PRESS RELEASE

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PAY AT THE TOP: New evidence on high earners in the UK

During the decade up to the financial crisis, top earners in the UK increased their share of the income pie by almost 3 percentage points. Bankers were the key gainers. CEO pay tracked this broader trend. But when measured correctly, there is a strong link between CEO pay and firm performance on average.

These are among the findings of new research on pay at the top, published today in the American Economic Review Papers and Proceedings by Dr. Brian Bell and Professor John Van Reenen, of the Centre for Economic Performance at the London School of Economics. Their study shows that:

• In the decade up to 2008, the top 1% of earners in the UK increased their share of the income pie by 2.9 percentage points (from 12.5 to 15.4%). Sixty percent of this increase went to workers in the financial services sector, although they account for only one-fifth of such high earners.

• The gains in the financial sector were very unevenly distributed. The pay of junior workers has not outperformed that of similar workers in other occupations. Bonuses to those at the top have been the key driver.

• The first few years of the financial crisis did not substantially change this picture – there was only a slight decline in the earnings of those at the top. Recently released data for 2012 do suggest the beginnings of a correction, particularly for top bankers.

• The pay of a FTSE-100 CEO was 11 times that of a median worker in the 1980. Today this ratio is a whopping 116. This growth broadly matches that of top non-executive earners – there is nothing particularly special about CEOs.

• Companies that have a large share of institutional investors amongst their shareholders ensure that CEO pay falls when performance is poor. In contrast, weak institutional ownership is associated with pay protection on the downside.

• There is a strong link between pay and CEO performance, which strengthens when we recognise that previously awarded shares and options that have not yet vested, change in value. This is often ignored in popular debate.

Brian Bell comments: ‘CEOs are often the target of criticism over high pay levels and there is an increasing gap between their pay and that of ordinary workers. But their pay growth over the last decade has broadly matched that of other top earners such as Bankers, Lawyers and Management Consultants’.

John Van Reenen adds: ‘At the same time, firms have tried to link CEO pay more closely with performance by increasing the amount that is awarded in shares that only vest if future performance is good. Our results show that this is working – particularly in firms where institutional investors can exert influence’.

ENDS

Notes for Editors:
The paper – ‘Extreme Wage Inequality: Pay at the Very Top’ by Brian Bell and John Van Reenen – is published today in the May edition of the American Economic Review and available online at: http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.103.3.153

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