Autonomy

# Paying for Covid

## capping excessive salaries to save industries

October 2020

Autonomy

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Autonomy Research Ltd
Cranbourne
Pilcot Road
Crookham Village
Hampshire
GU51 5RU

## Authors

**Lukas Kikuchi**

**Luke Hildyard**

**Rachel Kay**

**Will Stronge**

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# Contents

# Executive Summary

This in-depth report looks for the first time at all the possible options for applying a maximum wage cap and the benefits it could create for lower and middle income workers.

Britain operates a starkly unequal labour market (the 9th most unequal in the OECD), and the Covid pandemic is revealing its true extent.

As the UK economy buckles and growth crawls to a halt, the government - and business leaders - need to consider mechanisms by which existing cash in the labour market can be more equally distributed, so as to save livelihoods and industries. Wage caps are a powerful instrument to do this.

The report carries out unprecedented estimations of the earnings of the top percentiles of salaried, full-time employees. This represents a new step forward for economic modelling in this area.

# Key findings:

If a wage redistribution policy targeted only the top 1% of earners, redistributing fractions of their income, then **9 million** of low and middle income workers could have their wages boosted.

Alternatively, a maximum wage of £100,000 would have the power to redistribute the cash equivalent of over **1 million jobs**, showing that mass-layoffs are not necessary, if the very rich earn a little less.

A max wage of £100,000 could also **increase the annual median wage by £3,535**.

A £100,000 wage cap would only affect **2.85% of earners** in the UK.

Can we afford a rise in the minimum wage?

A minimum wage of £10.50 per hour could be achieved if a salary cap of £187,000 was utilised. This would only affect the **top 0.6% of earners and give pay rises to over 3 million workers.**

A minimum wage of **£12 per hour** (approx. £25,000 per year) would affect the top 3.21% of earners, but would give **pay rises to 5.5 million workers.**

Some industries are more unequal than others. In the Arts, entertainment and recreation industries, the very top percentiles

earn vastly more than the bottom 90%. To provide every worker with an £11 per hour wage in these industries, only 0.64% of earners (2,000 people) would need to have pay caps of £251,760.

Alongside the report, Autonomy has released new polling by Survation which shows public support for the introduction of a maximum wage cap of £100,000.

The polling found that 54% of the public support the introduction of a maximum wage. When asked in a follow up question what would be the fairest maximum wage, the most popular option was a cap of £100,000 which was supported by 31%.

Overall, 69% of the public supported maximum wages of either £100,000, £200,00 or £300,000.

# Section 1: Unequal pay in Britain

Extreme income inequality is one of the hallmarks of the UK economy.

Out of 40 countries that comprise membership of the OECD group of leading economies, the UK is the 9th most unequal.[1] Other than the United States of America, it is only emerging economies such as South Africa, Turkey and Bulgaria that have a worse record on inequality than the UK amongst the OECD member states.

Recent estimates have suggested that the top 1 per cent of UK earners now receive around 17% of total incomes, up from just 6% at the beginning of the 1980s.[2] The pay of top executives illustrates the extent to which very high earners are increasingly capturing a larger and larger share of available pay. While consistent data is difficult to come by owing to varied quality of disclosures, research suggests that the average FTSE 100 CEO is now paid around 126 times the average UK worker, compared to 'only' 58 times in 1999.[3]

1 OECD, Income inequality data, 2020 via https://data.oecd.org/inequality/income-inequality.htm

2 Resolution Foundation, Who gains: the importance of accounting for capital gains, 2020 via https://www.resolutionfoundation.org/app/uploads/2020/05/Who-gains.pdf

3 CIPD and High Pay Centre, Executive pay in the FTSE 100: 2020 review, 2020 via https://www.cipd.co.uk/knowledge/strategy/reward/executive-pay-ftse-100-2020

