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The Control of Finance and Industry in Modern Democracies

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ABSTRACT

The aim of this paper is to investigate why credit cycles and business crises recur against a background of a series of elaborate regulatory and control systems. It is argued that financial crises that threaten economic growth and stability result mainly from the presence of recurring business cycles and the restricted notions and practices of control and regulation of both industry and credit. Finally, an attempt is made to sketch some principles that might help to maintain confidence and prevent some of the excesses that have led to economic crises in modern democracies.

JEL Classification: *L50, G10, G20.*

Keywords: *Modern industrial democracies; Crisis in financial management; Business instability; Regulatory cycles; Responsive controls*

1. INTRODUCTION: BUSINESS STABILITY, CONTROL AND DEMOCRATIC IDEAS

This paper considers the interest in industrial democracy in the context of frequent crises in financial management and in corporate governance. The potential for industrial democracy has been seen in various ways. Examples include demands to empower some neglected egalitarian aspirations, as with the Industrial Democracy Movement, or as a formula for industrial peace or international competitiveness in times of strife in labour relations. The fashionable status of the notions has risen or fallen with the general economic climate. It has tended to wane in times of relative industrial peace and to rise when fears of being overtaken by competitor nations are linked to labour unrest.

Against this background can be seen the persistent financial crises, connected with the credit cycle that was only recently declared to be extinct. As Skidelsky (2008) puts it, referring to the developing crisis in 2008,

> "...basically the authorities relied on 'managing expectations', by the gentlest adjustments to interest rates, to keep us in perpetual non-inflationary boom; we lived in a world from which inflations and depressions had been banished (έουν εξωστρακιστεί) , and for which Keynes was no longer needed. For ten years the new formula worked. We were blessed with what Mervyn King, the Governor of the Bank of England, called a 'nice environment' – a combination of strong growth in the US and Far East and the downward pressure on prices of a competitive globalizing economy. More fundamentally, Keynesian economics was rejected by most of the economics profession as having caused the inflation of the 1970s. The main prescription of the 'new' classical economics was to minimise the role of government and let markets do their job".

The unprecedented nationalization or near nationalization of some major banks in Britain and the United States late in 2008[1] demonstrates that the technical and control issues in industry and especially in financial services, are interconnected. The 2008 financial crisis came to a head Spring with the collapse of US financial businesses, including the mortgage lender *Fanny Mae,* the charging of executives of *Bear Stearns*, among others, with mortgage fraud of the year, and later, of the investment bank, *Lehman Brothers*, which collapsed on September 15th, 2008[2].

It is argued in this paper that

(a) Although the need for regulation in markets, in terms of maintaining competition and public safety is recognized, the modes so far used of regulation and self-regulation are too limited.

(b) Customers, the ultimate providers of income, tend to have no direct say in the design and regulation of products and services[3].

(c) Financial crises that threaten economic growth and stability result from at least two causes. The first of these is the presence of recurring business cycles. As already noted, these were declared to be a thing of the past, until the banking crisis and recession that began in late 2008. The second cause can be seen in the restricted notions and practices of control and regulation of both industry and credit.

2. INDUSTRIAL CONTROL AND REGULATION

Modern democracies in which markets are relatively free with a large private sector have demonstrated a capacity for innovation and growth despite frequent, if irregular, crises. These crises can arise, as in the 1980s and 1990s from fraud, abuses of power or other *causes célèbres.* They can arise, as in the 1950s and 1960s from attempts to maintain approved balances in international payments alongside endemic inflationary pressures. The crises can arise, as in 2008 from reckless supply of credit.

All these operate against a background of regulatory systems. These include, for example, anti monopoly institutions, health and safety laws, anti-drugs laws, and prohibition of various kinds of discrimination against individuals or groups. Regulatory agencies, codes of practice, and official (or semi-official) reports on good practice in corporate governance have also been part of the armoury against abuses or dis-benefits of market systems. Consultancies, professional bodies, pressure groups, business schools, parliamentary lobbies, think tanks that offer analyses of particular issues are all part of an elaborate series of control systems.

