Level 7, Suite 3,
3 Spring Street,
Sydney NSW 2000
Australia

Tel: 61 2 9270 2900
Fax: 61 2 9270 2999
www.GuerdonAssociates.com
ABN 67 112 483 940 **ACN** 112 483 940

Guerdon Associates
Equity and Executive Pay

4 September 2009

Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100 Parliament House
Canberra ACT 2600

Dear Mr Hawkins,

Re: Termination Payments Hearing -- Question on Notice

Thank you for the opportunity to respond to a question asked by Senator Cameron at the hearing of the Economics Committee Legislation Inquiry on 25 August. The question related to remuneration practices during a period Senator Cameron referred to as the "Industrial Revolution" and can be found at pages 61-62 of the Proof Committee Hansard. My comments follow.

Given the reference to Henry Ford, I assume the period alluded to by Senator Cameron was coincident with the period at the turn of the 20th century, rather than the late 18th and early 19th centuries.

At this time the owners of production were more concentrated than they are today. Management was typically comprised of significant shareholders. In addition, there were usually fewer shareholders, and capital markets were less well developed or regulated. Based on this understanding, the ownership of capital was far more concentrated than today. Management and shareholders were aligned to the extent that they were the same individuals. Income was derived from share ownership rather than remuneration. The total income and asset wealth of management, on our understanding, probably dwarfed today's executive remuneration and income from company owned shares (taking into account inflation).

Today the owners of production are primarily workers, via their pension funds. Executives are employees, rather than majority owners. With dispersed ownership (as in public companies) the evidence seems to indicate that executive pay is lower than in companies where ownership is more concentrated (e.g. non-listed companies), taking account of company size factors.

Further, the data seems to indicate that the multiple of executive pay to worker pay for same size companies has remained fairly constant in the past two decades. What has not been constant is the growth in company size. Hence an ASX 50 company today is far larger than an ASX 50 company two decades ago, after accounting for inflation. So, for example, while a bank teller's job has not changed in complexity and scope much in that time, the relative size of the banks managed by executives has grown significantly. Therefore the relativity between the roles (and salaries) of executives and "ordinary workers" referred to by Senator Cameron would not be expected to remain constant, even if the respective time periods were directly comparable.

Yours faithfully,

Peter McAuley
Director