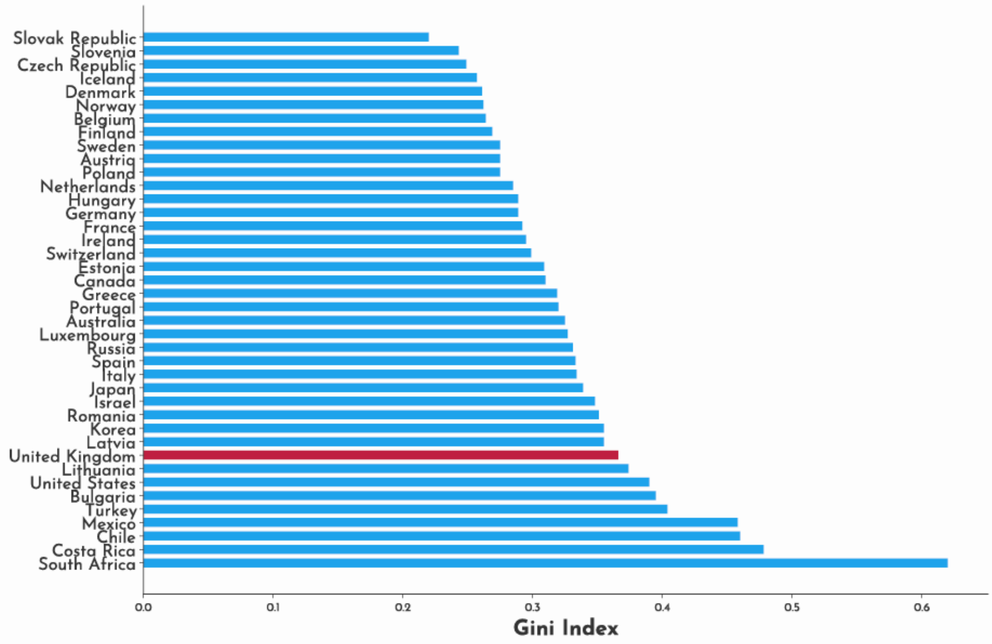


*Figure 1: income inequality amongst OECD member states, as measured by the Gini coefficient. Source: OECD*

Median FTSE 100 CEO pay of £3.6 million means that CEOs effectively make the median full time UK worker's annual salary of just over £30,000 in under three days.

Inequality on this scale is concerning from a moral perspective - should any individual be valued in excess of a hundred times more than another?

There are also grounds for concerns about the effect that inequality has on public health and wellbeing. Extreme concentrations of income and wealth manifest themselves in political power - wider divides between rich and poor foster more divergent political interests with those at the top more able to exert influence through lobbying, campaign contributions or media ownership.

Similarly, a more divided society can foster greater resentment (of

richer groups); fear (of poorer ones); and a lack of empathy or trust between different communities whose lives are increasingly different.

It is not hard to see how this might potentially lead to higher levels of crime; poorer mental and physical health and well-being; and lower social mobility, as richer children and young adults purchase educational and professional advantages over their poorer counterparts.

# Section 2: The Covid smash and grab

These are structural problems with the UK economy that will lower quality of life over the longer term. However, inequality is also an immediate issue of inefficiency, particularly in light of the economic impact of the Covid pandemic.

As of August 2020, nearly 750,000 jobs have been lost due to the impact of the virus.[4] This includes thousands of roles at major employers including British Airways, Centrica (owners of British Gas), Marks and Spencer, HSBC, BP and Rolls Royce.[5]

The Office for Budgetary Responsibility have forecast a 12.4% fall in UK GDP in 2020, with a peak unemployment rate of 12%.[6] Prior to the outbreak of the pandemic, unemployment in the UK stood at 3.9%.[7] The OBR's last GDP forecast was for modest growth of 1.1% rather than the spectacular collapse now understood to have taken place.[8]

4 Financial Times 'UK sheds nearly 750,000 jobs during coronavirus crisis' 11 August 2020 via https://www.ft.com/content/c8ef84bf-0539-4281-b353-d5b840d10b5e

5 City AM, 'UK firms cut more than 106,000 jobs amid coronavirus pandemic', 19 August 2020 via https://www.cityam.com/hollowed-out-which-uk-companies-have-made-job-cuts-during-the-coronavirus-pandemic/

6 Office for Budgetary Responsibility, Fiscal Sustainability Report: July 2020, via https://obr.uk/coronavirus-analysis/

7 Office for National Statistics, Employment in the UK: March 2020, via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/march2020

8 Office for Budgetary Responsibility, Economic and Fiscal Outlook: March 2020 via https://cdn.obr.uk/EFO_March-2020_Accessible.pdf

# Section 3: Redistributing what we have

In the aftermath of the pandemic, with many businesses operating at reduced capacity, it seems highly likely that the UK economy will be much smaller than previously envisaged for a considerable period of time, with profound implications for living standards.

Changes to individuals' material incomes and wealth are determined by the level of economic growth, and/or changes to the way existing resources are distributed.

Therefore, it seems likely that significant falls in incomes and living standards will occur unless better methods of redistributing existing resources are found. Without this, the UK faces a major struggle to protect as many jobs and livelihoods as possible.

# Section 4: Topsy turvy values

At the same time, the pandemic and the economic shutdown have prompted widespread debate about whether work in the UK is fairly valued. Some of the roles that have been most critically important in getting the country through the crisis are also some of the lowest-paid - cleaners, carers, security guards, delivery drivers, refuse collectors and supermarket workers, for example, all had to continue their work at great risk to their own personal health, ensuring NHS facilities were clean and secure, vulnerable people were looked after and that the wider public could eat, wash and retain some kind of semblance of normality throughout the duration of the crisis.

Research from Autonomy confirms this intuitive sense that it was the lowest-paid workers doing the most at the height of the pandemic. Autonomy calculated a Risk Indication Factor for 273 different occupations, based on their exposure to disease and physical proximity to others (see Figure 2). They found that:

> "***simply put, moving down pay brackets leads to a higher Risk Indication Factor: the less you get paid, the more at risk you are, generally speaking.***"

There is a developing political consensus that the pandemic has highlighted the fact that people in these types of low-paid roles deserve to be better paid.