In view of the existence of all these, it seems appropriate to ask why credit cycles and business crises recur. It is suggested here that part of the answer is that there could be a mis-match between the democratic practices and ideals that inform the political processes of democracies and the processes of regulation and control of industry, whether officially owned privately or by the state. It is suggested further that in particular some of the major stakeholders in industry are systematically excluded from decisions and from the design of practices that affect them. Specifically, this paper attempts to address the need to involve consumers in the design and monitoring of the industries whose continued existence depends on their willingness to consume, or even to make a long-term commitment. Examples of the latter commitments include endowment insurance and mortgage deals. It will not be argued that customers could or should replace industrial managers or that customers should own industry (although provision for the latter has long existed in the presence of co-operatives). In many cases, a feature that inclines control systems to the problems identified above is the reward system, usually involving performance bonuses.

An attempt is made in the final part to sketch some principles that might help to maintain confidence, and perhaps help to prevent some of the excesses that have led to economic crises in democracies.

3. NOTIONS OF INDUSTRIAL DEMOCRACY

3.1 Themes in Industrial Democracy: From Bargaining to Emancipation

Interest in participation by employees in business policy and the running of industry has been a perennial theme. The interest has been inspired by democratic aspirations, for example by advocates of industrial democracy. It has been traced to the idealism of the early advocates of co-operatives, and in particular by Robert Owen in the late eighteenth century. The idealistic advocates have not provided the only source of interest. In the 1960s and 1970s, a huge rise of interest has been detected in the industrialised nations, followed by a diversion of attention to industrial change and globalization and in the subsequent decades to corporate social responsibility, corporate governance, business ethics etc. According to Van Liemt's (1992) outline, cited in Eaton (2000), the main types of structural change that demanded different forms of participation,

> "...are generally agreed to be: increasing internationalization of economic activity, availability of more flexible production techniques, growing out of information technology, shorter product cycles/faster innovation, increased importance of competitive advantage from quality, a shift from manufacturing to service; blue collar to white, changes in the composition, attitudes and education levels of the workforce". (Eaton, 2000, p. 7).

In the first stages of debates on participation, the focus of policy makers was occasionally on inflationary processes, which were, rightly or wrongly, associated with collective bargaining processes, which in turn were widely held to result from the industrial strength of trade unions (See for example Mitchell, 1980). In that period, a wave of interest was also supported by a belief that Japanese productive methods were generally participative, and explained Japan's economic successes (see for example Graham, 1995). In Britain in 1974 a major report, by the Bullock Committee on Industrial Democracy advocated a tripartite sharing of the running of (large) businesses, using the famous "$2X + Y$" formula, in which shareholders, employees, and independent outsiders would each have an equal share in appointing their company board (Royal Commission on Industrial Democracy, 1974). Part of the inspiration came from the experience of Works Committees and of the supervisory boards of German companies. However, the ideas of the Bullock Committee on Industrial Democracy were not implemented by an incoming government that was hostile in principle to involving trade unions and have not been since revived.

The subsequent developments in the forms and contexts of participation are well rehearsed (Burchill, 1992, 1997; Eaton, 2000; Sisson, 1975; European Foundation for the Improvement of Working Conditions, 2007. Initially the European Commission issued a directive on the establishment of European Works Councils in 1994, but the take-up has been patchy, with employers often hostile and with trade unions ambivalent.

In terms of institutional attitudes to participation, in Britain at least, the response to the idea of European Works Councils was not enthusiastic.

Burchill (1997) reports that,

> "Unions in the UK were generally ambivalent about such schemes, believing that they could lead to incorporation of representatives and in challenging decisions to which they had notionally become a party to making……
>
> ….If the unions were ambivalent, the employers were not – they objected to the whole idea of such representation, and, in the UK, they generally still do. Throughout the 1980s they were supported by the government, which was equally hostile to collective bargaining. The European Works Council (EWC) Directive of 1994 was opposed by the UK Government, which was allowed to opt out from its provisions. Trade unions in the UK have supported this development, recognizing that whatever the mechanism for representation, European experience is that trade unions end up playing a prominent role in the process. Also, given the weaknesses of trade unions in the present economic climate, it seems to be further recognized that anything which might give legislative support to worker representation might ultimately give a greater degree of legitimacy to trade unions". (Burchill, 1997, p. 197).

