NOWT FOR NOWT?

OR WHO GOT WHAT, WHEN?

John Hughes

At the Annual Conference of the Confederation of British Industries (CBI) in Harrogate on 18th November, Sir Terence Beckett, the Director-General, said that as far as wage increases were concerned workers could expect 'nowt for nowt'.

In view of this argument that pay increases should be self- financing or not made at all this pamphlet reviews recent trends in company profits, investment, dividends and the pay of top business executives.

We find a dramatic and disproportionate increase in company profits in the UK — real *gross trading profits rose by 45% between 1981 and 1984 existing alongside a serious worsening of the relative income position of employees where at best* real *pay increased by no more than 2% over the same period.*

The pamphlet also explores the connection between profits and pay and shows that it was by removing workers en masse from their pay bills that the industrial sector first restored then increased their profitability. However, the higher costs of maintaining the unemployed have been borne disproportionately by those workers lucky enough to remain in work. We show that the National Insurance burden falling upon employees has increased by 52% between 1979-1985 whilst for employers it rose by just 6%.

In the meantime, increased profits have not led to increased investment. On the contrary, investment in the manufacturing sector fell short of simply renewing productive assets (i.e. zero net investment) by a staggering £5.5 billion between 1981 and 1984.

Rather than invest, companies have chosen to increase dividends. Official data show dividends on ordinary shares of industrial and commercial companies rising by 68% between 1981 and 1984.

As well as shareholders top business executives have also benefited. The Eighth Report of the Review Body on Top Salaries found the chief executives of our largest companies had enjoyed a 16% pay increase in 1984 alone. The incentive *payments of these captains of industry increased at a staggering 184% in a single year. Yet these are the very people who preach the need for pay moderation. This pamphlet demonstrates the utter hypocrisy of theirs and the CBI's position.*

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It is not normal practice for TURU to enter into polemic with the CBI. But when that august body seeks to reduce the issues of income distribution as between labour and capital to a slogan couched in a supposed Yorkshire dialect, then the moment may have come to set the record straight.

This paper is not in any sense a comprehensive review of recent trends in the distribution of income and wealth; that task has become extremely difficult as a result of the suppression in the early days of the Thatcher government of the Royal Commission on the Distribution of Income and Wealth. It seeks instead to highlight certain things that appear of immediate relevance.

These are, an examination of the very marked change in the relative advance of profits and of pay, particularly since the modestly resumed growth of the ecenomy from 1981, and a closer concern with the disproportionate advances in pay (and conditions) on the part of top business executives most recently. We advance the argument that pay is being pulled up from the top of the salary structure rather than pushed up from below. There are a number of worrying features emerging in the handling of the remuneration and rewards of business executives, sufficiently so to make them the last people who should seek to lecture other groups on their acquisitive instincts.

1981-1984. The Thatcher 'Boom'. Who got what?

To start with it is important to identify the main trends in profits and pay. There are different measures that are suitable so we do not restrict ourselves to any single one. What they all show is a *most dramatic and disproportionate increase in company profits in the UK.* This goes alongside *a dramatic worsening of the relative position of employees in their share in income.* It should be noted that it is a normal feature of the

business cycle that in the period of 'upswing' the share of employment income in national product falls somewhat and that of profits rises; so a degree of disproportion is to be expected. But in the 1980s we are looking at massive changes packed into a short period of time.

Table A
Shares of Profits and Wages in National Income

	Average 1960-74	1975	1977	1979	1980	1981	1982	1983	1984
As % of net domestic product (FC)++*									
Net* trading profits and rent of Industrial and Commercial Co's.	11.8	5.3	10.0	10.0	9.1	9.4	10.5	12.3	14.9
Income from Self-Employment	9.9	9.3	9.2	9.1	8.6	8.9	9.1	9.3	10.0
Wages and Salaries	68.6	72.8	66.8	67.8	69.5	68.9	66.9	65.6	64.6
As % of gross domestic product (FC)									
Gross trading profits of Industrial/Commercial Co's, after providing for Stock Appreciation	14.2	9.1	13.5	13.7	13.1	13.5	14.2	15.7	17.9
Income from Self-Employment	9.6	9.1	9.0	8.9	8.4	8.6	8.7	8.9	9.5
Wages and Salaries	67.5	72.5	67.3	67.6	68.9	68.3	66.5	65.5	64.4