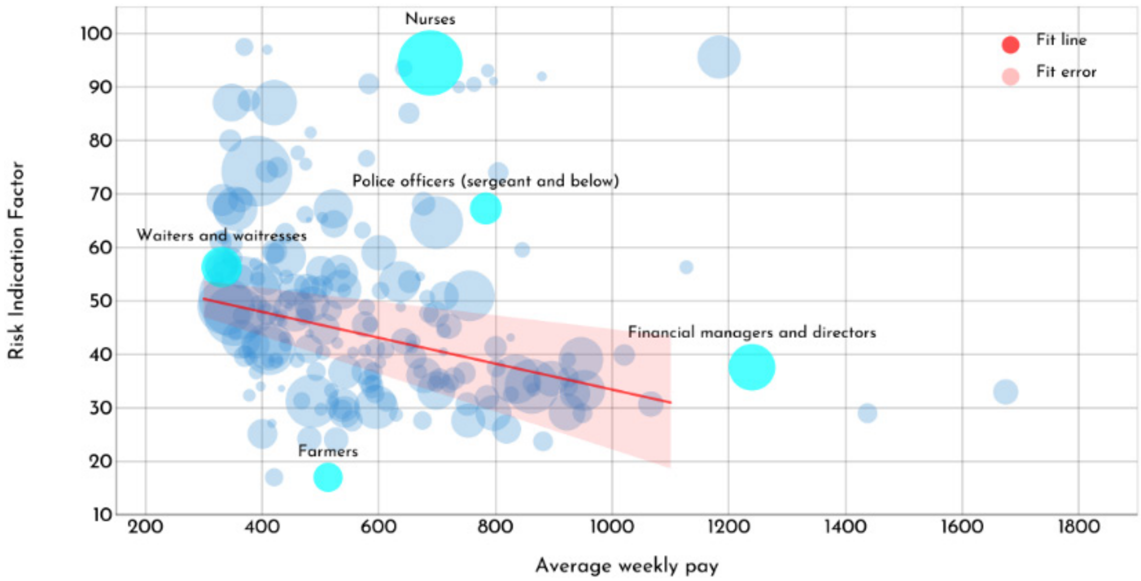


*Figure 2: Weekly pay and risk of Covid infection*

Conservative Minister Kit Malthouse made this point emphatically during a Parliamentary debate about the treatment of retail workers during the pandemic:

> ***"When we emerge from this crisis… there will be a general reassessment about who is important in this country and what a 'key worker' means."*** [9]

Unfortunately, the rhetoric around the need to raise incomes for low-paid workers is not matched by agreement on how to do so. If a painless pay increase for low (and middle) earners could be conjured up at no cost to anybody else, it would probably have already happened by now. In fact, UK workers have just endured the worst decade for pay growth for a century.

The imperative to raise pay for low earners combined with the likely short to medium term economic contraction suggests that we need to achieve a much fairer, more even distribution of existing resources.

9 House of Commons Hansard, Protecting Shop Workers from Violence: 23 March 2020 via https://hansard.parliament.uk/Commons/2020-03-23/debates/DF73EF11-39F6-43AA-86FE-0656329A4382/ShopWorkersProtectionFromViolence

The fact that most other advanced economies have a smaller gap between rich and poor illustrates the potential for the UK to raise living standards by achieving a better balance.

Pay and incomes are not necessarily a 'zero sum' game where less for those at the top means more for everyone else. But equally it would be naïve to think that there is no relationship between the two. Examples of ways in which the incomes of rich and poor affect each other include:

- How employers choose to allocate pay across their workforce between high, low and middle earners;
- The balance between corporate profits (which disproportionately accrue to the rich as investment income) and wages;
- Levels of taxation (disproportionately paid by those at the top) and funding for public services or social security.

In each case, it is clearly possible to imagine decisions by policymakers or business leaders that would re-balance pay distribution in favour of those in the middle and at the bottom.

Policy proposals that have been put forward to this effect include but are not limited to:

- Worker representation on boards and other corporate governance reforms to strengthen workplace democracy;[10]
- Enhanced trade union and employment rights;[11]

10 See e.g. RSA, A blueprint for good work: eight ideas for a new social contract, June 2020 via https://www.thersa.org/globalassets/reports/2020/a-new-blueprint-for-good-work.pdf

11 See e.g. Resolution Foundation, Low Pay Britain 2020, September 2020 via https://www.resolutionfoundation.org/app/uploads/2020/09/Low-Pay-Britain-2020.

- A more progressive taxation system;[12]

- A higher minimum wage;[13]

- Requirements or incentives to introduce company-wide profit sharing mechanisms.[14]

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12 See e.g. New Economics Foundation, Rebuilding the tax base on the road to recovery, May 2020 via https://neweconomics.org/2020/05/rebuilding-the-tax-base-on-the-road-to-recovery

13 See e.g. IPPR, Prosperity and justice: A plan for the new economy, May 2018 via https://www.ippr.org/files/2018-08/1535639099_prosperity-and-justice-ippr-2018.pdf

14 See e.g. Social Market Foundation, Strengthening employee share ownership in the UK, February 2020 via https://www.smf.co.uk/wp-content/uploads/2020/02/Employee-Share-Ownership-February-2020.pdf

# Section 5: Public support for max wage restrictions

In order to create a fairer economy during the covid recession, it has been argued that a maximum wage should be put in place so as to create new jobs and to spread money more evenly across companies and the wider economy. Other people argue that a limit on high earners' salaries would reduce incentives on productivity.