The general picture, then, is of a continuing, but small-scale interest in industrial democracy and participation for ethical or ideological reasons, and an occasional explosion of interest in circumstances of industrial turmoil, or when comparisons are made with other countries to which it is thought that competitive advantage is being ceded. Historically, the focus of attention in the participation literature has been directed to various forms of employee involvement in decision-making or in taking a financial stake such as bargaining and employee representation, 'empowerment', entrepreneurship, sub-contracting, attempts to create an 'enterprise culture', and the 'democratization' of industry, for example through the ideas of the Common Ownership Movement in Britain[4]. Recently attention is drawn to relatively new ideas such as those of social participation of groups other than shareholders, employees and managers – the 'stakeholder' models as proposed in the literatures on business ethics, corporate governance and corporate social responsibility. These ideas are to be distinguished the regulatory supervision of business practice by government agencies. The ideas result from the activities of various pressure groups and lobbies, which we discuss below. It can be added that at the institutional level, not much has changed by 2008.

If it is accepted that the concepts of stakeholders, business ethics and corporate governance are useful in discussing the theory of participation and industrial democracy, can the conditions or preconditions that could encourage them be located?

From the foregoing it is clear that the motivation to participate can be observed, but rarely in the forms usually envisaged in the literature on participation and industrial democracy.

3.2 The Demand for Participation in Various Contexts

People often do participate voluntarily in large numbers as consumers at shopping centres and in a variety of organizations, for example, religious, sporting and leisure (Gregson and Crewe, 2003). People join pressure groups in relation to the causes that they support, or as a mater of professional interest.

Concerns are often strong enough to form lobbies, environmental and consumer, for example. People do show awareness of abuses in industrial practices, and, sometime with support from the mass media, seek redress. These attempts are forms of participation, but usually by isolated individuals. Some financial services continue for decades to generate a felt need to change practices, as shown by frequent re-designs of regulatory bodies.

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4. REGULATORY CYCLES

The legislation aimed at control of industry in various contexts, from antimonopoly policy to health and safety employment, to which reference was made in Section 2 above, has been evident in most modern economies. The regulation of banking and finance has developed in response to problems of balancing international payments, as well as to successions of financial scandals (Donaldson, 1992), or for inflation control.

In 1998, a book published in association with the Bank of England noted that,

> "... many countries have experienced significant banking sector problems at some stage during the past fifteen years. The outcome has been worse than in ante period since the Great Depression of the 1930s. The main causes have been those that have traditionally attended commercial banking since its historical beginnings, i.e. poor credit control, connected lending, insufficient liquidity and capital, and in general, poor internal governance. In most countries, especially perhaps the emerging and transitional countries, there is a need for enhanced and improved external supervision to reinforce internal controls. (Goodhart *et al.*, (1998), page xvii).

Ten years later, in 2008, all the factors listed in the above quotation were present in a major financial crisis that many observers and governments considered to be comparable in prospect to that of the Great Depression of the 1930s. Taken together, the difficulties that brought the crisis can be explained by:

- the need for re-regulation after the relaxation of exchange and HP controls from the early 1970s onwards,
- the rapid rise in the size of the financial services industries worldwide,
- globalisation through relaxation of controls,
- the rapid rise of Far Eastern economies,
- the growth of multinational enterprises,
- new technology, especially digital technology, increasing the power to make more goods more cheaply, and to process transactions, including financial ones,
- the rise in the number, size ands scope of financial scandals,
- successive waves of privatizations, leading to a perceived need for more sophisticated regulators and regulation,
- the increasing scope of EU liberalisation of capital movements.

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The difficulties presented by these developments have led to varying styles of centralization and decentralization of controls, and of oscillations between statutory controls and self-regulation, along with codes of practice with various levels and styles of enforcement.

The well-researched problems of statutory regulation include especially those of the sheer complexity of the rules and of their enforcement, and of regulatory capture, in which the practitioners' perspectives come to dominate the rules and their application. This latter issue was judiciously explained in Goodhart *et al.* (1998, p. 193),

> "There must be practitioner input into the regulatory process. If regulation is to be realistic, the regulator needs to work closely with the profession, and there should be due consultation about regulatory issues……. Regulatory agencies should be staffed by well-qualified people.... Regulatory agencies often serve as fruitful recruitment grounds for regulated institutions. For these reasons, regulators should be remunerated at a competitive market rate in order to attract and retain well-qualified personnel."

