INTERIM REPORT

GETTING WHAT WE DESERVE?

ATTITUDES TO PAY, REWARD AND DESERT

Tess Lanning and
Kayte Lawton

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ABOUT THE AUTHORS

Tess Lanning is a researcher at IPPR.

Kayte Lawton is a senior research fellow at IPPR.

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All polling data referred to in this report, unless otherwise stated, is from YouGov Plc. Total sample size was 2337 adults. Fieldwork was undertaken 7–9 March 2011. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

ABOUT IPPR

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IPPR
4th Floor
14 Buckingham Street
London WC2N 6DF
T: +44 (0)20 7470 6100
E: info@ippr.org
www.ippr.org
Registered charity no. 800065

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ADDENDUM

On 10 June 2011, the following correction was made:

p23: The fifth paragraph was replaced due to an issue of data interpretation.

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EXECUTIVE SUMMARY

Widespread outrage about bankers' bonuses and excessive executive pay has fuelled a deep sense of injustice about apparent 'rewards for failure'. At the same time, many millions of people across the UK do not appear to get their fair share of the pay bill despite working hard and doing their job well.

This report investigates the role of pay as reward or recognition for different kinds of work, skills and outcomes. Drawing on polling and extensive qualitative research, it considers how the functioning of pay is currently perceived and what the appropriate foundations for improvement might be.

The context for this research is a sense that the relationship between pay and important issues like performance, effort and responsibility has broken down to some extent. This is most clearly exemplified by the anger surrounding excessive pay deals in our major financial institutions revealed after the financial crash of 2008. The research presented here suggests this disconnection extends beyond executive pay to encompass the broader basis of pay and reward in many organisations.

This is the first of two IPPR reports on pay and the findings presented here will inform the development of policy proposals to be presented in the second paper. The goal of the project overall is to identify policy solutions that can help establish pay as a fairer and more proportionate reward for work at all levels, building on public concerns about how pay works. We are keen to develop solutions that are likely to carry broad public support because the issue of pay is often contentious. The project focuses in particular on pay in London, given the wider pay disparities in the capital, the concentration of higher earners across a range of occupations, and the influence of the City.

Context: trends in pay over the last three decades

The broader context for a discussion of the relationship between pay and contribution is the widening pay gap that has emerged over the last 30 years in the UK. For example, in 1968, a man with earnings just inside the top 10 per cent of earners (that is, at the 90th earnings percentile) was paid 2.5 times as much as a man just inside the bottom 10 per cent of earners (at the 10th earnings percentile). By 2008, this ratio had risen to 3.7. The widening of this 90/10 ratio has happened because the wages of people in higher-level occupations have risen faster than the wages of people in lower-level occupations, since the early 1980s.

However, the top 10 per cent of earners is where pay has really shot up over the last three decades. Between 1975 and 2008, the top 10 per cent increased their share of the UK's total wage bill from 22 to 32 per cent. Within the top decile, the top 1 per cent of earners did particularly well, more than doubling their share of the wage bill from 5 per cent in 1975 to 11 per cent in 2008. This disproportionate rise in top pay has been concentrated in Britain's publicly-listed companies: in 2000, FTSE 100 chief executives earned, on average, 47 times the average worker, but this had increased to 88 times by 2009. FTSE 100 CEOs earned an average of £2.3 million in 2009, and FTSE 250 CEOs had average earnings of £1 million in the same year. The boom in executive pay over the last 30 years came after a 30-year period of very moderate growth among top earners.

The pay gap as measured by the 90/10 ratio is slightly larger in London and, relative to median earnings, London's top earners are more highly rewarded. This is partly because of the concentration of higher level jobs in the capital and the presence of very high paying finance roles in the City.

