Conrad Black and Hollinger International: a financial oligarchy out of control

Part two

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17 September 2004

This is the conclusion of a two-part review detailing the findings of the "Hollinger Chronicles". Part one *was published on September 16.*

As well as detailing the lavish personal expenses that Conrad Black and his wife Barbara Amiel charged to the company, the Breeden investigation reported a list of abuses which, it alleged, Black and his sidekick, David Radler, had committed. These included:

* Taking $9.5 million in 2000, without telling Hollinger International's board. Radler paid Mark Kipnis, the internal lawyer, $100,000, to facilitate the unauthorised transfer

* Diverting nearly $200 million to Black and Radler via Ravelston through excessive and unjustifiable management fees

* Transferring income generating Hollinger assets to entities controlled by Black and Radler for free or below market value

* Taking about £80 million of Hollinger's cash as loans to HLG, one of Black and Radler's private companies, without paying market rates of interest, using Hollinger's own cash to repay debt that HLG owned to Hollinger, or not repaying HLG debt to Hollinger

* Cutting the interest rate on a $36.8 million loan Hollinger had made to HLG from 13 percent to 4.9 percent without authorisation

Some of the most serious allegations relate to transactions in which newspaper titles were sold to other newspaper groups. As part of the deals, Black agreed not to launch competing titles in return for a non-compete fee. Instead of paying these non-compete fees to Hollinger International, these fees were paid to Black and Radler.

The report criticised the board of directors and audit committee—made up of well known financial and political figures—for failing to stop the alleged looting, although it acknowledged that Black withheld information from them. These included James Thompson, a former governor of Illinois and chairman of Chicago based law firm Winston & Strawn, Richard Burt, a former US ambassador to Germany and Marie-Josee Kravis, wife of the famous financier, Henry Kravis.

It stopped short of accusing them of breaching their fiduciary duties to shareholders, which would have made them legally liable for their actions. However, it did claim that Richard Perle, the former chairman of the Pentagon's Defence Policy Board and a leading neo-Con in the Bush camp, was personally liable for "his abject failure to fulfil his fiduciary duties". Perle evidently regarded his post as head of an executive committee at Hollinger International as a sinecure. According to the report, he had a "head in the sand" approach to his job.

He repeatedly failed to "read, evaluate, discuss or attempt to understand" documents that he signed that facilitated Black's alleged wrongdoing. "Perle's own description of his performance on the executive committee was stunning. In fact, he admitted that he generally did not read [consents and resolutions he signed] or understand the transactions to which they applied," the investigating committee stated.

The report accused Perle, as former chairman and chief executive of Hollinger Digital Trireme Partners, of enriching himself at the expense of the company. He received $1.8 million in bonuses as well as his $3 million salary, despite the fact that company lost $67.8 million. The committee demanded that Perle repay the money that he received from the firm.

Even Black began to tire of Perle—despite the latter nodding through millions of fees for him. "As I suspected there is a good deal of nest feathering being conducted by Richard which I don't object to other than that there was some attempt to disguise it behind a good deal of dissembling and obfuscation," Lord Black wrote in an email to a colleague. "My instinct told me that Perle and a partner [at Trireme] were trying to smoke one past us," he added.

He wrote to Perle saying, "I have been consulted about your American Express account that has been sent to us for settlement. It varies from $1,000 to $6,000 per month and there is no substantiation of any of the items which include a great many restaurants, groceries and other matters."

In addition to Richard Perle, Black had also recruited Henry Kissinger, President Nixon's Secretary of State, and Shmuel Meitar, an Israeli businessman, as non executive directors to Hollinger's board. But the report found that they had acted reasonably in relying on the audit committee.

A number of points should be made about this corporate kleptocracy. The Hollinger scandal, following hard on the heels of Enron, Tyco and WorldCom, marks a qualitative degeneration of the capitalist economy and the corporate elite.

Black and his wife epitomise a whole layer whose obscene wealth and conspicuous consumption are no longer simply based on the high salaries paid to senior executives for presiding over the extraction of surplus value from the working class. Neither are they being rewarded for corporate growth, ever higher profits or even the asset stripping of an earlier period. Rather, if the practices reported by the Breeden commission are largely true, their lavish life styles and social position depend upon diverting the proceeds of such asset stripping to themselves.

The report paints a picture of a corporate, financial and political establishment that is corrupt to the bone and wracked by crisis.

It is rare if not unprecedented for an investigation to come out so openly and call a spade a spade. That it has done so is because Black's looting has cut across the interests of other investors and financial institutions, under conditions where it is becoming ever more difficult to make the financial returns that the increasingly voracious stock market requires.

In short, it is symptomatic of the crisis of the profit system itself. The subordination of the production of wealth to the extraction of private profit—the basis for the capitalist economy—has now reached such a depth of decay that fraud and deception has become its modus operandi.

Hollinger and financial commentators have blasted Black's greed because such plundering is incompatible with the needs of the ruling elite. Its corporate lieutenants no longer put the long term interests of their owners before their own personal interests. It denotes a completely parasitic layer, which serves only itself, with no commitment to even the most basic elements of accountability.

As such, it expresses a new social phenomenon, that of a corporate oligarchy that is out of control. None of the "corporate governance" mechanisms so beloved of the financial press—non-executive directors, audit committees, external auditors, and all the rest—were able to stop it. Indeed, they were part of the problem.

While the Breeden report and the press commentary have detailed the extent of the corruption and the possible criminal activity of Black, Radler and Amiel in very explicit terms, all of this serves an important political point. It seeks to stop investigation at the very point where it should go further. The decisive question, which is not raised, let alone answered is: what are the driving forces within society that have led to a situation where corporate kleptocracy has come to play such a central role?

While city analysts have ascribed the problem to an over dominant personality and a complex and opaque corporate structure, the phenomenon is too widespread to be an aberration. The Hollinger/Black scandal is not the product of a failure in "corporate governance", but is deeply rooted in structural changes in political relationships between classes.

In an earlier period, the ultimate check on the excesses of the ruling class was a politically organised working class, and the need to maintain a social consensus out of fear of provoking a revolutionary explosion. Even though millions of workers sought political and economic representation by reformist parties and trade unions, the ruling class was nevertheless acutely conscious of the Russian Revolution in 1917 and the revolutionary upheavals in Europe that followed World War I. It was this fear of an explosion of the class struggle that led the bourgeoisie to begrudgingly grant welfare reforms and social concessions. They reigned in their own worst excesses not merely out of a shared interest in preserving business norms conducive to sound practice, but a common fear of the consequences of not doing so.

The erosion of these concessions and the re-emergence of a financial oligarchy ready to carry out corporate banditry all over the world in the last 25 years are reminiscent of decaying empires from Rome to the modern day. They are directly bound up with the absence of a politically conscious movement in the working class. The socialist conceptions that animated large sections of workers in the aftermath of the Russian Revolution came under sustained attack from Stalinism, labour reformism and trade unionism, which together attacked genuine socialism. But this has since reached a decisively new stage, with the repudiation of even the most minimal defence of the social interests of the working class by its old organisations. In this fundamental sense, the degeneration of the official labour movement and the growth of corporate criminality are intimately related.

Real control cannot be exercised by tightening the rules and procedures administered by a thin layer of society. It can only be established when all members of society, particularly the producers of wealth, are able to determine how society's resources should be utilised and developed. Such a social order presupposes the socialist ownership of the means of production—what passes for public debate is determined to avoid at all costs this becoming the central issue.