It is not a purpose of the present authors to discover whether, or to what extent these difficulties were avoided in the development of the 2008 banking crisis. However, it is clear the within the financial services industries, bonus schemes played a major role in creating the culture of easy credit that most observers considered to be a major factor in its development.

The particular point of interest at this point is to discover how such a culture was deemed acceptable, in the light of acknowledged need for 'due consultation'. To anticipate a later section, a hypothesis is that it is likely that the skill and professionalism of the regulators has been of a high order, but that there are unacknowledged assumptions on the basis of regulation that need to be made explicit.

It will be seen that consumers and other stakeholders have no real part to play as yet in the design of control mechanisms, although consumer councils are beginning to be includes in some monitoring procedures.

4.1 Regulation and the Law

The law covers only some of the rule-making processes in business. There are many reasons for this. Businesses have their own codes of practice, whether written down or not. Business federations and trade associations also, increasingly have their codes

4.2 Regulatory Agencies

Regulatory agencies serve as intermediate institutions between businesses and the law. Although they may be set up by law, and often have powers to fine companies, they provide for a great deal of input from the industry concerned. They can publish discussion papers, and usually have staff on secondment from the relevant industries. Britain has regulatory agencies, for example, for electricity and gas supply (OFWAT and OFGAS), financial services (The Financial Service Authority), education (OFSTED), rail operation, water Supply (OFWAT), and telecommunications (OFTEL).

Some agencies also have additional regulatory features, such as the Insurance and Banking Ombudsman services.

4.3 Regulation and Self-Regulation in Financial Services

It is possible that globalisation and new technology are tending to make financial markets approximate conditions of perfect competition. If so, there is likely to be a tendency for regulatory regimes to resemble each other more closely over time. As things stand, there are several international regulatory organisations (Table 1):

Table 1

	Regulatory Organisations
CORSA	Council of Securities Regulators of the Americas
IAIC	International Association of Industrial Co-operation
OECD	Organisation for Economic Co-operation and Development
GATT	General Agreement of Tariffs and Trade
NAFTA	North American Free Trade Agreement
The Wilton Park Group	Informal Meetings sponsored by the British Treasury: includes discussions of offshore issues

Source: Authors' elaboration from various sources.

Of course there is no doubt that regulatory arrangements differ between countries. Table 2 below shows some examples of regulatory entities in particular countries:

Table 2

Country	*Regulatory Arrangements*
United States of America	The Securities and Exchange Commission and the Securities Acts (1934 onwards) The Treasury Department Self-Regulatory Organisations (SROs) The Stock Exchanges (NASDAQ; NYSE etc) Clearing Corporations
Japan	The Ministry of Finance's "administrative guidance" Long-term policy and financial control International Agreements
Singapore	SIMEX: the Singapore International Money Exchange
Hong Kong	The Hong Kong Stock Exchange
The European Union	Statutes and Directives: freedom of capital movement Principle of Home Country Control Investor Protection
United Kingdom	Subject to EU directives The Financial Services Authority Self Regulatory Organisations (SROs: eventually abolished under the Financial Services & Markets Act of 2000)

Source: Authors' elaboration from various sources

It should be noted that the regulatory arrangements evolve. The self-regulatory organizations were eventually replaced by an integrated structure within the Financial Services Authority.

From the 1940s to the early 1970s, financial services were regulated by statute that were, and were intended to be restrictive. The developed, Western world's monetary system operated under the Bretton Woods Agreement that established a gold exchange standard. The supply of gold was regulated. The price of gold was pegged at $35 an ounce.

An increasing number of exchange crises led, by the early 1970s to a system of floating exchange rates. In the mid-1980s it became clear that major problems were emerging, including the great "pensions mis-selling scandal", in which people were persuaded to leave their occupational pension schemes and take out private pensions. A series of financial services scandals, including bank collapses – and major losses at Lloyds of London led to the Financial Services Act, 1986. The Act set up the Securities and Investments Board as the senior regulator, with industry-specific regulators, such as the Personal Investment Authority (PIA); Securities and Futures Authority (SFA), regulating the stock market; the Investment Managers Regulatory Organisation (IMRO) *et. alia.*

These were funded by the industries that they regulated. The regulation was through a series of Rules, approved by the Treasury. Individuals in certain occupations were required to be 'fit and proper persons', often required to be qualified by examination, then, in effect, licensed to conduct business. Independent Financial Advisers were also established, by examination.