*Net = after providing for Capital Consumption and Stock Appreciation

++ = At factor cost

SOURCES: 1985 UK National Accounts, Table 3.5 and Table 3.3

Let us look first at the data in Table A, drawn from the UK National Accounts. There are really two tables in one. The top table expresses the changing shares as a proportion of *net* domestic product, that is after allowing for both stock appreciation and 'capital consumption' (that is the estimated cost of replacing capital equipment being used up as production proceeds). We start off with this measure as throughout the 1970s it was a firm favourite of the CBI as they sought to draw attention to the low level of company profits after taking these factors into account. A glance at the share of profits in net domestic product for 1975 (in the Table at 5.3%) shows that in slump conditions profits in this sense were severely squeezed.

But the 1980s present a very different picture. Even in the devastating slump of 1980-81 the share of profits fell only marginally from the 10% to

which they had been restored in 1977 or 1979. Since then a steady climb has taken them from 9.1% of net domestic product in 1980 to 14.9% in 1984. (It is already apparent that the figure will go higher still in 1985). This proportion is now, therefore, not only considerably higher than in the late 1970s but well above the average for earlier years (see, in the table, the first column with the average for 1960-74). But we would wish to comment that the figure is less useful than it used to be because, in manufacturing at least, since 1981 a considerable part of the company sector has not been investing in fixed capital at a level that would even renew the capital stock used up; the profits are there, but the investment spending in a crucial sector of the economy is lacking. (This point is taken up later).

While the share of profits rose by 6% of the domestic product from 1980 to 1984, the share of wages and salaries *fell* by around 5% of the domestic product. At 1984 prices a 1% shift in such shares represents the addition or loss of over £2,400 million. By 1984 the share of wages and salaries was significantly lower than the average over 1960-74 (lower by 4% of the net domestic product). One gets a better idea of what such figures mean if the point is made that had the share of wages in 1984 matched the average share of 1960-74 then the total wage and salary bill would have been — in 1984 prices — nearly £10,000 million higher. So on this measure the redistribution of shares away from wages and salaries and towards profits has been massive since 1980/81 and it still continues.

The second, or lower, part of Table A sets out the shares on a slightly different basis, and for *Gross* Domestic Product, that is before allowing for capital consumption (but after allowing for stock appreciation). Again what is apparent is the steep increase in the profits share (in this case measuring simply the gross trading profits of industrial and commercial companies); the profits share rises nearly 5% of GDP between 1980 and 1984 (to a level nearly 4% above the average of 1960-74). Income from employment loses share to an almost equivalent extent (a fall of 4.5% of GDP from 1980 to 1984). This way of measuring profits can be explored in more detail from official series, and this we turn to next.

Contrast: Industrial and Commercial Companies Gross Trading Profits, and Pay: What Happened in Real Terms?

Official statistics helpfully distinguish between trading profits made in the UK arising from North Sea oil and gas production and those made by other industrial and commercial companies. Until 1981 profits from the North Sea were rising while those of other companies were held back by the slump of 1980-81. But since 1981 *both* series show trading profits rising at a very rapid pace indeed. In 1985 it is likely that the profits of

industrial and commercial companies other than North Sea oil producers are advancing more rapidly than those from the North Sea. The protracted period of rapid growth of North Sea oil output increases and associated profits increases is now coming to an end. But the quite unprecedented sustained rise in profitability in the rest of the industrial and commercial company sector is an important phenomenon. We need to understand more as to its scale, in both price terms and real terms, and to consider more what lies behind it.