Would you support a maximum wage?

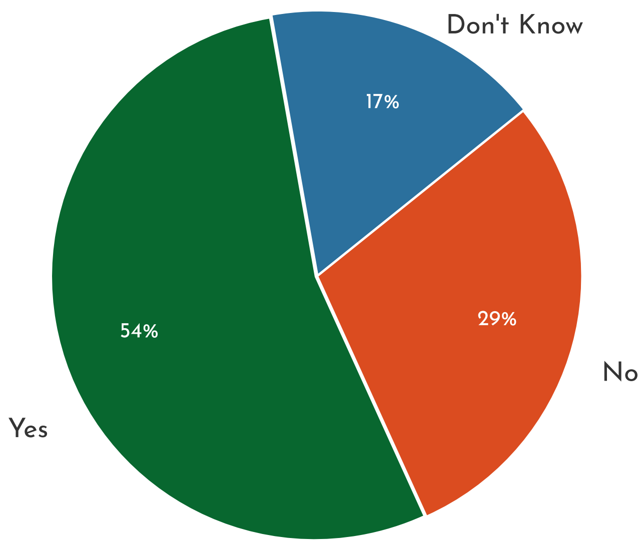


*Figure 3: Would you support a maximum wage?*

Supposing there was to be a maximum wage what do you think would be a fair maximum wage for CEOs, given that the UK average salary is around 30,000 per year?

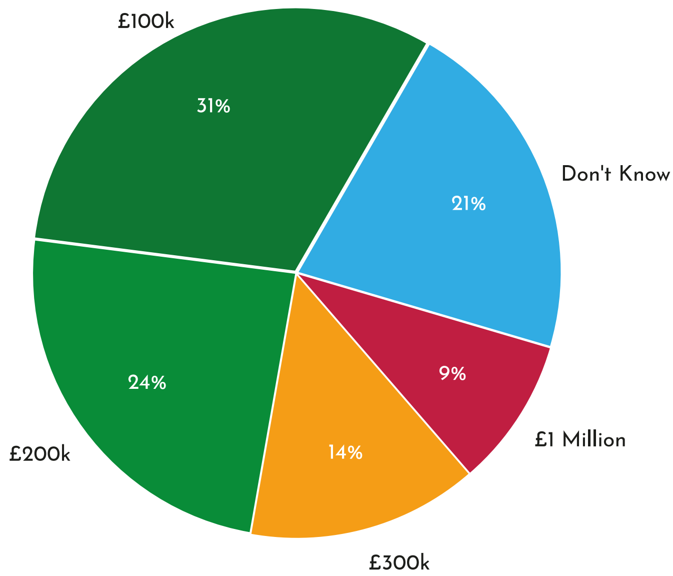


*Figure 4: What would a fair maximum wage be?*

In the next section, we examine the earnings of the very richest earners in the UK economy, analysing the impact of hypothetical re-balancing from those at the top to lower-paid workers. This provides an insight into the kind of improvements to living standards that measures to achieve a more even balance between high, middle and low earners might bring about for the latter groups.

*Wages and salaries are not the only forms of income for the rich.*

*This research is based on Autonomy's analysis of the Annual Survey of Hours and Earnings (ASHE), which details the distribution and structure of paid employment in the UK.*

*The analysis doesn't cover income from other sources - such as rental income from properties, dividend payments from share ownership or capital gains from business ownership. These types of income tend to disproportionately benefit those at the top (obviously, richer people are much more likely to own multiple properties, extensive share portfolios or their own businesses).[15] This means that there are alternative ways to reduce inequality and raise the standard of living for those on low and middle incomes beyond re-balancing income from employment.[16]*

*However, the fact that the findings are based on income from employment only emphasises that the quite significant increases in incomes for low and middle earners that we identify still only represent a small proportion of the hypothetical potential to improve living standards through redistribution from those at the very top to those in the middle and at the bottom. If anything, the figures we cite are cautious rather than ambitious.*

15 Advani and Summers (2020) https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/bn19.2020.pdf

16 Resolution Foundation (2020) https://www.resolutionfoundation.org/app/uploads/2020/05/Who-gains.pdf

# Section 6: Redistributing incomes to save jobs and industries

What could the impact of wage caps be if they were used to increase the wages of middle and lower income earners?

