

# Wage inequalities and corporate governance



**D**espite advances in corporate governance and social responsibility, income inequalities in the UK, a comparatively rich country, are increasing.

Some of the inequalities may be explained by supply and demand in labour markets, technological substitution, demise of the manufacturing sector, expansion of the services sector and globalization.

However, the impact of such developments has to be filtered and translated by the politics of corporate governance, institutional structures, workers' rights and policies of the state and is thus closely connected to national developments.

## Patterns of income

The growing income inequalities in the UK and their consequences have been noted. Successive governments had hoped that remuneration committees would check excessive executive remuneration, but they seem to be unable or unwilling to do so. At the UK's 100 biggest quoted companies, executive pay increased 17 times faster than the average pay. For every £100 earned by a top company director in 2000, they earned £205 (after allowing for inflation) in 2006, while ordinary employees received an average increase of £6 (after allowing for inflation) in every £100 for the same period.

In 2005, FTSE100 directors pay rose by 28 per cent compared to an average earnings rise of 3.7 per cent. One survey estimated that in 2005 the median total remuneration of a FTSE100 chief executive was £2.329 million whilst the chief executives of FTSE250 companies recorded a median total remuneration of £878,000.

Another survey reported that the remuneration of FTSE100 chief executives increased by 40 per cent in the past year, whilst the FTSE100 share price index climbed by just 7.5 per cent over the same period. In 2001, the average chief executive's total remuneration stood at £1.7 million, equivalent to the annual average earnings of 90 workers. By late 2006, it had risen to £2,864,282, equivalent to the average wage of about 127 workers.

The directors of the UK's ten biggest companies had an average remuneration package of £5.8 million, an increase of 12 per cent more in 2006 than in the previous year. Finance directors at the UK's biggest 100 companies chalked up an annual rise of 22 per cent to take their median annual salary to £1.7 million. Non-executive directors, policing executive remuneration and staffing corporate remuneration committees, received an average annual increase of 13 per cent, with some getting 18 per cent. Those at FTSE 350 companies received £40,000, whilst those at FTSE 100 companies received an average £48,800. Some picked up £95,000 for just 25 days a year work, over four times the UK annual median salary.

At Goldman Sachs, one of its directors received an annual bonus of £51 million, 25 of the company's senior bankers received bonuses of more than £25 million and its dealing staff is estimated to have received average payment in the region of £300,000. The company refused to increase the wages of its London office contract cleaners from £6.70 an hour to £7.05 an hour, equivalent to about £14,500 a year.

In 2006, the number of lawyers earning over £1 million rose to 200. Managers of the richest 100 hedge funds earned over £25 million each though some received as much as £250 million. For 2006, the average wage in the City of London, a square mile that is home to much of the finance industry, hit £51,159 and the average annual salary of a UK chartered accountant was around £80,000.

The remuneration of ordinary workers remains on an entirely different scale. The Annual Survey of Hours and Earnings published by the UK Government in October 2006 showed that the median gross annual earnings for full-time male workers was £25,800 (£25,100 in 2005) and £20,100 (£19,400 in 2005) for full-time female workers. Official statistics show that median earnings for all employees were £23,600 per annum (compared to £22,900 in 2005). 75 per cent of all workers had a gross annual wage of less than £29,000. The top 10 per cent had earnings of over £886 per week (around £46,000 a year), while the bottom 10 per cent earned less than £244 per week (or £12,700 per annum).

Around 5.3 million workers, including home, migrant and temporary workers, earn below one-third of the median hourly wage. Full-time female workers on average earned 17 per cent less than men in comparable jobs. Anyone striving for median income, but earning the 2006 national minimum wage of £5.35, would need to work for about 85 hours each week.

Many households have to rely on two incomes and employees have to work overtime, or even take on additional part-time work to make ends meet, leaving precious little time for family life. Nearly, 25 per cent of all UK workers work for more than 48 hours per week, higher than the EU recommended norm, the highest proportion in any western country. Owing to low pay in their early working life and struggles to raise families, 21 per cent of 30- to 39-year-olds are estimated to work 60 hours or more each week.

