BHS scandal in the UK: The real face of capitalism

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Years of corporate asset stripping and the financial skulduggery that epitomises the pursuit of “shareholder value” have ensured the demise of high street retailer British Home Stores (BHS).

One hundred sixty-four stores are set to close, while 11,000 workers will lose their jobs and 22,000 workers, including retired workers, will lose much of their pensions. Tens of millions of unpaid taxes and redundancy costs will be borne by taxpayers.

But as far as two House of Commons select committees were concerned, Sir Philip Green, the former owner of the high street retailer BHS once lauded as “king of the high street,” had committed no crime. He was simply the “unacceptable face of capitalism.”

The report of the Work and Pensions and Business, Innovations and Skills Committee is just one of many similar reports into corporate scandals published in the 43 years since Conservative Prime Minister Sir Edward Heath dubbed the events at Lonrho, the African-based mining conglomerate headed by Roland “Tiny” Rowland, as “the unpleasant and unacceptable face of capitalism.” Rowland’s position as Lonrho chief executive was the subject of a 1973 High Court case in which eight Lonrho directors sought his dismissal. Among the claims made against Rowland were that he concealed financial information from the board.

Heath’s aim was to present Lonrho as an aberration, and to deflect attention from the more fundamental processes of which they were an expression. This latest report, which paints a devastating picture of the criminality, parasitism and greed of British capitalism, has the same aim.

BHS, for long a major player on Britain’s high streets, collapsed last April with debts of £1.1 billion. Its owner, Retail Acquisitions Ltd, a financially dubious outfit, was headed by Dominic Chappell, a thrice bankrupt former racing driver with no retail experience. In March 2015, he bought the financially distressed BHS from Green for just £1, following an introduction by Paul Sutton, a convicted fraudster. Green was anxious to offload the chain, which the Work and Pensions Committee said “had become a financial millstone and threatened his reputation.”

Green, a billionaire ranked 29 of 1,000 in the *Sunday Times*’ rich list, had bought the store for £200 million in 2000 via a leveraged buyout, and proceeded to bleed the company dry, slashing wages and conditions and squeezing his suppliers. While this enabled him to boost BHS’s profits in the short term, it fatally undermined its long-term viability.

Green starved BHS of much needed investment, allowed the pension fund to go from a pension surplus to a £571 million deficit, loaded the company with debt payable to his other companies, and used BHS’s assets to secure the loans. At the same time, Green funnelled at least £1.5 billion out of BHS through a complex web of companies, many of which were registered offshore, in the form of dividends to his wife, a resident of Monaco, thereby avoiding UK tax.

The report accused him of appalling judgement and excessive greed in allowing a pension surplus to become a huge deficit on his watch, taking hundreds of millions out of the business in dividends, and then selling BHS for £1 to Chappell, who was “manifestly unsuitable” and “a chancer” with no retail experience and a long record of bankruptcies.

Moreover, Green loaned money to Chappell to fund the purchase, holding on to £35 million of BHS assets as security. Thus, he is now BHS’s chief creditor who must be paid first, ahead of unsecured creditors, including the tax authorities and outstanding employee claims.

The promised £120 million that would secure the future of BHS—the apparent basis for the deal—never materialised and the situation deteriorated. Despite negotiating a rent reduction and selling some of its property, BHS was unable to pay its creditors or plug the pension gap. After Green's Arcadia Group demanded "immediate" repayment of the £35 million loan, BHS called in the administrators.

The report also exposed the complicity and criminality of some of the biggest names in the City of London. It noted that the City law firm Olswang and accountants Grant Thornton had received some £8 million in fees in their capacity as advisers to Chappell's outfit when it was so clearly unfit to lead any enterprise. When the Commons asked for the documentation surrounding their role in the catastrophe, they refused to cooperate, claiming "confidentiality."

Similarly, Green's advisers, the leading law firm Linklaters, relied on Olswang for the "due diligence" checks on Chappell to assess whether he was reputable. Green's investment banker, Goldman Sachs, while claiming only to provide informal advice to Green, became the "gatekeeper" of the transaction, lending "lustre to an otherwise questionable process" and gave Green a chance to say he had acted on the best advice.

The distinguished barrister Lord Grabiner, the well-remunerated chairman of BHS's ultimate parent company, was asleep at the wheel, taking no part in the sale. He admitted he had only learned about the sale to Chappell from the media. This is the man who, until recently, was collecting huge fees for advising the Bank of England on ethical wrongdoings.

The report reiterated the tired refrain of the need for stricter accounting procedures, oversight and pension controls, and said that Green had a "moral duty" to find a resolution for BHS pensioners. Thus far, he has offered the trifling sum of £40 million. This from a man with three yachts, the latest costing around £100 million, and a penchant for extravagant parties costing millions.

The two parliamentary investigations into the collapse demonstrated the real state of relations between Britain's corporate and political elites. Green's evidence session saw him contemptuously dismissing subservient legislators with constant interruptions, bullying, insults and evasions. Every word spoken by this arrogant super-rich billionaire expressed his outrage over their audacity to question him, even in the meekest manner that they did.

Green's response to the report was to threaten to sue Frank Field, the chair of the Work and Pensions Committee, after the legislator accused him of behaving like a thief during a radio interview.

When Heath made his remarks in 1973 about Lonrho being the unacceptable face of capitalism, the processes he pointed to were only just beginning.

Today, the BHS collapse and Green's role expresses in so many ways the real face of Britain's financialised and parasitic capitalism, stripped bare of all the cosmetic niceties in which it is usually dressed.

Asset stripping, sale-and-lease-back arrangements, the use of a complex web of companies and tax havens are now the norm, not the exception. Advisers, in the words of the Work and Pensions Committee, are used to legitimise "people who would otherwise be bereft of credibility," while the board of directors, far from exercising any check over a CEO, facilitate the expropriation of the wealth created by the workforce by the corporate owners.

BHS is only the most graphic expression of what has become the universal "business model" for achieving "shareholder value." This mode of accumulation, with its attendant semi-criminal activities, has come to dominate society as a whole. No amount of controls and regulations can rectify this situation because the processes that gave rise to it are no longer peripheral but central to the functioning of the capitalist economy.

The political task today is not a futile attempt to reform the present social order but rather its complete transformation. The needs of working people—the producers of all wealth—are subordinate to the ever-more frenzied process of profit accumulation for the benefit of the enriched few. Living conditions for the majority have become intolerable. Society must be re-organised along socialist lines, so that the mode of accumulation of wealth is subordinated to the needs and requirements of its producers and is controlled and regulated by them.