The drivers of rising wage disparities and the 'racing away' of top earners lie in three broad sets of explanations. First, the increasing use of technology in the workplace has created more demand for highly-skilled workers capable of utilising the new technology. It has also driven a decline in demand for some low and mid-level occupations that can easily be replaced by computers. Other low-skilled jobs, such as cleaning and food service, cannot easily be done by computers, so demand has continued to grow for these workers. Academics argue this has created a polarised labour market, with growing demand for high and low-skilled workers, and falling demand for mid-skill workers. This would fit with the pattern of widening pay disparities, although the extent of labour market polarisation in the UK is contested.

Second, there is considerable evidence that the relative bargaining position of many low- and middle-wage workers has declined, and this is not simply because of changes in employer demand for skills at different levels. Membership of trade unions has fallen by around half since the late 1970s and only a third of workers were covered by collective pay agreements in 2010, down from 70 per cent in the late 1970s. The push for labour market deregulation in the 1980s led to the abandonment of institutions that had previously guaranteed comparable wages for people contracted to work in the public sector and negotiated sector-wide pay rates. Researchers have suggested that the increased use of subcontracting and increasingly complex supply chains have broken the 'social contract' between workers and management, and obscured differences in pay by segregating high- and low-paid jobs in different organisations.

Third, the expansion of performance-related pay in the corporate world has allowed top pay to rise dramatically without any proportionate increase in company performance or profits. There is little evidence to support arguments for rising senior pay based on the 'hypermobility' of executives, increasing organisational complexity, a global competition for talent or the greater risk placed on senior managers. Instead, the increasing influence of the finance sector has enabled senior finance workers in particular to gain an increasing share of the wage bill. The growth of top pay in finance has spurred on executive pay rises in other sectors as companies seek to benchmark the pay of their top earners against other firms. Rising senior pay in the private sector may also have put pressure on the public sector to raise its top pay deals, although senior pay in the public sector remains significantly below that in the private sector.

Public attitudes to pay, reward and desert

For this study, we conducted a series of workshops with a total of 47 people living or working in London on a range of salaries, as well as eight people currently out of work. We also commissioned a poll of 2,337 adults in Britain from YouGov. The workshops and poll considered participants' views of how well pay currently functions as a way of rewarding particular attributes, what those attributes should be, and where the strongest concerns about the relationship between pay and contribution lie.

How pay currently works: justification and critique

The workshop participants were fairly evenly split between those who actively questioned the current bases on which pay is determined and those who sought to justify the way that pay works at the moment. Those who critiqued current arrangements focused on the way in which a small group of people have been able to capture a growing share of wages. They stressed the imbalances of power between workers at different points of the earnings hierarchy that influence how pay is determined. These imbalances were seen to lead to disproportionate and unfair rewards for very highly paid individuals.

Those who were, at least initially, largely content with the way that pay works at the moment derived their opinions from a faith in the market to set fair wages through an open, fair and technocratic process. They also had an exaggerated belief in social mobility and the ability of most people to raise their wages significantly through hard work and choosing the right job.

Extremes of high and low pay

Both low pay and very high pay were seen by the majority of participants to be problematic. Almost all participants were very concerned about low pay, particularly in London given the high cost of living. There was a strong consensus that all work should pay enough to live on, or a 'living wage'.

Our polling found that 52 per cent of Britons in work believe the gap between the highest and lowest earners in their workplace is too large, and that 78 per cent of people would support government action to reduce the gap between high and low earners. The polling results also indicate that this concern about wage inequality between top and bottom earners is driven primarily by a desire to see pay right at the top significantly curtailed: for example, when asked what the salary of a CEO of a large national company should be, the median answer was £350,579, compared to actual average earnings of £1 million.

There was also support for higher wages for lower earners like cleaners, but not of the same magnitude. The workshops broadly supported these findings, with many participants arguing that 'no matter how much work you put in, nothing's worth a million pounds'. Few high earners saw excessive pay as a problem per se, so long as it was 'deserved'. Yet the significant evidence showing that top pay has grown out of all proportion with both improvements in company profits and the demands placed on senior executives seriously undermines the idea that the very high pay of the magnitude currently experienced in the UK can ever be said to be genuinely deserved.

What should pay reward?