Despite highly profitable businesses, some company directors resent paying even the minimum wage. Trade unions estimate that in 2006, some 150,000 UK workers were still being paid less than their entitlement of the minimum wage. By using its network of 120 enforcement officers (for the entire country), the government recovered £3 million for those who had been illegally denied the minimum wage. Only one employer has ever been prosecuted for violating the minimum wage laws.

### Wealth inequality

The inequitable distribution of wealth has serious personal and social consequences. At the beginning of 2007, the average cost of a home in the UK stood at around £200,000, and even higher in some regions. This is beyond the reach of the average worker, requiring borrowings of around eight times the average earnings just to get on the housing ladder. For the first time in 50 years, home ownership is in decline. First time house buyers with an annual income of £34,000 could be spending an average 51 per cent of their take-home pay on mortgage repayments. Since 2002/2003, after taking account of mortgage payments, local taxes and rising costs of water, gas, electricity and transport, a typical family with two children has seen its disposable income shrink by £82 a month.

Owing to low income, many people are having children later in life and also getting on the housing ladder later. They continue to pay loans and debts until later in life. People in the age group 40 to 59 owe an average of around £34,456. Around 27 per cent of people aged over 50 have virtually no liquid savings. About 37 per cent of the population as a whole does not have any money that it could readily access.

Income inequalities and the related lack of access to good food, healthcare, education and quality of life have deadly effects. It is widely acknowledged that the "gap in health between those at the top and bottom of the social scale has widened". Those from the poorest areas of the UK can expect to live nearly 12 years less than those in the affluent parts.

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## Changing the status-quo

In the UK the income inequalities are increasing. These are not due to some squeeze on company profits. For 2006, the average profitability of the non-financial UK sector was estimated to be at a record 15.2 per cent, with the services sector achieving 19.3 per cent and the oil and gas sector making 42.9 per cent.

UK workers have one of the longest working hours in Europe and boost corporate profits by £23 billion a year through unpaid overtime, but they cannot look forward to an equitable distribution of income and wealth. At the top end of the wage and salaries scale commentators frequently rationalize higher financial rewards by appeals to market mechanisms and claim that to attract good executives high salaries need to be paid. Such explanations pay little attention to the politics of governance or power of elite networks.

Education and skills are considered to be paths to higher rewards but the proportion of women graduates working in low-paid jobs has nearly trebled in the past ten years. Such outcomes are not due to some invisible hand of fate or some iron law of economics, but are the outcomes of politics of corporate governance that pay little attention to equitable distribution of income that the workers themselves have helped to generate.

Income inequalities cause poverty and have negative effects on access to education, housing, food, healthcare, pensions and life expectancy. Inequalities skew political processes since the wealthy are able to advance their interests through sponsorship of political parties, lobbying and funding of think-tanks. Lack of resources for education and training also reduce labour market mobility. The deepening divide between the rich and the poor undermines social solidarity, creates disillusionment with democracy and obstructs the development of a just and fair society that enables citizens to live fulfilling lives.

Rather than creating suitable corporate governance processes, the UK state has sought to manage poverty a variety of social security benefits to improve the total income of the low-income households. However, such a policy has severe limits as corporations and wealthy elites resent paying taxes and are increasingly opting out of their obligations through a variety of tax avoidance schemes and the tax burden is being shifted on to labour and consumption. An effective reform of corporate governance to achieve equitable distribution remains the only viable long-term policy option. Whilst good voluntary governance practices can be encouraged, it is doubtful that the private sector corporate governance codes will do much to improve the workers' share of the firm's income.

As corporate governance processes shape the distribution of wealth, any proposals to change the status-quo are bound to be contested. Those persuaded by stakeholder theories may argue that businesses should behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. In the opposite corner, neoliberals may be more relaxed about inequalities because of the belief that "a mobile society is better than an equal one: disparities are tolerable if combined with meritocracy and general economic advance".

Nevertheless, even neoliberals know that income and wealth inequalities lead to economic inefficiencies as poor people are priced out of many markets and thus limit economic growth and potentialities for profits. The multiplier effect of equitable distribution of wealth is much greater than that achieved by concentration of wealth in relatively few hands and goes a long way towards reducing poverty and social exclusion. A debate is long overdue and the outcomes would inevitably depend on how each group mobilizes its political resources.

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The author is Prem Sikka.