Table B
Gross Trading Profits of Industrial and Commercial Companies since 1980
(After providing for Stock Appreciation)

£ Billion

Year	Total £ Bn	Index 1981 = 100	North Sea Oil Co's. £ Bn	Index 1981 = 100	Other Co's £ Bn	Index 1981 = 100
1980	26.0	89	8.1	74	18.0	98
1981	29.2	100	10.9	100	18.3	100
1982	33.9	116	12.7	117	21.1	115
1983	40.8	140	15.8	145	25.0	136
1984	50.2	172	19.1	176	31.0	169
		(Index 1981 1st. Quarter = 100)		(Index 1981 1st. Quarter = 100)		(Index 1981 1st. Quarter = 100)
1st. Quarter 1981*	6.51	100	2.46	100	4.06	100
1st. Quarter 1985*	15.01	230	5.58	227	9.45	233

*Seasonally adjusted.

The figures in Table B are truly dramatic, indeed startling. North Sea oil profits advanced by just over three-quarters in the three years from 1981 to 1984; other industrial and commercial companies increased their profits by over two-thirds. Between them profits increased by over £20 billion to just over £50 billion in 1984. Not only that, but the leap forward has continued. The 1st Quarter of 1985 can be usefully contrasted with the same Quarter four years earlier, since that provides approximately the turning point (for 'other companies' at least it was the trough of the slump in profits). Since the 1st Quarter of 1981, *trading profits have advanced 2.3 times over in only four years.* What is more, the non-North Sea industrial and commercial companies have advanced even faster than the North Sea oil companies, increasing their profits two and one-third times over in the four years.

It is necessary to relate these extraordinary profit figures to both inflation and output, and to contrast them with the experience of wages and salaries.

Suppose we start by seeking to deflate these figures to see what they might look like expressed in constant prices (or 'real' terms). Total domestic costs rose some 18.5% between 1981 and 1984. This may be the most suitable deflator (though some might prefer to use the increase in costs for fixed capital formation, which rose only 11%). On that basis the 'real' gross trading profits rose by about 45% from 1981 to 1984 (for companies other than North Sea oil the increase was approximately 42%). The comparison with wages and salaries is a striking one. In the whole economy, wages and salaries rose by 22% from 1981 to 1984, while the price index for consumers' expenditure rose by 20%. The total real wage bill therefore rose by less than 2%. However, this may somewhat exaggerate the rise in total pay in the industrial and commercial company sector. If we use the totals of income from employment in the manufacturing, construction, and distribution and catering sectors as a proxy for corporate pay bills, we find an increase of only 19% over the three years, i.e. a slight fall in real terms.

So in round terms we can for 1981 to 1984 contrast an increase in industrial and commercial company profits in real terms of over 40% with an increase in total pay at the most of less than 2%. The best rounded estimate would be one of no increase at all in the total real pay bill. Even the CBI should be able to judge which of the interest groups got 'nowt'.

What happened over the same three years to profits per unit of output? An increase in this respect bears a significant relation to the price inflation of business output. For the North Sea oil companies output rose over the three years by as much as one third; consequently the increase in oil profits per unit of output emerges at a little over 30% (since in the main international oil prices were set at that time by OPEC we should not think of UK oil companies as having too powerful a control over their own margins). For the other industrial and commercial companies, output in their sectors may have risen by some 8% to 10%; this means that profits per unit of output were raised by over 50% in the three years 1981 to 1984. This must have contributed significantly to an increase in the domestic inflation rate (as compared with the outcome if the rise in profits had been more muted). In direct exports we should remember that the sterling exchange rate was falling intermittently through this period — the weighted exchange rate fell by 17% from 1981 to 1984 — so it becomes apparent that the benefit of this was taken more in raising profit margins than in seeking increased trade volume at lower prices (in terms of foreign currencies). The high increases in profits per unit of output that are noted above can be contrasted with a rise in pay costs per unit of output over the three years of around 10%. We must ask the CBI if there is some sense in which a three year rise in pay costs of 10% per unit of output is 'excessive'and to be deplored, but a rise of over 50% in profits per unit of output is to pass without critical mention.

Perhaps the profits figures for the *four* year period from 1st Quarter 1981 to 1st Quarter 1985 are even more extraordinary, because they mean that *for the industrial and commercial sector* apart from North Sea oil *profits per unit of output have in round terms DOUBLED* in only four years. In the first half of 1985 the industrial and commercial companies apart from North Sea oil companies made gross trading profits (after stock appreciation) of nearly £20 billion. Virtually all forecasts expect total trading profits for 1985 as a whole for all industrial and commercial companies (including the North Sea) to be in excess of £60 billion. The disproportionate growth, in other words, has continued.

