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More competition is the key to limiting executive pay [1]

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In a BBC interview, UK Prime Minister David Cameron indicated that shareholders will be given more power to decide the pay of top executives. It is a welcome acceptance of the fact that government regulation of executive pay has not actually worked, and that it is better to leave pay up to the markets and to the shareholders who actually own businesses, and for whom the executives ? supposedly ? work. And it is good that Cameron has taken up the arguments on this that were voiced by the Adam Smith Institute back in November [3].

Executive pay has long been a contentious issue in UK politics for decades. In the early 1980s, Margaret Thatcher's 'big bang' deregulation of the financial sector led to sleepy UK banks and broking houses becoming major international players. It made the UK capital markets much more efficient, and much more international, and gave UK businesses access to fresh capital for expansion. With the technological improvements in communications and transport, it made the UK a truly globalised economy. Firms became much more productive, and many of the top stock market companies became much bigger. And executive pay increased to reflect that new scale and efficiency.

But high pay attracts envy, and soon there were calls to rein in 'fatcat' salaries. The Cadbury and Myners commissions were set up, and the upshot was that, to make pay more 'transparent', firms had to set up remuneration committees with non-executive directors, just to make sure that executives were worth their money. But that new regulation proved catastrophically counterproductive. Boards just chose directors of other companies to sit on their remuneration committees. So it became an endless round of 'you sit on my pay board and I'll sit on yours' and, not surprisingly, boardroom pay soared ? arguably well ahead of growth and efficiency.

This is the absurdity that Cameron now proposes to cut through, by giving shareholders much more power to decide executive pay. It is a power they should never have been stripped of in the first place, but that is politics for you ? politicians think they can run businesses better than markets and competition and real ownership can. Indeed, the Adam Smith Institute argued years ago, in a report *Competition in Corporate Control* [4] by Elaine Sternberg, and most business policy 'problems' would solve themselves simply by boosting competition, reducing regulation, and letting owners run the enterprises they supposedly own.

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