The idea that pay at all levels should in fact act as a reward or as recognition for particular qualities resonated strongly with all research participants, and there was a remarkable consensus about what those qualities should be. Both poll respondents and workshop participants agreed that the key qualities that should be rewarded by pay are the responsibility and difficulty of a job, how hard someone works, how well they do their job, and how useful their skills are. There was agreement that these factors should apply across different roles and earnings brackets.

Responsibility, difficulty, effort and skill are used by many to justify the higher wages of top earners, and this was supported by the majority of our workshop participants. However, many participants argued that these qualities are also present in many other roles, including those associated with low and mid-level wages. The fact that these qualities are not sufficiently rewarded through the pay of many workers was a source of concern.

Who is responsible for success?

The focus on executive pay in many companies means that rewards are focused on a small number of people at the top, while often failing to reflect the contribution that many other people make to an organisation. The idea that a few 'stardust' individuals are almost entirely responsible for how a company fares was strongly supported by the high earners that we spoke to in the workshops. However, many low to middle earners and higher earners in the public sector recognised the nature of the 'talent myth' and questioned the extent to which very high pay is deserved on the basis of rare skills. Through their own experiences in the workplace they recognised that many people, at all levels, are often responsible when an organisation does well.

The idea that, within an organisation, everyone contributes and everyone should be rewarded accordingly, resonated very strongly across the earnings groups. A number of very high earners made this point too, even though they continued to argue that the fate of a company ultimately rests on the shoulders of a small executive team. The John Lewis Partnership model, where organisational profits are shared among all workers using a fixed percentage of basic salary, was discussed favourably by many participants. It resonated as an example of a fair system of reward – importantly, it was seen to justify the higher pay of senior managers as well as providing a fairer reward for the majority of the workforce. Our polling also found that half the public think that bonuses should be awarded on an organisational or team basis, with only a quarter supporting bonuses primarily linked to individual performance.

Pay and performance in executive pay

Our workshop with very high earners (people earning more than £80,000 a year including bonuses) focused on the role of performance-related pay at senior levels. Having started from a position that very high pay and performance-related pay are largely positive, the individuals we spoke to quickly conceded that the processes supporting the setting and monitoring of performance-related pay are often flawed and that performance-related pay is often used to achieve goals other than properly and proportionately rewarding success.

For example, participants acknowledged that performance-related pay is often subjective and influenced by personal relationships. Participants also questioned the extent to which individual performance can be properly monitored and judged to be the sole or primary influence on subsequent company results. Some argued that bonuses in the finance sector are used to 'poach' staff from rivals rather than incentivise strong performance. These findings could provide a useful basis from which to tackle assumptions around performance-related pay and the extent to which rapid increases in top pay can be justified.

Conclusions and policy implications

The research findings presented in this report demonstrate a sense of injustice among many people about the way pay currently functions, even among some very high earners. The key source of concern hinges on the extent to which pay at all levels is a fair reward for the contribution made to an organisation's success, with an emphasis on responsibility, performance, skill and effort as the essential elements of that contribution. The research presented here demonstrates a sense that the contribution of high earners is often overplayed while the contribution of the average worker is undervalued. The evidence on rising top pay shows this concern is well-founded.

A number of areas for potential policy action emerge from these findings, which we set out here. The final report will develop these policy implications into concrete policy proposals for government, business, campaigners and civil society.

Myths about pay

The research revealed a number of myths that need to be countered about the way in which pay works at the moment, in particular the sense that pay is set through a fair market process which involves no power dynamics. There may be a role for campaigners and civil society organisations, as well as policymakers, to try to counter some of these myths. This could be done in part by drawing on examples of where the market over- and under-values particular skills and on the sense of unfairness felt by many people that high earners are not being hit by the current economic crisis in the same way as lower earners.

Low pay

The undeniable support for proper wage floors at the bottom of the labour market makes this fertile ground for policy intervention. That this is a relatively uncontroversial area as far as the public is concerned is reflected in the existing policies, strategies and campaigns designed to raise low wages. Without wanting to retread some of the well-worn ground on low pay, our policy proposals will explore opportunities to further strengthen the role of the minimum wage, the role of 'living wage' policies in reducing low pay, the role of the public sector in setting pay and influencing pay in the private sector, and the potential for improvements in skills and productivity to move firms out of low-wage/low-skill business models.