A British House of Commons Select Committee (Treasury and Civil Service Committee) was appointed in the early 1990s and presented its final Report in 1995. The background was a series of criticisms of he 1986 Act, and of the working of the self-regulatory regime. They included:

- the manipulation of markets in the takeover by Guinness the Distillers Company,
- investment fraud, notably in the Barlow Clowes affair,
- the problems of the losses at Lloyd's of London and the subsequent problems of the Lloyd's "Names",
- the collapse of the Bank of Credit and Commerce International (BCCI) as well as other smaller banks,
- the failure of the London FOX (the London Futures and Options Exchange), one of the recognised Investment Exchanges, to prevent employees from engaging in improper conduct in collusion with firms operating in a new property futurés exchange,
- the widespread sale of home income plans (products allowing purchasers to convert equity tied up in their homes into income) to customers for whom the product was not suitable, and, perhaps most worrying,
- Robert Maxwell's systematic theft of large sums of money from the pension funds of is various companies (Howells and Bain, 1994, Chapter 11).

The Committee's final Report in 1995 recommended no major changes, and the then government agreed. The Committee saw difficulties in establishing an international regulatory framework.

In 1997 the incoming British Government asked the Chairman of the Securities and Investments Board, Sir Andrew Large to bring forward a plan to implement the Government's policy for reform of financial regulation. The Report to the Chancellor recommended a new single statutory financial regulator, later called the Financial Services Authority. The existing specialist SROs became subject to the FSA.

From the (British) House of Commons Report (1994), and from observation, the following assumptions of regulation with a UK emphasis have been identified:

- The need for individual investor protection
- Specific regulators for specific industries (inevitably giving way to a single regulator system)
- A need for practitioner involvement
- A basis of promulgation of rules and penalties
- A need for licences and register of licensees
- A need for international co-operation on rules and enforcement

From the above analysis it becomes clear that some continuing problems exist in the field.

For example, in Britain a multi-million-victim 'pensions' mis-selling' orgy of the 1980s left a continuing legacy. Furthermore, alleged over-selling of home ownership endowments left many with shortfalls and this is building up to a major issue (*The Times*, Page 37, 2.11.99) that reached a climax in 1980. In the Autumn of 1991 the issues of the role of auditors and non-executive directors were raised in problems of ENRON, the energy company in USA (see, for example, Cruver, 2002).

5. PARTICIPATORY CONTROL SYSTEMS FOR MODERN DEMOCRACIES

The role and limitations of detailed prescriptive regulation in industry were referred to in Section 1 above. Many industries and companies publish codes to supplement legislation, and in some cases to pre-empt it.

There are long-established examples of participative systems, from works councils and large retail co-operatives, credit unions and worker co-operatives to consumer panels and pressure groups. Interest varies in intensity according to perceptions of general competitiveness, or, with an occasional sense of urgency, for example, when factory closures are mooted.

The many, often apparently competing, pressure groups and lobbies that are concerned with aspects of business, for example in relation to road and passenger transport, fuel prices, "green" policies and practices, and animal welfare typically work in isolation from each other.

The interest in corporate governance, corporate social responsibility and business ethics is generally focussed upon voluntary codes and legislation aimed at changing the behaviour of top management, and of others via that route. The various lobbies and pressure groups tend to work in isolation from each other (although there are, as always, exceptions). Early ideas on participation were predicated upon large factory and mine units.

Business continues to create and distribute wealth, although the location, conditions and outcomes remain problematic.

> "The likings and dislikings of society, or of some powerful portion of it, are thus the main thing which has practically determined the rules laid down foe general observance, under the penalties of law or opinion". (Mill, *op cit.* page 132).

The demand for participation in matters of business and employment has tended to be as a reaction to some of the effects of business rules set by élites.

Can means be found to encourage co-ordination or co-operation between relatively isolated pressure groups with a view to adjusting the rules around an agreed, democratic agenda?

