Chasm widens between UK workers and financial elite

By Simon Walker
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It was only weeks ago that the *Sunday Times* Rich List revealed how the international super-rich who reside in the UK have over the past two years fully restored their levels of wealth to pre-2008 levels.

Research by the Institute of Fiscal Studies (IFS) and the High Pay Commission (HPC) confirms the trend towards greater social inequality and the piling up of outrageous wealth by the financial oligarchy.

The HPC is manned by the great and the good from the world of business, commerce, industry, charity and the trade unions. It was established by the pro-Labour Party think tank Compass, with the support of the Joseph Rowntree Foundation.

The HPC expresses alarm at the growth of pay at the top of society and the growing differential between the top and the rest of society. The commission was established to investigate the causes of the exponential increases in pay for the rich and the social and economic effects of such developments. The remit of the commission runs for one year and will make its final report in November.

In the foreword to the HPC research, they write how last year the director general of the Confederation of British Industry, Richard Lambert, warned after another round of enormous bonuses and pay increases, "If leaders of big companies seem to occupy another galaxy from the rest of the community, they risk being treated as aliens."

The analogy is appropriate. In the movie *Blade Runner*, the rich live in "off-world colonies". To all practical effects, the rich in modern Britain may as well live on another planet.

The HPC report warns that when even insiders like Lambert sound such warnings, then it must be time for reform. It warns that in the year since Lambert made that statement, things have gone from bad to worse. The combined effects of the austerity measures imposed by the Conservative/Liberal-Democrat coalition, whereby workers' take-home pay fell for the first time in 30 years even as prices soar, together with the orgy of wages and bonuses in the boardroom, are an explosive mix.

The HPC estimates that boardroom remuneration increased by an incredible 55 percent last year! While the economy slowed to a halt and working people suffered, the super-rich and financial oligarchy have never had it so good.

In its foreword, the HPC makes note of the complete de-linking of boardroom pay and bonuses from any relation to economic performance. No matter whether profits and productivity rise or fall, boardroom pay and bonuses increase every year. Moreover, the annual increases are getting larger in both absolute and percentage terms year after year.

Speaking to the *Guardian* newspaper, chairwoman of the HPC Deborah Hargreaves alluded to this phenomenon when she noted, "Set against the tough spending measures and mixed company performance, we have to ask ourselves whether we are paying more and getting less."

The HPC is correct to worry about the political impact of social inequality. A recent ICM poll suggests that 72 percent of the public believe high pay makes the UK a grossly unequal place to live, and 73 percent say they have no faith in government to stop the galloping away of high earners.

The HPC understands that rampant inequality will ignite a social flame of opposition. But they have no solution to offer. Their warnings, directed towards a party whose ideological driving-force, Peter Mandelson, declared, "We are intensely relaxed about people getting filthy rich", will fall on deaf ears.

Their own proscriptions are for the most minimal tinkering—to explore improving disclosure, reforming remuneration committees and simplifying pay structures. Robert Talbut of Royal London Asset Management, himself a commissioner on the HPC, noted, “the ever more complicated pay packages designed to incentivise performance for top executives, which have contributed to a ballooning in pay at the top, do not appear to have worked.”

The HPC report authors use straightforward language. The executive summary puts things starkly:

“The UK’s top earners are taking a bigger slice than ever of the national income. Between 1949 and 1979, the share of income going to the top 0.1% of earners dropped from 3.5% to 1.3%. Today the top 0.1% of earners takes home as big a percentage of the national income as they did in the 1940s. If current trends continue, by 2025 the top 0.1% of earners will take 10% of the national income and by 2030 we will have gone back to levels of Inequality not seen since Victorian England.”

Those people the HPC call “winners”, the top 0.1%, comprise finance workers (30 percent), those employed in business (38 percent) and company directors (32 percent). In 2010 the average annual salary of an FTSE 100 chief executive was in excess of £3,747,000.

The HPC explains how if current trends continue unabated, then by 2020 the FTSE 100 CEOs will enjoy a doubling of their wages while those of the rest of society fall or stagnate. Currently, top executives are paid 145 times the national median full-time wage of £25,800. On current projections and trends, this differential will grow to 214 times by 2020.

In a manner similar to the *Sunday Times* Rich List, the HPC found that in the immediate aftermath of the 2008 crash, top incomes fell slightly, only to bounce back with a vengeance. In contrast, last year the average wage rise was 0.1 percent, an effective pay cut measured against inflation.

Just prior to the release of the HPC findings, the Institute for Fiscal Studies (IFS) offered further evidence that the incomes of the top 1 percent of earners grew out of all proportion to the wages of workers under the last Labour government.

Households with earnings higher than the other 99 percent of the population enjoyed a post-tax income rise of 13 percent during 2009/2010. Median incomes rose by just 1.6 percent, meaning that, with the sharp rise in pay for the rich, most people’s wages fell. Median income has risen at a snail’s pace since 2002, even as the incomes of the richest households have risen much faster.

These two diametrically opposed tendencies, the falling income of the masses together with the simultaneous growth of the wealth and incomes of the super-rich, resemble scissor blades opening ever further apart every year.

In the year the Conservative government led by Margaret Thatcher came to power, 1979, the top 1 percent of British earners had an income three times that of the median income.

In his book, *When the Lights Went Out*, Andy Beckett writes how 1977 was the most equal year in modern British history. It is easy to understand why this much-maligned decade witnessed the smallest gap between the working class and the elite in modern British history.

Since 1945, social inequality was reduced by the militancy of the working class. It was the fear of social revolution that brought about the circumstances whereby workers’ share of the pie grew.

After the election of the Thatcher-led Tory government, the trend towards greater social equality was thrown into sharp reverse by a savage attack upon the social position of the working class. The previous Labour government actually initiated the reversal of fortunes when they slashed social spending after being bailed out by the IMF in 1976.

Twenty years later, in 1996/1997, after almost two decades of Tory rule, the income multiple had risen to 4.4 times. By the end of Labour’s term in office, the multiple rose to 5.6 times the median.

Median remuneration after taxation rose by 23 percent on top of inflation between 1997 and 2010. The incomes of the top 5 percent rose by a 29 percent increase. But the incomes of the top 1 percent grew by 56 percent.

Median remuneration for a two-person household with no children and one person working was just £30,500 before tax. Most workers, whether white-collar or blue, earn less. Many people in full-time work take home wages less than one third of this figure.

The top 1 percent is living it up, with £197,000 per year. Such rates reflect the orgy of pay and bonuses awarded recently at banks and financial houses. The IFS confirms that 20 percent of these top earners are employed in financial services and banking.