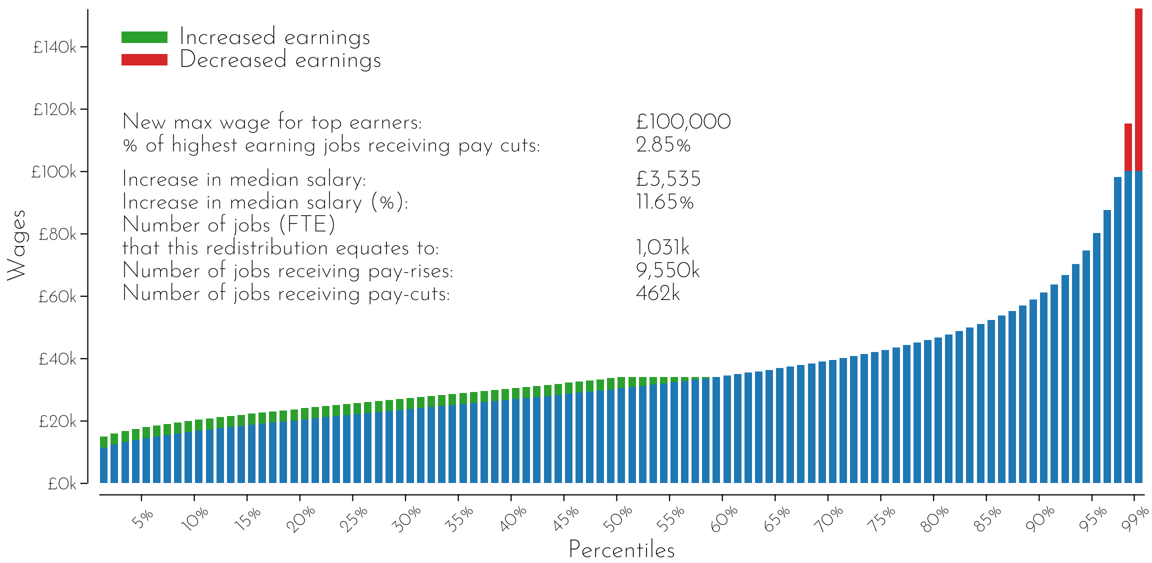


*Chart 1: A £100,000 wage cap and its redistributive potential across the full-time labour market. Source: Autonomy analysis of ASHE, Table 4.*

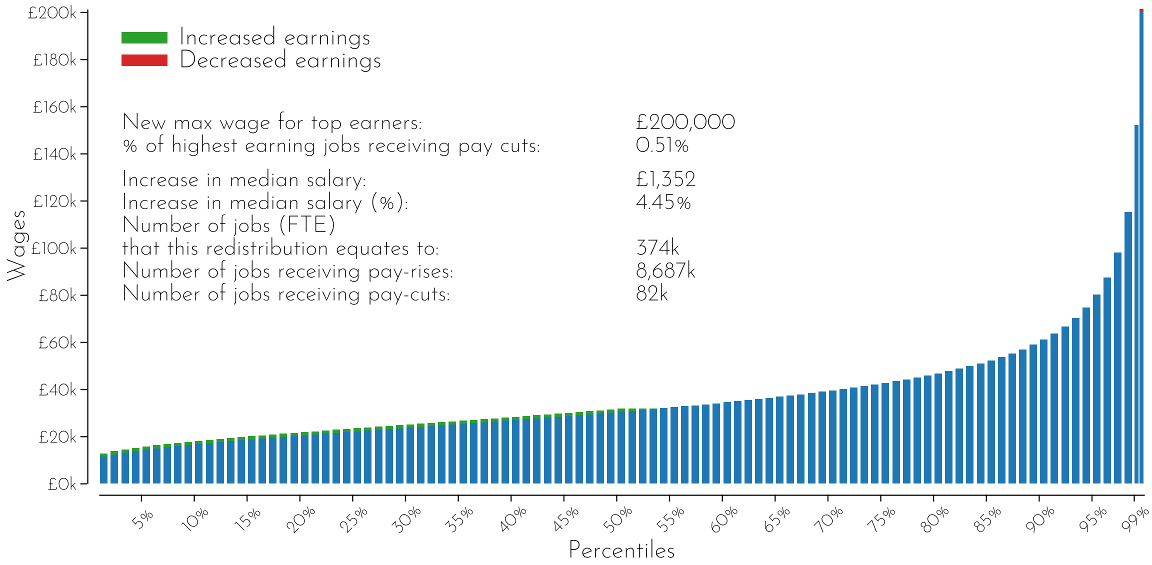


*Chart 2: A £200,000 wage cap and its redistributive potential across the full-time labour market. Source: Autonomy analysis of ASHE, Table 4.*

