



Bonuses debate ignores problem of high salaries

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From Mr Will Hopper.

Sir, The entire debate on the subject of bonuses for bankers has missed two important points ("Big three call for bank bonus clampdown", September 4). First of all, bonuses are only a part of the problem in the Anglosphere - the bubble has been in total executive remuneration. Limiting bonuses will have little or no impact if salaries are also out of control, which they are. Second, this bubble has affected all aspects of business, not just banking.

Half a century ago, the chief executive officers of the largest US manufacturing companies were paid just 30 times the average earnings in their company; by last year the multiple had risen to 475, according to Fortune. This amazing increase was accompanied in some cases by an equally amazing collapse in the quality of their performance.

Recently, senior executives of both Citigroup and General Motors have driven their companies into bankruptcy, while drawing hundreds of millions of dollars in salaries and bonuses. Royal Bank of Scotland has not been far behind.

Attempts to tackle the problem have been bedevilled by the naivety of the underlying economic analysis. On the factory floor, the equivalent of the bonus culture had to be abandoned by the 1940s because it had become too complex to operate. If that is so, how on earth can it be successfully applied in the infinitely more complex circumstances of a modern boardroom? You end up with the nonsense of the last CEO of BP being more than handsomely rewarded for a rise on the company's cash flow - but that rise was largely due to an increase in the price of a barrel of oil from \$10 to \$160. Was Lord Browne in some sense personally responsible for that increase?

This basic question was first addressed by Alfred Chandler Jr, the great Harvard historian, in his aptly named book *The Visible Hand: The Managerial Revolution in American Business* in 1977.

Regrettably, the "visible hand" of "administrative co-ordination" has been exploited in the past 30 years by senior executives of large companies (not just banks) in the Anglosphere to pillage the companies that they run. That must stop. Senior executives of Japanese and German companies are paid, respectively, 11 and 12 times average earnings - a far cry from a multiple of 475.

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