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The cats that got the semi-skimmed milk

Why big banks and football clubs should pay extra tax for dishing out excessive salaries

"There is an irrational, unhealthy and growing gap between what these companies pay their workers and what they pay their bosses."

These are not the words of a trade union official, or an inequality campaigner. They are an extract from a speech by the UK's Conservative prime minister Theresa May at her party conference in 2016. The Conservatives have changed their tone on the issue of high pay and inequality in the past year, with their manifesto speaking of 'burning injustices' in the form of differing outcomes for those from different income and ethnic backgrounds, as well as issues of excessive pay.

The British Labour Party, too, have strengthened their narrative on the issue of inequality, with an election slogan of 'For the many, not the few' and a commitment to increase taxes for those at the top and to increase corporation tax.

Frustrated by strong rhetoric but weak action on behalf of the UK government, my think-tank, the Centre for Labour and Social Studies (CLASS), advocated an "excessive pay tax" - a payroll tax levied on employers for paying extremely high salaries. The aim of the tax is to discourage employers from shelling out such vast rewards, and provide an extra source of revenue for public services. The policy was included in the Labour Party manifesto and remarkably, received very little criticism.

Why do we need an excessive pay levy?

A CEO of a FTSE 100 company (one of the 100 largest firms listed on the London Stock Exchange) now earns an average £5.5m (€6.4m) per year. The ratio between average CEO pay and that of the typical UK worker stands at 183:1. Pay at the top has been subject to an unprecedented increase - 33% since 2010. While the bottom 90% of UK earners have generally become more equal over time, the top 10% and in

particular the top 1% have seen their fortunes balloon.

There is now considerable academic consensus that inequality is bad for society, the economy and democracy. The Occupy movement and successive NGO-led campaigns have brought excesses at the top into sharp relief, raising both public awareness and public anger. This has put more pressure on governments to act, which explains why both major UK parties have emphasised the topic during their election campaigns.

There is also the issue of much needed public funds. In the past seven years, under the Conservative-Lib Dem coalition government and then the Conservatives, public services including schools and hospitals have seen their funding decline. The Red Cross says Britain's health service is embroiled in a "humanitarian crisis". Teachers are leaving the education sector in droves. There are now almost 20,000 fewer police officers in Britain than in 2010. It is paramount that money is raised to reverse these cuts.

How would an excessive pay levy work?

We proposed that employers pay a levy on every salary over £300,000 (€346,000), which amounts to 20 times the annual wage for those on a living wage in the UK. This policy would only affect the top 0.34 percent of earners. It would tackle the irrational, undeserved, and unhealthy levels of pay at the top, and help close the pay gap between the fat cats of this world and their workers.

The tax would be levied on the self-employed directly, ensuring that high earning consultants and the like pay their fair share. And of course, bonuses, share options and dividend payments could also be included. Firms would be charged a 2.5 percent levy on earnings above £330,000 (€346,000) and 5 percent on those above £500,000 (€577,000).

According to CLASS calculations, a graduated excessive pay levy could bring an extra £1.7bn (€2bn) into the government's coffers. The £1.7bn (€2bn) annual intake would significantly dent the social care funding gap (£2.6bn) and would comfortably meet a Labour-proposed NHS pay rise. It would easily fund NHS nursing bursaries the government is cutting (£800m). It could help restore student maintenance grants (£3bn), and could meet a significant chunk of the £3bn funding cut our schools will face by 2020.

A graduated excessive pay

Alternatively, some of the money raised could be earmarked for skills, training, and

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infrastructure to help raise productivity, and therefore wages in the long run.

If we are going to get real wages to rise, if we are going to narrow the gap between the rich, and improve public services then we need bold action. An excessive pay levy would be a step forward in making the UK a fairer country, as well as bringing in the crucial money necessary to help fund vital public services in the short to medium term. We hope the levy would actually reduce pay at the top permanently.

Arguments against an excessive pay levy

Surprisingly, the proposal has sparked relatively little debate. A common argument against the tax is that those at the top may move elsewhere if they feel penalised, or that the cost will be passed on the consumer. But by targeting multibillion pound companies, rather than individuals, the policy would not deter highly paid workers and would not see consumers paying extra. Premier League football clubs and big banks would be most affected. Since the Premier League makes £3.4bn (€3.9) in profit, with an average wage bill of £134m (€155m) per club, it seems fair to assume they will be able to absorb the costs.

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Some detractors have suggested our approach is a blunt tool, and say a better way of tackling excessive pay is to include workers on company boards or through shareholder action.

Theresa May has repeatedly voiced her support for workers on company boards as a voluntary measure. But as long as worker participation isn't mandatory, employees won't achieve the changes to corporate governance and inequality that the Conservatives claim they want to see. As it stands, current voluntary arrangements, only two UK firms describe themselves as having an employee on their board.

In what many suspect is a public relations exercise, the retailer Sports Direct – best known for paying workers below minimum wage and creating such a culture of fear that an employee gave birth in the toilets – ran an election last year to include a worker on its board. Unfortunately, the elected worker isn't actually a board member, and has no voting

rights. On top of this, trade union Unite wasn't involved at any stage of the election. Given that it was a Unite campaign that brought to light the Victorian working conditions at the retail chain, excluding the union suggests that Sports Direct aren't serious about improving conditions for their workers.

There is cross-party agreement that pay at the top is too high and unjustifiable. Year after year we have seen pay at the top rise while average wages have stagnated. Shaming companies publicly has failed to change the status quo; an excessive pay levy attempts to force companies to think twice about unfair wages at the top while generating income for public services. While there is no silver bullet to the issue of inequality, an excessive pay levy could be used in conjunction with other interventions, such as workers on boards, to rein in the runaway rich.



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