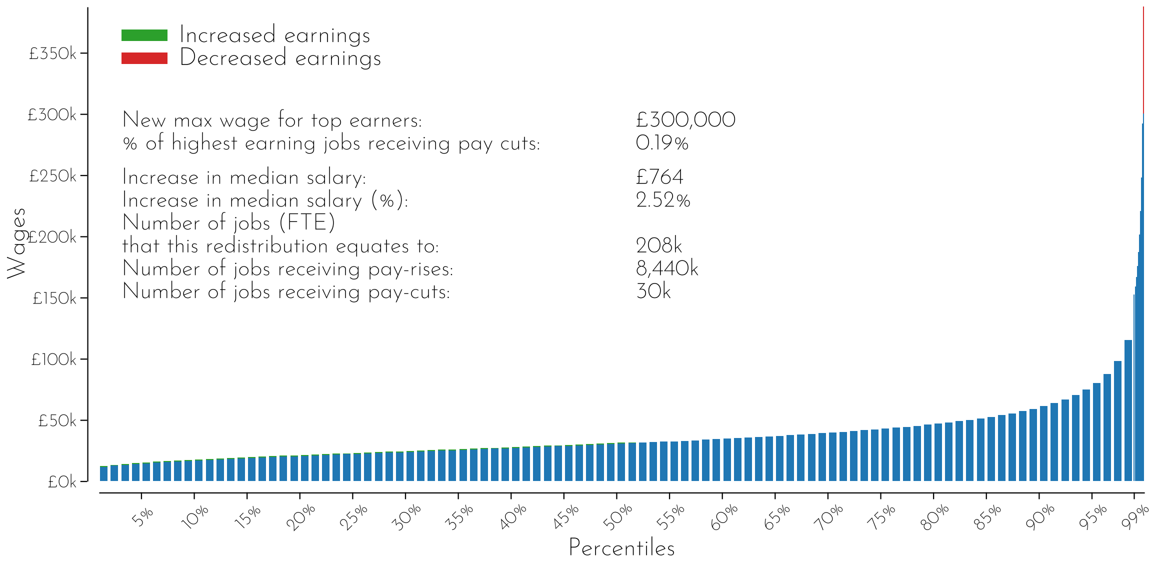


*Chart 3: A £300,000 wage cap and its redistributive potential across the full-time labour market. Source: Autonomy analysis of ASHE, Table 4.*

The above charts show the huge benefits and minimal costs that wage caps on the very highest earners could produce.

In Chart 1's scenario, a £100,000 wage cap (the most popular option with the British public) would redistribute the cash equivalent of over 1 million jobs, showing that mass-layoffs are not necessary, if the very rich earn a little less. In the scenario of redistributing that income to middle and lower earners, over 9 million workers would receive pay rises with only 2.8% receiving pay cuts.

In Charts 2 and 3 we see that even very high wage caps (£200,000 and £300,000 respectively) on diminishing numbers of high earners (0.5% and 0.2%) could still realise pay rises for around 8.5 million workers. Alternatively, this redistributed income could be used to create or save hundreds of thousands of jobs.

# Section 7: Can we afford to increase the minimum wage?

In recent years, political parties have pledged to raise the minimum wage (or 'Real Living Wage') to £10 or, in the Conservative government's case, £10.50.[17] That particular pledge has now been put on ice.[18]

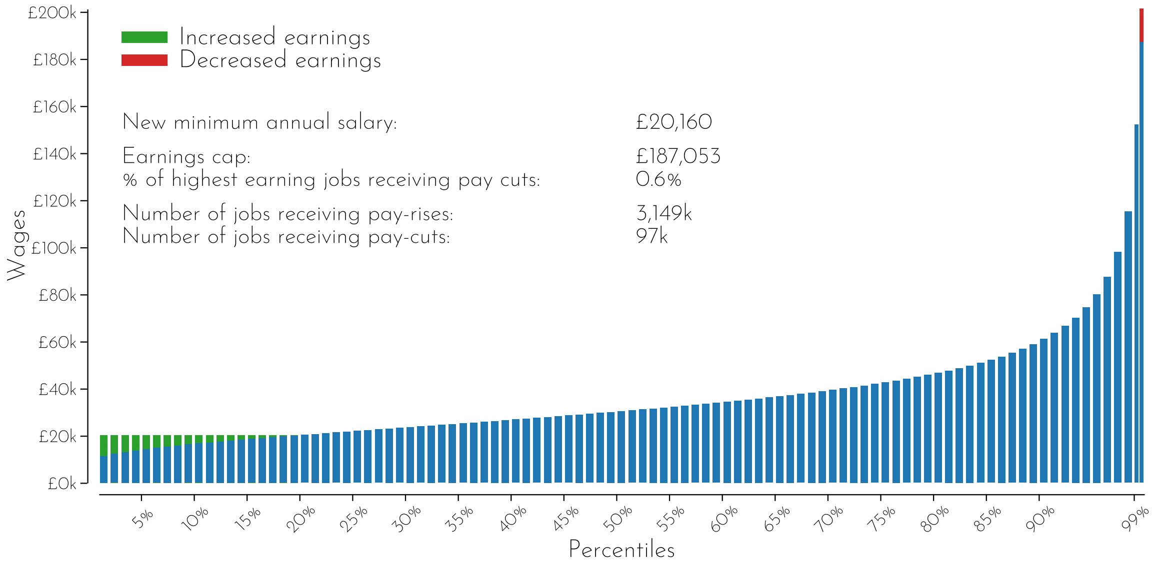


***Chart 4: Redistributing from very high earners to fund a £10.50 minimum wage. Source: Autonomy analysis of ASHE, Table 4***

17 Larry Elliot, 'Tories try to woo low-paid with vow to raise national living wage, 30 September, via The Guardian. https://www.theguardian.com/uk-news/2019/sep/30/conservatives-pledge-raise-national-living-wage-by-2024

18 Jordan Kind, 'Government 'may not be able to increase minimum wage because of coronavirus cost'', 6 September, via Metro. https://metro.co.uk/2020/09/06/government-may-not-be-able-to-increase-minimum-wage-because-of-coronavirus-cost-13229820/

A minimum wage of £10.50 per hour (£20,160 per annum) could be achieved if a salary cap of £187,000 was utilised. This would only affect the top 0.6% of earners and give pay rises to over 3 million workers.