In money terms we expect total wages and salaries in 1985 to be at most one-third higher than in 1981. The increase in trading profits over the same period has been between three and four times as rapid. The contrast in 'real' terms — that is after allowing for inflation of costs in the period — is much more extreme. The increase in the 'real' value of the total wage and salary bill from 1981 to 1985 appears to be no more than about 5%. The increase in 'real' industrial and commercial company gross trading profits we would estimate at *over two-thirds*, or about 14 times *bigger* than the real pay bill increase.

Not Simply Contrast — But Connection

In the sections above, this paper identified the contrasts between profit trends. But, of course, what also has to be said is that it was *primarily* from the reduction of the corporate sector labour force that the dramatic profit increase has been built. The profits trends and the pay and employment trends connect. It was by removing workers en masse from their pay bills that the industrial sector in particular first restored and then increased profitability. This was not just a question of 'survival' in the slump after 1979, though as we know the number of employees in employment in manufacturing fell by 1 million between 1979 and 1981 alone. It was also evident in the 'upswing'. To take manufacturing again, the number of employees fell by a further 700,000 from 1981 to 1984. If that fall had not occurred the pay bill in 1984 in manufacturing would have been some £6 billion higher than it was; over the same three years to 1984 gross profits of companies together with income from self-employment rose by over £7 billion. The combination of closures of high cost plant, rationalisation and demanning was far more in evidence as the *special* source of the profits rose than was any marked evidence of the application of corporate profits to new productive capital formation.

Of course, if the plants are closed and demolished, and their equipment sold off (as so much has been) second-hand at low prices to overseas producers, then those plants and that capacity no longer exist. But the discharged workers still exist and still have to be provided for.

Profitability was rescued by their discharge into prolonged unemployment. *But who has footed the bill* in the main for their necessary (if, alas, inadequate) maintenance?

We are helped to answer this question by an illuminating table from another government publication; the rest of the publication is tendentious, but the table is factual.*

The table offers an official estimate of the increases in *real* terms (at 1982-83 prices) of National Insurance Contributions since 1978-79. The relevant data are as follows:

Table C

Payments in Real Terms
(£ billion. 1982-83 prices)

Nat. Ins. Contrib.	1978/9	1984/5	% change 78/9 to 84/5
Employees	6.7	10.2	+52
Employers	10.1	10.7	+ 2

Thus, over these years, the *diminishing* number of employees still in employment saw their *total* National Insurance Contributions rise in real terms by 52%. At 1982-83 prices that provided an increase by 1984-85 of £3.5 billion compared with 1978-79. By contrast employers were only called upon for a real increase in payments of 6%; in 1984-85 that brought in £0.6 billion more than in 1978-79. Consequently the overwhelming contribution to the increased social security costs arising from higher unemployment came from the workers who remained in employment rather than from the employers. Our own estimates, based on the Government's 'Expenditure Plans' bluebooks, is that total benefits paid out to the unemployed rose by less than £4 billion in 1984-85 compared with 1978-79 (this is still using 1982-83 prices throughout). So the increase in employee real payments of National Insurance almost exactly matched the increase in payments to the vastly enlarged army of the unemployed. The employers discharged, but it has been the remaining labour force that have met the social obligation of maintaining the discharged workers. Little of that cost has been allowed to fall on the profits of employers. We should bear this in mind in looking back at the disproportionate growth in profits as compared with that of the pay bill. The profits grew on the back of large scale displacement of employees from work. But the continuing cost of that displacement at least in its most direct cost (the social costs are much higher) has been borne as a

* Treasury, March 1984; The Next Ten Years: Public Expenditure and Taxation into the 1990s, Table 2, looks back at tax and other payments in real terms since the early 1960s.

transfer from the wage bill. The *connection* between the profits boom and unemployment is underlined; the *contrast* between the massive growth of real profits and the lack of real growth of the pay bill is made even more emphatic.

