



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

*“But, in the midst of this bright shining day
I spy a black, suspicious threat’ning cloud,
That will encounter with our glorious sun
Ere he attain his easeful western bed”.*

-HEN.VI (pt3)

Holiday-makers in the northwest highlands of Scotland take with them two essentials: waterproofs and ‘midge’ repellent. Rainfall here averages 60 inches a year, and the midges are what grandiloquent PR men would refer to as “world class”. This summer, the repellent has been needed like never before, but waterproofs? As one cloudless, roasting morning follows another, week after week, anglers can be seen gazing disconsolately at parched river beds. A few have abandoned their rods for swimming gear and are cooling their frustration in the pitiful trickle. As memories of the familiar season fade, some are beginning to wonder if it will ever rain again here. But already sea mists chill the evening air and one knows that soon the pattern will break.

Summer sun has also been warming the world’s stock markets in recent weeks. With record highs almost daily in Wall Street, and now also in London, investors are in holiday mood and some may be imagining further gains stretching far into the distance. With the USA now in its fifth year of recovery, the UK economy in its fourth (even though growth has been slowing down a bit in recent weeks), inflation subdued, and world interest rates as likely to fall further as to rise, there is enough cheery news to push markets up well into the autumn. Even so, clouds are building. Not in the economy itself for a change, but because the sky is darkening in an unusual quarter, investors risk being caught unawares.

The hottest topics of summer – the salary of the gas boss, the share options of the water chiefs, nurses’ pay, minimum wage proposals or, on a wider scan, the furore over the allocation of lottery funds to the Royal Opera House, or the row about MPs’ rich pickings on the side – all point in the same direction. These issues point far beyond mere pettiness and, taken as a whole, speak not of a rising tide of prosperity, but of an ugly, stagnant pool of resentment which economic recovery in the UK has done more to sour than to sweeten.

The cause of it can be simply stated. Whether measured in terms of real earnings or living standards, the gap between the best-off and the poorest workers in the UK is greater than at any time since records began in 1886. Between 1979 and the early 1990s the poorest 10% saw their real incomes **fall** by 17% over a period when those of the highest paid rose by over 60%. In the business sector, company directors’ pay went on rising sharply between 1990 and 1992 – far ahead of retail prices – even though profits were then falling.

To a young apprentice, the chairman’s salary must always look like riches beyond his dreams. Yet for most of the time since World War II, directors have drawn handsome, if not extravagant, salaries without feat of being questioned in Parliament or a shareholders’ revolt. If the mood of today condemns what yesterday went unremarked, it cannot be because millions of gas customers have suddenly noticed that Cedric Brown has a chauffeur and a smart car. He is merely the lightning rod for a dark cloud of highly charged political energy which is earthing itself through the most visible conduit. This is the hidden force which has heated this summer’s debates.

Life in the private sector and big business must proceed by consent, and any basis for paying salaries or charging for services will be acceptable so long as it is seen as fair. Extraordinary rewards may be allowable for risk-taking entrepreneurs, but for run-of-the-mill managers they are not. The difficulty for business is that society's idea of fairness changes as new perceptions and priorities take hold, and a company doing its duty by its shareholders today may be regarded, even by shareholders, as a public menace tomorrow.

Concern over boardroom issues points to a changed perception of what is a right and a fair balance between directors, shareholders and customers, and the change reflects a growing unease about the distribution of the fruits of free enterprise in wider society.

When a shift like this occurs, the challenge for business (and for government) is to realign its own priorities with those of consumers and voters. Too many big British companies have been failing to meet it.

At one level this may mean government initiatives to redress the position of the least favoured, perhaps through taxation policy, or training and employment assistance. At company level it will mean a reallocation of resources between shareholders and consumers including, no doubt, so far as the public utilities are concerned, more stringent price controls. It will mean more encouragement for shareholder democracy, and it is already requiring fuller disclosure of executive pay. It may also mean a national minimum wage. None of these measures will help company profits (or dividends) which, in terms of national income, currently stand close to record levels.

With the UK equity market in its present mood, these prospects do not seem to be adequately discounted. The outcome of the general election will not affect the position because the grass roots shift in social priorities is already being forced on parliament, as on business; the complexion of government will not alter that.

So, as records continue to tumble and a marvellous summer draws to its close, holidaying investors may care to remember that the mean temperature of these islands has varied by less than 1 C over the last hundred years. In doing so they may also reflect on the hidden forces which balance the life of this nation, first among them a sense of fairness and moderation. This summer's concerns show that this sense works as powerfully to shape priorities in Britain today as does the sea to temper our seasons. For the moment, the strength of the economy may extend the stock market's run into an Indian summer, but sooner or later, investors will have to reckon with the corrective power of a nation's indignation, roused by excess in a summer of extremes. That may be a 'threat'ning cloud' in the short term, but should be welcomed, like the rain, if it nourishes the ground of consent from which any enduring prosperity must grow.

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