A minimum wage of £11 per hour (£23,000 per annum) could be achieved if a salary cap of £121,000 was utilised. This would only affect the top 0.6% of earners and give pay rises to over 4.5 million workers.

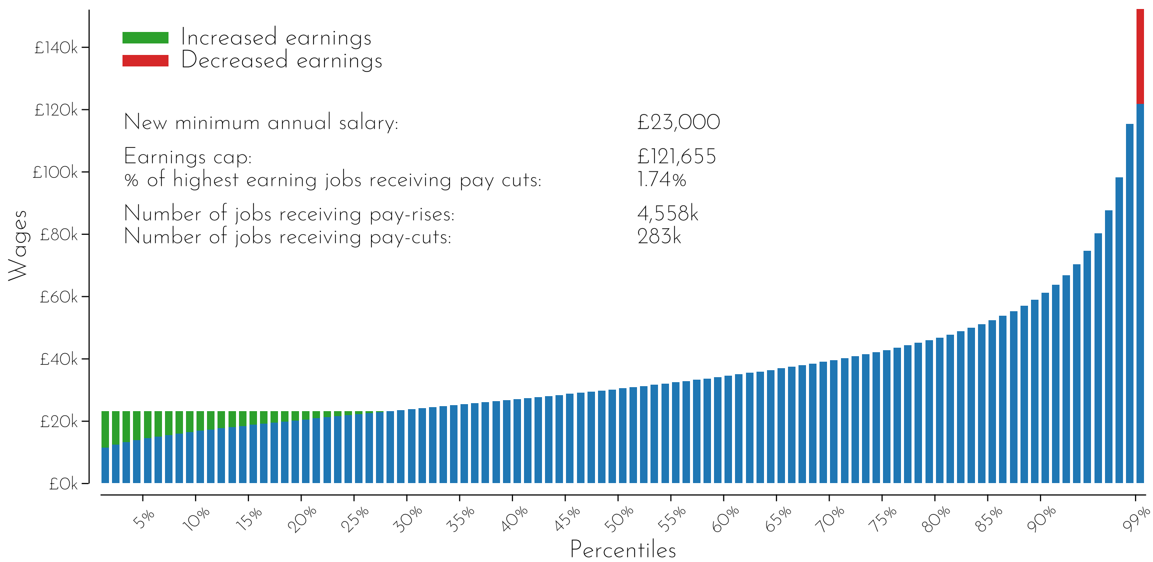


*Chart 5: Redistributing from very high full-time earners to fund a £11 minimum wage. Source: Autonomy analysis of ASHE, Table 4.*

*Table 1: Hypothetical new minimum wages, required wage caps and numbers of workers receiving pay rises and cuts. Source: Autonomy analysis of ASHE, Table 4.*

| New minimum annual salary | Wage cap level | No. of workers receiving pay-rises | No. of workers receiving pay-cuts |
|---|---|---|---|
| £19,000 | £232k | 2,606k | 57k |
| £20,160 | £187k | 3,149k | 97k |
| £21,000 | £163k | 3,557k | 137k |
| £22,000 | £140k | 4,054k | 200k |
| £23,000 | £122k | 4,558k | 283k |
| £24,000 | £107k | 5,064k | 388k |
| £25,000 | £95k | 5,568k | 521k |
| £26,000 | £86k | 6,067k | 684k |
| £27,000 | £77k | 6,558k | 881k |
| £28,000 | £71k | 7,037k | 1,115k |
| £29,000 | £65k | 7,504k | 1,391k |
| £30,000 | £60k | 7,955k | 1,711k |

*Please visit the report page on Autonomy's website to see the benefits that a wage cap could bring to individual industries.*

# Section 8: Pay redistribution in practice

At an economy-wide level, the kind of redistributions we identify might seem difficult to comprehend, in terms of how they might realistically be achieved.

Direct taxes and transfers (in the form of social security payments, for example) are one option that would have the advantage of democratic oversight and the challenges associated with administration of the tax and benefit system.

Re-distribution on the scale envisaged could also take the form of so-called 'pre-distribution' - reforms to employment or business regulations that result in employers paying their low-paid workers a bit more and those at the top a bit less, reducing the need to equalise incomes through taxes and transfers.

We have already noted support for measures designed to ensure a more even allocation of pre-tax/transfer incomes such as:

- corporate governance reforms, giving workers a stronger voice in discussions around pay allocation;
- stronger trade union representation, empowering lower-paid workers to negotiate higher wages relative to top earners;
- or a higher minimum wage, asking employers to award pay increases to their lowest earners, potentially funded by wage restraint for top earners.

# Section 9: Scoping in on case studies

Analysis of data from individual companies highlights the potential for employers to raise incomes for low and middle income workers by re-balancing the distribution of pay across their workforce.

Recent pay ratio reporting regulations require UK-listed companies to state the ratio of their CEO's pay in comparison to the thresholds for the upper quartile, median and lower quartile earners across their UK workforce.[19]

Using these figures it is possible to make conservative estimates of the possible impact, if some of the pay allocated to the upper quartile was redistributed to the lower.