And What Did They Do With the Profits — Productive Investment?

There might be some who would still see merit in the resurgence of profits, even on such a basis of destruction of jobs and communities, and even with the disproportions in income distribution, on the grounds that the profits can finance a major renewal of productive capital. This would echo arguments about much earlier 'primitive accumulation' processes, which concentrated capital on the basis of large scale displacement and social damage (e.g. Britain in the early stages of commercial capitalism, or the Soviet Union in the 1930s). But that is not arguable; the renewal is not taking place.

Indeed, what must be of most intense concern is that there is all too little evidence that profits advance has led to any equivalent renewal of *industrial* productive assets. The profits and enhanced cash flow 'liberated' by the displacement of such a high proportion of the labour force has not in the main been applied to corporate development *in the UK.* Since the evidence is readily available in the 'UK National Accounts' we do no more than summarise the evidence. The profits are there, but where is the accumulation process?

a) We use the form of measurement most approved of by the CBI in the 1970s, that is the *replacement cost* of renewing the capital stock that is being used up or consumed each year.

b) The new phenomenon that becomes apparent *from 1981* (earlier still from 1980 in construction and transport) is that since then in key sectors 'fixed'capital formation — i.e. plant, machinery, vehicles, and new buildings — has not been sufficient to keep up with capital consumption. Instead of the normal experience of such capital formation being *larger* than capital consumption, so that *net* capital formation occurs, it has been *smaller* and the tables of net capital formation record massive *minus* figures, i.e. large scale *net disinvestment* is taking place.

c) This can be readily seen for manufacturing where Table 11.4 of the 1985 'National Accounts'records *net disinvestment* of fixed capital in the manufacturing sector (on a replacement cost basis) in each year from 1981 to the latest published figures for 1984. At constant 1980 prices this disinvestment in the four years from 1981 to 1984 totalled £5.5 billion, i.e. that was the amount by which company spending fell short of renewing the productive assets of the manufacturing sector. That shortfall was so great that company spending on fixed capital formation in those four years would have needed to be over 27% higher than it actually was to

have eliminated the disinvestment (or to produce zero net investment).
d) For a Government that used to talk of creating 'real' jobs, such 'real' disinvestment, working alongside the massive destruction of the jobs that had earlier existed, should be recognised for what it is — disastrous failure of public policy, and a devastating failure of responsibility of (profitable) corporate property. This is not to say that the levels of investment in manufacturing in the later 1970s were adequate, but at least before *this* government and before *this* kind of profits recovery net investment was positive. For instance (in 1980 prices) net investment in manufacturing in 1979 was 64% higher than in the trough year of 1976. Over the four years to 1979 net investment in manufacturing (still at 1980 prices) totalled £4.5 billion, that is it stood *£10 billion higher* than in the four years to 1984. Would the CBI prefer to recognise the achievement of those years preceding this government, or the devastating (literally devastating) failure of manufacturing investment volume of more recent years? In case they cannot handle the simple arithmetic involved, the level of fixed capital formation from 1981 to 1984 would have had to be *50% higher than it actually was* even to match the modest achievement of actual investment levels in *net* investment terms, from 1976-79.*
e) A similar process can be seen in the construction industries. Alongside vast and increasing construction needs, there has been net disinvestment of fixed capital since 1980 for the whole five years to 1984. In this sector the disinvestment totalled £460 million at 1980 prices, and investment spending would have needed to rise by 20% to eliminate net disinvestment. The 1980-84 investment would have had to rise by 47% to match the modest levels of net investment in the five years from 1975 to 1979.

So we are witnessing a disproportionate and sustained profits advance in the commercial and industrial company sector. But in the *industrial* sector in particular this goes hand in hand not only with the massive discharge of workers from work but also with a massive *abstention* from any adequate renewal of the industrial capital stock. The profits have recovered but not the investment process. They are eating seed corn.

Other Blooms in the Corporate Garden

Or perhaps they have other uses for their surpluses? For instance, on capital account the industrial and commercial company sector moved from deficits in their financial balance in 1979 and 1980 to a surplus of £1,930 million in 1981. But this figure is dwarfed by the 1984 figure of a financial surplus of £7,210 million (Table 5.4, 1985 National Accounts).

