Australia: Productivity Commission report rules out curbing executive pay

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A recently released 400-page interim report by the Productivity Commission into pay remuneration for top company executives in Australia explicitly ruled out placing any significant restraint on the multi-million dollar remuneration packages.

The outcome is not surprising. The federal Labor government commissioned the inquiry in March—not to rein in executive pay, but to deflect growing public anger over the huge payments made to top executives even as they insisted that workers accept job losses, wage cuts, and attacks on working conditions.

The *Australian* newspaper on September 30, the day the Commission brought down its report, praised the Rudd government for recognising “that despite the headlines and a few terrible abuses, the system of setting executive pay isn’t broken, it just needs a little strategic tinkering and strengthening”. In other words, it is business as usual at the big end of town.

The interim report all but acknowledged that the inquiry was an exercise in damage control. Its opening statement declared: “The catalyst for this inquiry was concern that executive pay had got out of hand,” adding, “while local shareholder value plummeted—with some companies being propped up by taxpayers—executive pay seemed to emerge unscathed, crystallising a view that executives were being rewarded for failure.” It also notes “long-standing community discomfort about the widening gap between the remuneration of executives and other employees …”

The report opposed any cap on executive pay, arguing that such restrictions would produce “severe practical problems and undesirable commercial consequences for Australian companies—vis-à-vis their competitors … [and] would lead to readjustment of packages in ways that could weaken incentive alignment”.

It also insisted that current rules only allowing shareholders a non-binding vote on executive salary packages recommended by company boards at annual general meetings should be maintained. A binding vote, the report claims, would be “unworkable” and “fundamentally compromise the capacity and authority of boards to negotiate with executives”.

To create the impression that it favoured some restraint, the Productivity Commission proposed that all board members (other than executives) should face re-election if 25 percent or more of shareholders voted against two consecutive remuneration reports and that boards be “required to explain” their remuneration decisions if 25 percent of shareholders voted against them. These measures would have little impact on setting executive pay because large institutional investors control vast swathes of shares and therefore votes.

Other recommendations were largely window dressing. These included requiring large institutional investors to disclose how they voted on remuneration packages each year and that board remuneration reports to shareholder meetings disclose take-home pay amounts and total shareholdings of the individuals named. It also called for directors and key executives to be barred from share-voting on remuneration reports and pay related issues.

Satisfied that the Commission had fulfilled its brief, Financial Services Minister Chris Bowen declared that the report had struck “a balance between community expectations and ensuring Australia remains an attractive place to work.” The government would not make any decision on the issue until it receives the Commission’s final report in December, he said, adding: “We need to ensure that community expectations for executive pay that are reasonable are met … [but] we also need to ensure Australia remains a competitive and attractive place to work in the international business environment.”

The interim report acknowledged the extraordinary growth in executive pay packages. Over the past 14 years, CEO remuneration at the 50 to 100 largest Australian-listed companies has increased by around 10 percent a year in real terms, translating into cumulative increases of up to 300 percent. In 2007-08, remuneration for CEOs at Australia’s top 20 companies averaged almost $10 million each, or 150 times the average working wage. CEOs at the next 20 biggest companies received about $5 million, while at the next 150-200, remuneration averaged around $180,000—still three times the average wage.

The Productivity Commission report stated: “In 2007-08, the most recent year for which comprehensive data is available, real total CEO pay fell somewhat across ASX300 companies, especially for the top 100 (which have proportionately more pay linked to company performance). Whether this decline has continued is not yet clear.”

Overall pay packages might have declined but base salaries have continued to increase. A *Sunday Telegraph survey* of Australia’s 32 biggest firms, published on September 19, noted that 18 chief executives received salary increases averaging just under 10 percent, more than double the national average wage rise of 3.8 percent.

The newspaper estimated that chief executives of the 32 companies now receive a basic wage of $1.87 million, plus bonuses and other benefits. The largest increase went to BHP Billiton CEO Marius Kloppers, with his remuneration package increasing by 51 percent to a $12 million. This included a 19 percent increase in base pay to $2.3 million. During the period the company saw a 21 percent decline in its share price, a 30 percent drop in earnings and mine closures that destroyed 3,000 jobs.

A recently published report by the Australian Council of Super Investors (ACSI) also showed that while workers were paid on average a little over $59,000 last year, the top 10 company executives pocketed almost $13 million each—or more than 200 times more than a worker’s average wage.

Former Macquarie Bank Allan Morris received a staggering $24.8 million—or more than 400 times the average wage. Leighton chief Wal King received $16.5 million, Westfield Group Frank Lowy $16.2 million and former Telstra chief Sol Trujillo $13.4 million. ANZ Bank’s Mike Smith received $13 million and former Qantas CEO Geoff Dixon got $12.2 million. Dixon, who oversaw savage job cuts and a 3 percent cap on workers’ pay during his term as CEO, also raked in an additional $11.5 million for five months’ consultancy work for the airline after retiring in November last year.

Executives continued to draw multi-million salary packages in the same period that the government’s Fair Pay Commission ruled out any wage increase for the country’s 1.3 million low-paid employees and as thousands of workers were forced to accept job losses or short-time working leading to significant cuts to pay.