

## BARCLAYS EXECUTIVE EARNS 1,000 TIMES AVERAGE WAGE

by William Rees-Mogg

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Barclays Bank has recently announced that Mr. Bob Diamond, the Chief Executive of its investment banking division, has been paid £22 million as his remuneration for the last year. This does not seem to be a record for London bankers - Goldman Sachs have gone higher - but it is a sufficiently large sum to attract attention. The criticism has not only come from the trade unions and the left. City salaries and city bonuses are resented because they seem disproportionate to the individual contribution; they are not fair to the shareholders.

When footballers or pop stars earn eight figure sums, their pay is set by the market. That is more or less accepted by the public. The same is true for professional services, such as those of barristers. If an advocate can win a case valued in billions, it is not surprising that his fee can be set in millions.

The criticism comes when senior executives claim what seems to be too large a personal share of a corporate profit, a profit which arises from the company and belongs to the shareholders. This resentment has put political steam behind the prosecution of Conrad Black in Chicago, and it is beginning to be a political issue in London.

When one looks at the comparative salaries in different countries the disparities are very surprising. I have recently been sent an excellent new book "The Puritan Gift" by Kenneth and William Hopper, who are brothers. Kenneth is an industrial consultant born in Scotland and now living in New Jersey. William is an investment banker, also born in Scotland, and now living in London. They combine, therefore, industrial and banking experience. I.B. Tauris is the publisher. The authors observe that "the Chief Executives of large Japanese companies are today paid only eleven times the wages of an ordinary worker.... Germany enjoys the next lowest multiple, twelve.... the comparative American figure is 475." The Barclays figure is about 1,000 - but that is investment banking, which generates very large profits.

Historically, these are very exceptional figures. As recently as 1970, inside the working lifetime of many senior executives, the typical Chief Executive of a large U.S. company was paid twenty five times the average wage. That, as the Hoppers point out, is not far from the multiple of twenty that Pierpoint Morgan, the greatest of all American bankers, had recommended a hundred years before that. There are many reasons why this may have occurred. The Hoppers point to the emphasis which many business schools have put on financial engineering as against industrial management - an emphasis reinforced by the development of private equity.

Taxes on high incomes have been reduced. Globalisation has produced companies of global size. Fund managers have to demonstrate short term performance and therefore support effective short term managers. Senior executives and sympathetic non-executive directors determine salaries, which are often linked to the share price. Nowadays Chief Executives usually serve for a relatively short time, and need to build up their capital before they leave office.

In this mix of factors there are positive and negative elements. They create a continuous pressure to raise short term efficiency. They tend to reward cost cutting and financial engineering rather than longer term development. The salary levels of German and Japanese executives certainly seem too low for the responsibilities they carry and the increasing personal risk of the Chief Executive's role.

Nevertheless, 500 to 1,000 times the average wage does look inordinate. It can hardly be justified by the market, since the market for directors' salaries is an insiders' market. I suspect that Barclays could have found an equally skilful investment banker for half the salary - that would still have been £11 million. It is up to shareholders to scrutinise these salaries, particularly when performance has not matched pay. In Barclays' case, it is fair to say that the shareholders have done extremely well. But there is a new debate to be held.

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<http://www.dailyreckoning.com.au/barclays-executive/2007/03/29/>