The development of consumer or user panels and ombudsman schemes in financial services appears, in principle at least, to be a step in this direction. Financial services in, particular, provide an area in which concern has been expressed by governments, individual consumers, the media and pressure groups, in relation to mis-selling and financial causes célèbres in many countries for decades. They continue, for example in the housing loan finance crises that surfaced in 2007 in the United States, and in the United Kingdom in relation to penalty charges on customers levied by retail banks[5]. Legislation and codes of practice, voluntary or imposed, have nor so far prevented the development of crises in these areas.

It seems that the original demands for participation and industrial democracy arose mainly from experience in large factories and large employment units, where participative systems could naturally be designed as representative systems involving constituencies that elected representatives. The demands for participation were most often of short duration and arose when factory or plant closures or major redundancies were announced by companies. The concerns of multiple stakeholders were rarely considered. So far as wider application to constituencies other than shareholders and employees are concerned, the interest in stakeholder models in the business ethics literature has not been developed to the point at which credible institutional arrangements are in place (Donaldson and Fafaliou, 2003).

Contemporary concerns away from the arena of employment include "green" issues, traffic congestion, especially in towns and cities, food standards and the conditions of international trade (Freeman *et al.*, 1995). The many pressure groups that emphasise ethical or "good causes" often present competing demands. Governments and their economic ministries usually see themselves as "holding the ring" and as making judgements in the light of these competing demands. However, many cases, of which the financial services issues and the climate change issues provide examples, appear to be intractable on that basis. Either developments are slow to materialise or appear to be aimed at alleviating, rather than curing the problems at issue. Thus, traffic congestion is alleviated, but only for a time, by building more roads or issuing more traffic restrictions.

If developments in the participative direction are to be made on these matters, all of which have major implications for employment conditions, it seems to us that new mechanisms will be needed for establishing constructive dialogues between the various constituencies.

The shortage of practical applications of *stakeholder theory* appears to show that although the signs of renewed need exist opportunities for meeting the need are rare. The opportunities appear to depend on the willingness of competing pressure groups and interest groups to engage in dialogue, where acceptable temporary measures appear to be the enemies of the longer-term interests of all of the groups. Modern communications technologies may help to the extent that dialogues between competing groups are technically more feasible now than the used to be. The conceptualising of the conditions under which dialogues can be conducted, and the will to proceed, remain problematic.

6. DESIGNS FOR RESPONSIVE CONTROLS IN MODERN DEMOCRACIES

The environmental debates and the recurring financial crises illustrate a need for business standards that are adhered to at an acceptable level. Particular weaknesses can be seen in consumer protection and in reducing the severity of periodic crises. At the same time, appropriate growth and care of natural resources continue to be major issues.

Technical and legal expertise is essential for continued and steady prosperity, but they are clear not sufficient conditions for it. Regulatory capture and the phenomenon of 'hunting'[6] for effective control systems illustrate the difficulties.

Consumers of financial services often provide a long-term and substantial commitment to the industry, which depends upon them. Sometimes, financial products are so complex, or expressed in specialist language that even directors of financial companies have claimed not to have understood them.

Consumers have little or no say in the design or delivery of the products and services that they are committed to, other than the choice of to buy or not to buy. In some cases, even this is restricted to choice of supplier, for example when motor insurance is compulsory for owners and drivers. It is clear also that the use of complaints schemes through various processes (including "Ombudsmen") do not prevent some widespread practices that are questionable or problematic or lead to the periodic crises. In Britain, the Consumer Panel of the Financial Services Authority is able to comment on matters of interest, and to comment on the extent to which the Authority has met specific objectives, but company and industry codes of practice remain the product and property of the companies or trade bodies that published them.

6.1 Some Design Possibilities

It would be unrealistic to expect major changes in the formal responsibilities of directors of companies for the purpose of producing new control and monitoring procedures. To the extent that directors are not able to discharge their duties fully, for example by fully understanding their products and processes, it is not unreasonable to seek to ensure such understanding[7].

In practice, proposed new products are tested by means of consumer surveys, but again, these processes are unilaterally produced and delivered by companies.

