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BANKERS’ BONUSES: New evidence on income inequality in the UK

In 1979, just over £1 in every £20 of total UK income went to the richest 1%; three decades later, £1 in every £7 went to that group of people.

Despite the severity of the financial crisis, the share of total UK income going to bankers has not declined since 2007.

These are among the findings of new research on inequality and bonuses for bankers (employees in financial services) by Dr Brian Bell and Professor John Van Reenen, director of the Centre for Economic Performance at the London School of Economics. Their study shows that:

- The share of total UK income taken by the richest 1% of the population (one in every hundred people) has more than doubled over the past three decades – from 6% in 1979 to 14% in 2009.

- The share of annual earnings taken by the richest 1% rose by about two percentage points in the decade leading up to the 2007/08 financial crisis (from 7.1 to 8.9 percentage points, a rise of about 25%). Two-thirds of this increase was solely due to the increase in bankers’ bonuses.

- The share of national income going to the top 1% fell after the crisis by 0.5 percentage points between 2008 and 2011.

- But bankers’ share of total income has not declined since the financial crisis. And in terms of the risk of job loss, they have done no worse than other people, even when compared only with other groups of the most skilled employees in the economy.

- These calculations underestimate the amount going to bankers because they focus on cash (salary and bonus). New disclosures by the Financial Services Authority reveal that for 1,408 key employees in 10 London banks, cash payments in 2010 averaged £568,000 per year, but including expected payments (in cash and equity) brought their average pay to £2 million.

- This group of bankers therefore earned £2.8 billion – roughly six times more than the combined total pay of the CEOs of every company in the FTSE 100 (£470 million).

With the European Commission looking likely to set a cap on the ratio of bankers’ bonuses to their salaries, what are the right policies on high pay? The authors comment:

‘If bankers’ pay has a large component of economically inefficient ‘rents’, then the best approach is to improve financial regulation to stop banks earning excess profits.'
‘Many moves have been made to improve regulation, but it is unlikely that the risks of ‘too big to fail’ will ever be adequately regulated.

‘In this case, some pay controls may be needed as a backstop to reduce incentives for excessively risky behaviour by bankers.’

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For further information, contact the authors: [Brian Bell](mailto:brian.bell@lse.ac.uk) on 07900-850045 or [John Van Reenen](mailto:john.reenen@lse.ac.uk) on 07803 614137.