Skyrocketing executive pay is a symptom, not the disease [1]

Written by **Eamonn Butler** [2] | Tuesday 22 November 2011

The High Pay Commission sounds like an official body. That's the whole idea, and that may be why it is being so widely reported. But in fact it is not a government body [3]. It was established by Compass (slogan: 'Direction for the Democratic Left'). Its Chair, Deborah Hargreaves, who has been doing all the media on it, is a former Guardian business journalist. The panel of six also included one LibDem peer, the TUC General Secretary, two fund managers (no friends of high executive pay they) and the former Director of Christian Aid.

So it is maybe no surprise that this crew complain about bosses' pay. It's risen 40 times since 1980, they claim (except they say 4,000%, because it sounds a lot more), and FTSE chief executives now earn a hundred and more times that of the average worker. This is 'corrosive' they say and at this rate we will create 'inequalities last seen in the Victorian era'. So this 'Commission' is not exactly a restrained and objective survey, then.

But let's not forget that the world has changed since 1980, and rather dramatically at that. We had the big bang, for a start, which transformed the UK's rather sleepy capital markets into a global financial force. That gave businesses here the power to expand and to become truly global. More than half of the investment in the FTSE 100 now comes from overseas. The FTSE index is not a UK index any more, but an index of global companies that just happen to be listed on the London Stock Exchange precisely because our capital market is so vibrant. And it hardly needs saying that if you want someone to run a massive international company, you need to pay them a lot more than someone running a small UK-focused company. It's chalk and cheese.

Bosses make the argument that if they weren't paid telephone-number salaries, they would all go abroad. Ms Hargreaves retorts that in fact, we don't see much movement abroad, and very few would. Well, if we are paying competitively, and people don't (at present) have to jump ship, how does she know? And in any case, the real problem is not so much people going abroad as people simply refusing to come to the UK. At present, FTSE companies attract talent from all over the world. If you can't pay that talent, that international edge will...er...corrode.

Ok, so you may not like high pay, but what is to be done about it? Ms Hargreaves' panel says companies should publish their pay multiples, that shareholders should vote on remuneration, and that workers should sit on remuneration committees. Oh, and there should be a new quango to 'monitor' high pay. Spare me.

The underlying agenda here is that there should be official curbs on high pay. There's no point in setting up bodies to 'monitor' something if you are not going to do something about what they monitor. But I would much prefer for companies to be deciding the pay of their staff rather than Vince Cable or some quango putting caps on it, which would be the next inevitable populist measure if we went down this road.

Still, I do agree that there is much that is rotten about executive pay in the UK. But that is mostly because we have too much boardroom regulation, not because we have too little. Following various other ? official this time ? commissions on corporate governance, executive pay is now decided by remuneration committees run by non-executive directors. Non-execs, of course, are often directors of other companies. So the impact of this regulation is a 'you sit on my committee and vote for my pay rise, and I'll sit on your committee and vote for yours' culture. Putting some shop steward on these committees to try to make them feel guilty won't do any good. The bosses will just decide everything over coffee beforehand and rubber-stamp it at the meeting. You know how committees work.

And yes, shareholders should have a lot more power, including the power to decide future pay policy rather than just complain about what has been. Again, corporate law gives far too much power to executives and far too little to shareholders. And shareholdings are, these days, dominated by investment funds who may not want to rock the boat and so damage their quarterly returns. So is it any wonder that executives pay themselves handsomely? Don't try to cure the symptoms, though. Cure the disease. Prescribe not more regulation, but more competition and better governance.

Update: This article initially said that the High Pay Commission was funded by the Joseph Rowntree Foundation. In fact, it is funded by the Joseph Rowntree Charitable Trust and the reference has now been removed.

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