* To save the CBI looking it up, manufacturing investment in 1981 to 1984 would have had to increase by over 40% to match the *gross* capital formation of 1976 to 1979.

What is more interesting still is that within *that* total is the *net investment abroad* by the companies in the sector.

But if we look more narrowly at some of the aspects of income distribution, we cannot help noticing that the same industrialists that emphasise their concern to restrain the rate of increase of average pay have been presiding over an accelerating advance in *dividend distribution.* Dividends on ordinary shares (by industrial and commercial companies) rose by nearly 68% between 1981 and 1984. That is more than three times as fast as the rise in the pay bill. The year by year advance in dividends is worth recording:

Table D

Industrial & Commercial Companies: Dividends on Ordinary Shares

Date	In £ million	% change on 12 months earlier
1981	3,225	− 1
1982	3,592	+11
1983	4,446	+24
1984	5,408	+22
1985 1st. Quarter	1,333	+31

SOURCE: National Accounts; Economic Trends

Thus, in both 1983 and 1984 annual dividend increases of over 20% contrasted with increases in the pay bill of under 7%. More recently the increase in dividends may have accelerated further.

But we can bring the discussion about who got what closer home still to the CBI, or rather to the people that dominate that organisation's utterances. What example of restraint have they been setting the employees of their companies?

Fortunately, we do not here have to rely on incomplete or unofficial surveys. The Review Body on Top Salaries in its recent Eighth Report on the subject set out details of the level and rate of advance on the top posts at Board level in large companies. At least for the period from October 1983 to October 1984 we have a large and reliable sample. This enables us also to compare the progress of top business salaries with that of manual workers as a whole and non-manual workers.

The Review Body's data covers main board members and senior executives. For non-financial companies there is separate information by size of company turnover (the largest size category is annual turnover in excess of £1,150 million), for financial companies merely a single figure. Before we turn to some examples we should note that the Review Report

emphasises that there is nothing 'temporary' about the level of salaries revealed or the rate of increase revealed:

> 'Salaries at top levels are recovering after some years when differentials were compressed, and compared to salaries in many other developed countries, those in the UK are, anyway, modest. It is clear, however, that the market for top management is becoming steadily more international'. (Report, p.20).

Which is to say that the tendencies revealed can be expected to persist, that a substantial upward pull of top salaries over a period of years is expected. We will return to this point.

We turn to some key data. The most helpful category for our purpose is that of 'mean salaries' taken together with bonus, commission, profit sharing. There is some point, however, in separating out the notional salary and the 'bonus, etc.' additions.

For all the posts analysed (the scaled up sample totalled 24,633) mean salaries plus bonus etc., advanced from £29,800 in October 1983 to £33,200 in October 1984; the £3,400 increase in salary represented a percentage increase of 11.5%. But at the *top* (or should we say the top of the top?) the pace was faster.

We move, therefore, to the Chief Executives of companies; these, we are sure, must be particularly well represented on CBI committees. For all the chief executives on company main boards the Report found that mean salaries plus bonuses advanced from £59,900 in October 1983 to £68,300 in October 1984; this £8,400 increase in salary represented a percentage increase of 14%.

To move higher up still, we might contemplate the restraint shown by the Chief Executives of the very largest companies, those companies with annual turnover of £1,150 millions or more. In the case of these captains of industry, 'mean' salary plus bonus etc. rose, according to the survey, from £95,000 in October 1983 to £110,300 in October 1984; this £15,300 *increase* represented a percentage advance in remuneration of 16.2%. One can only conclude that these must be the people who write the speeches at CBI conferences, and have to master Yorkshire dialect to do so.