6.1.1 *Responsive Codes and Practices*

Many companies and trade bodies produce codes of practice or codes of ethics. The extent to which they are adhered to is problematic, as shown by the Enron case (Cruver, 2002, P. xii, Forward by Steve Salbu).

A design problem is how to create a system in which realistic expectations of those who have to do with major industries can become involved. This would include having a say in designing and monitoring codes and procedures with a view to reducing any mismatches between the expectations of the various constituents.

6.1.2 *A Business Practices Review Group*

For each industry in which a potential benefit is considered a voluntary group is suggested. Before the funding and membership of such a group are considered, it is appropriate to attempt to identify some main aims. Some possibilities are:

(a) To be independent of all interest groups.

(b) To identify existing codes and practices which affect various constituent parties or groups.

(c) To identify best practices.

(d) To indicate the extent to which best practices are met, and to suggest improvements.

(e) Analyse and publish comments on emerging or continuing issues.

(f) Identify obstacles to the implementation of best practice and suggest improvements.

(g) Invite responses from individuals or companies, with a strong editorial right to limit further correspondence after initial comments or responses. The purpose of the limitation is to prevent long debates on specific events or issues. Such debates would have a legitimate place, but that would be left to other, existing institutions.

Such a body would differ from existing institutions in several ways:

- Individual complaints could be noted, in confidence, but not published in such a way as to identify any of the parties involved.
- The Review Group would not become involved in lobbying, or in individual cases as a conciliator, arbitrator, ombudsman or adviser. It would recognise that the problems identified are not all from a single source, and that no particular constituency has a monopoly on high standards.
- The Group would not identify individual firms or other parties involved.

The membership of such a group would need to be on an individual basis so as not to become a channel for any particular interest group. A 'Registry' with an editorial function and an elected Council of, probably about nine members, representing a mix of interests and experience could provide an operating basis on for the group. Publication would be through normal channels. Funding would be on the basis of individual membership fees to demonstrate independence from particular interest groups. The amount of work done by the group would clearly depend on the level of funding achieved from members.

7. THE PRECONDITIONS FOR PARTICIPATORY CONTROL SYSTEMS

Current practice of 'watchdog' organizations is relentlessly 'top-down': experts, directors, legislators and consultants and publicists are usually included. Their contributions clearly valued and it is argued that the need is for supplementation not for replacement. The aspirations for industrial democracy remain relevant, and the review groups would help to meet some of these aspirations.

If more effective control systems are needed in the light of the recurring financial and industrial crises, as is argued in this paper, the preconditions that appear to be appropriate include a willingness to recognise that the top down models of administration and control are part of the problem. Additionally, attempts to set up such groups would, by their success or abandonment provide a measure of public willingness to pursue pro-active means of adjusting acceptably, between competing values and interests.

Notes

1. For a succinct account of the practical developments worldwide that led to the 2008 crisis, see *The Economist.com*, Link by Link", October 16th 2008.

2. A chronology of the development of the crisis from 2007 is provided, for example, by *Finance*, "Chronology: Financial Crisis Spreads from US to works markets". *www.dw-world.de/dw/article0,2144,3689713,00.html*

3. In Britain, the Financial Services Authority has appointed a Consumer Panel to monitor the Authority's initiatives and procedures for consumer protection. The Panel issues reports and comments on progress towards the achievement of the Authority's initiatives.

4. The Common Ownership Movement in the United Kingdom includes a variety of organisational forms relevant to employee participation, including workers' co-operatives. The Industrial Common Ownership Act (1976) provided some funding for start-up enterprises (as did some Local Authorities). The size and number of enterprises affected remain small.

5. Following consumer protest and much participation in reclaiming charges imposed by retail banks on 'unauthorised overdrafts', the UK Office of Fair Trading initiated a High Court action to determine whether the charges were fair and lawful. The hearing ended in February, 2008, pending a test case, to be completed by July, 2008.

6. The term 'hunting' refers to processes of oscillation around a desired state.

7. Press reports indicate that some directors have claimed not to understand the products and procedures that led to the 2008 crisis. See, for example, articles by Sukhraj (31 January and 6th March) and Anon (10 September) in *Accountancy Age* (2008). See also Auerbach (1991) for similar comments on the collapse of the BCCI bank in 1991.

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