and environmental interests; and redistribute corporate income rights based on social participation rather than financial wealth. This could be done through new collective vehicles, whether that is within firm or beyond the firm, with income claims 'locked' within a defined group rather than tradeable on financial markets, i.e. a non-tradeable income claim on the corporation that is linked to a defined community, whether workers or society as a whole, but which cannot be traded away.

This vision would better recognise that the stock market - the site in which ownership claims are organised - has little bearing on real-world investment, as is popularly imagined, but instead serves primarily to provide liquidity to capital and to act as a channel of financial discipline on the corporation, ensuring it continues to act in service of shareholder interests. Moreover, this vision would accord labour the governance rights it is currently denied. And it would be a more effective way of ensuring an egalitarian distribution of the social product that derives from the corporation. With respect to the prevalence of the pensions system in share ownership (increasingly via asset manager intermediaries), the shift out of comparatively unstable equity assets is already underway,⁶⁷ leaving the stock market dominated by other players. Moreover, with a pensions system in crisis, there is growing recognition of the need for alternative means of providing security and dignity for all into old age that is not so reliant on the oscillations of the financial markets.

These proposals are not exhaustive, and merit a more comprehensive and balanced evaluation, which will follow in later publications in this programme of work. What is fundamental is that the tools to deliver change - shifts in the legal framework governing the income and control rights of shareholders, reshaping corporate governance, and reimagining how ownership claims are organised and exercised - are available, should we want to pursue a world in which the corporation is a source of generative and inclusive activity, rather than a site of extraction and concentrated economic power.

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