Before we turn back to what in the same period was happening to the salaries of mere mortals, it is worth mentioning that, consistently, the Top Salaries Review estimate of salaries *plus bonus etc.* runs ahead far faster than the basic salary itself. Incentive payments seem all the vogue at this level, whatever the constraints on and doubts about PBR at shopfloor pay bargaining. Thus our captains of industry whose total remuneration we noted above showed a quite astonishing rate of pay increase attributable to the 'bonus etc.'. In October 1983 their mean salary averaged £92,500 so that 'bonus etc.' only accounted for £2,500 to make the combined total of £95,000. By October 1984 their mean salary

had advanced to £103,200, so that 'bonus etc.' now accounted for £7,100. Thus in a single year 'bonus etc.' had advanced by 184%. These *must* be the people who write speeches demanding a pay norm of '2% less'. After all, what a shattering effect it would be if employees as a whole increased their 'incentive' earnings by 184% in a year? And how *fair* it would be if everyone else took 2% less and the captains of industry set an example by joining in and only taking an increase of 182%.

Or have we misunderstood something about CBI pay policy? To the incentives offered to top executives we will return shortly. For the moment we need to establish the connection with employee earnings more generally.

The employees whose excessive pay increases provoked the enlightened concern of the CBI Conference should not be forgotten in this feast of statistics. In the same period, October 1983 to October 1984, the Department of Employment surveys show adult male manual workers' weekly pay increasing by 7.2%; women manual workers showed a somewhat less profligate rate of increase with a pay advance of 6.7%. This represents an increase of some £555 at an annual rate for men and £316 for women. We can see why such increases must have been of concern to that whole body of salaried executives whose average pay had advanced by £3,400 on average or a mere 11.5%.

Looking more closely, the CBI must surely have observed that the fastest pace of general pay advance in recent years has been evident among non-manual men in the *private* sector. Thus between 1981 and 1985 (April) the New Earnings Survey showed average earnings of non-manual men rising by 44% in the private sector compared with only 31% in the public sector; these figures can also be compared with a 37% increase in the earnings of manual men in the private sector and one of 29% in the public sector.

But if the private sector non-manual men appear to be the pace-setters it is worth noting too that the *dispersion of pay* for non-manual men in the private sector has been widening. In 1979 lowest decile earnings for non-manual men were 62% of median earnings; in 1985 they were only 56.3% of median earnings. By contrast highest decile earnings in 1979 were 171.7% of median earnings, but by 1985 highest decile earnings had risen to 183.1% of median earnings. This hardly suggests that earnings were being pushed up from the bottom, since those with low earnings have been lagging further behind. It suggests rather that earnings are being pulled up from the top, with highest decile earnings tending to rise faster than the median. Highest decile earnings of non-manual men in the private sector in April 1985 were at an annual rate of some £18,500. In salary structure terms this can hardly be disconnected from the more powerful pay advance of senior executives. Whose pay push is this that the CBI are decrying? We have to tell them that it is *their own*.

But we promised to return to those topmost executives. Did the Top Salaries Review really pick up all the great leap forward that is to be observed in the rewards of senior executives? Comment on this from our stable might be treated as suspect. We therefore prefer to wind up with an extract from The Lex Column in *The Financial Times* for November 23rd, 1985. It reads as follows:

'In old-fashioned bull markets the rich got richer and company directors carried on drawing their salaries. All that has changed with the advent of the executive share option...According to a recent study by stockbrokers Hoare Govett, *over 90% of the country's top 145 public companies now have executive option schemes* in place. At a rough guess, *directors currently have options over unissued equity with an open market value of £3 billion*, more than one percent of London's stock market capitalisation'.

'The presence of substantial share options has concentrated industrial minds most wonderfully during the current bull market and *directors cannot now be blamed for cashing in a few chips*. Last month directors and senior executives of Dee Corporation made a gross profit of more than £13 millions by exercising options and yesterday six executive directors of Burton Group followed suite, making roughly £3 millions before tax in the process. The options were almost all exercised at 46p a share and the new equity sold to the market at 600p' (Our emphasis.)

We cannot help wondering how wise such incentives are. True, taking a profit of (say) £500,000 each makes an annual Chief Executive salary of some £100,000 look modest. But might it not create a tendency to welcome take-over bids, especially ones offering an exaggeratedly high price for the equity, on the part of the top executives of firms being bid for?

Quis custodiet ipsos Custodes? (Juvenal).*

* Translation: Who is to guard the Guardians themselves?

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