For example, BP, with an estimated 15,000 UK employees, pay at least £126,085 to their top quarter of UK employees, while the bottom quarter earn less than £19,108. Even assuming all the top quarter of employees earn the upper quartile threshold amount of £126,085 (in reality, many will earn much more), redistributing just 3% of their pay would mean a £3,783 pay rise for the bottom quarter of employees.

19 For more analysis of unequal pay see High Pay Centre (2020) https://highpaycentre.org/hpc-cipd-annual-ftse-100-ceo-pay-review-ceo-pay-flat-in-2019/

This would represent a significant boost to their incomes and living standards while barely affecting those in the top quarter.

Analysis of the pay ratio disclosures at International Airlines Group, the owners of British Airways, who are implementing programmes of redundancies and changes to employees' terms and conditions as a result of the economic impact of the pandemic, produces similar findings.[20] Across 39,000 UK employees, the threshold for upper quartile earners is £64,673 (comfortably inside the top 10% for UK workers as a whole) and the lower quartile is £29,360. By redistributing 3% of the salaries of all upper quartile earners to the lower quartile, you could give just under 10,000 of the lower-paid employees a salary raise of at least £1,940 each.

At Capita, the outsourcing group with around 40,000 UK employees, the pay threshold for the upper quartile is £57,049 and for the lower quartile it's £19,147. By redistributing 3% of the salaries of all upper quartile earners to the lower quartile, you could give around 10,000 of the lowest-paid employees a pay rise of at least £1,711 each. For employees earning £19,000 or less, this represents a substantial increase.

These figures support the argument that re-thinking the balance between high and low and middle earners could be a fruitful way to raise the incomes of the latter groups. But as the pay ratio disclosures only provide a breakdown of pay distribution by quartile, the figures for top earners at companies like Capita and International Airlines include those earning around £55,000-£65,000 and above, which compares very well to the wider UK population, but is perhaps not what people have in mind when they think of the seriously rich.

20 Helen Coffey, ' 20 August, 'BRITISH AIRWAYS' BEHAVIOUR 'PUTS THAT OF A VICTORIAN MILL OWNER TO SHAME', SAYS UNION', 2020, via The Independent https://www.independent.co.uk/travel/news-and-advice/british-airways-ba-unite-union-industrial-action-redundancies-pilots-cabin-crew-a9679336.html

At most individual companies, it is difficult to discern how many employees (below board level) are earning hundreds of thousands or even millions of pounds - and what proportion this accounts for of the total expenditure on pay.

However, UK banks detail their total expenditure on so-called 'material risk takers' - their highest paid staff in the most strategically significant positions. These account for between 0.4% and 2% of the employees across the four major UK banks listed in the FTSE 100, with average pay of at least £400,000.  Table 1 shows that a hypothetical redistribution of 50% of the money spent on these "material risk takers" across the lowest paid 50% of the total employee population would raise the lower earners' pay by thousands of pounds at each bank. The high earners would continue to enjoy average pay awards worth hundreds of thousands of pounds even after the redistributions had taken place.

The figures are for global employees rather than the banks' UK workforce, with both the material risk takers and the wider employee population situated across the world. But they do once again illustrate the potential for internal redistributions - in this case from high-paying roles such as currency traders and mergers and acquisitions specialists to lower-paid positions including branch staff or administrators - to significantly improve the pay and living conditions of the low-paid group while those at the top still remain sufficiently well-paid relative to the wider population to reward the extra time commitment, responsibility and acquisition of skills and experience that their roles might require.

*Table 2: Hypothetical redistributions at UK-listed banks. Source: High Pay Centre analysis of pay ratio disclosures.*[21]

| Company | Total employees | Number of high earners (MRTs) | Spend on high earners (£m) | Value of 50% of high earners per below-median employee (£) | Average high earner pay post hypothetical redistribution (£000) |
|---|---|---|---|---|---|
| Barclays | 86,931 | 1,704 | 1,405 | 16,162 | 412 |
| HSBC | 247,055 | 1,159 | 1,048 | 4,241 | 452 |
| Lloyds | 70,083 | 292 | 157.8 | 2,252 | 270 |
| RBS | 64,200 | 751 | 327.21 | 5,097 | 218 |

Of course, banks are unusual in terms of their number of very high earning employees, so it is not necessarily the case that there is the same hypothetical potential to rebalance pay at companies in other industries. Nonetheless, as we have noted, the richest 1% of the UK population captures 17% of total incomes, so it is plausible that this scale of inequality is reflected to some degree in the pay distributions of individual companies.

Certainly, hypothetical redistributions on a similar scale to those identified at Lloyds which is more focused on retail banking and has a comparatively small proportion of high-earning material risk takers, may also be possible at other large employers in different sectors.

***Pay data for the case study firms used in this section can be found in their publicly-available annual reports and regulatory filings.***

21 High Pay Centre (2020a) https://highpaycentre.org/wp-content/uploads/2020/08/Final_Version_Pay_Ratio_interim_report.pdf