Excessive high pay

Rising executive pay has been the dominant trend in pay over the last 30 years and excessive pay at the top is one of the most pernicious examples of the break-down between pay and desert. Measures to directly limit top pay are likely to be unpopular and hard to implement, but we will investigate the potential of pay multiples (fixed ratios between the earnings of the highest- and lowest-paid workers in an organisation). We will also consider whether greater transparency around pay could affect the behaviour of employers, workers or consumers in positive ways. A key issue will be to examine whether the concept of performance-related pay is fundamentally flawed and how other aspects of corporate governance could be strengthened. Finally, we will investigate the case for policymakers to counter the trend towards greater financialisation and the implications for high pay in the finance sector.

Recognising the contribution of the majority

This was a very important point to emerge from the workshops: people do not necessarily resent the higher pay of senior employees (within certain parameters), but they do resent the fact that ordinary workers see very little of the benefits of what is strongly perceived to be joint effort. The key to turning this situation around could lie in creating a greater accountability between managers and the rest of the workforce, to give staff more of a say in how pay is set across organisations and encourage managers and other employees to better understand each others' respective roles. We will investigate how this could be achieved in the context of the erosion of union power in many workplaces. We will also consider the role of policy in promoting shared rewards like company or team-based bonuses.

Longer-term challenges

Many of the drivers of unjust pay at all levels hinge on fundamental features of British capitalism. It is important to consider the longer-term changes that might be required in order to effect a more fundamental change in how work is rewarded. These will include calls for more democratic models of ownership, the promotion of 'long-termism' in the corporate world, and new forms of workplace organisation to help restore the collective power of workers.

1. INTRODUCTION

Widespread outrage about bankers' bonuses and excessive executive pay has fuelled a deep sense of injustice about apparent 'rewards for failure'. At the same time, many millions of people across the UK do not appear to get their fair share of the pay bill despite working hard and doing their job well.

The aim of this report is to investigate the role of pay as reward or recognition for different kinds of work, skills and outcomes. Drawing on polling and extensive qualitative research, we consider how the functioning of pay is currently perceived and what the appropriate foundations for improvement might be. This is the first of two IPPR reports on pay and the findings presented here will inform the development of policy proposals to be presented in the second paper. The goal of the project overall is to identify policy solutions that can help establish pay as a fairer and more proportionate reward for work at all levels. Crucially, we are seeking to develop proposals that are likely carry broad public support, given the contentious nature of pay.

The context for this research is a sense that the relationship between pay and important issues like performance, effort and responsibility has broken down to some extent. This is most clearly exemplified by the anger surrounding excessive pay deals in our major financial institutions revealed after the financial crash of 2008. The research presented here suggests this disconnection extends beyond executive pay to encompass the broader basis of pay and reward in many organisations.

The project focuses in particular on pay in London, given the wider pay disparities in the capital, the concentration of higher earners across a range of occupations and the influence of the City. The focus group research was conducted with Londoners and the polling data allows for comparisons between the capital and the rest of the UK. In the second report, we will be making recommendations specific to London politicians, business leaders and civil society, as well as broader proposals for the whole of the UK.

Scope of the report

This report focuses specifically on the pay of employees rather than entrepreneurs and self-employed people. This is partly because better data is available on employee pay but also because there are potentially very different principles and perceptions underlying reward structures for employees and the self-employed. This is a point we will return to in the final report. The specific and important issues of gender and pay are outside the scope of this report, although many of the findings indirectly touch on issues surrounding the gendered nature of pay.

In the report, we generally use the words 'pay' and 'earnings' in the broadest sense, to encompass the full range of financial rewards that may be available to employees, including wages, salaries, cash bonuses and share options. However, the data we report comes from different sources and covers different elements of pay, so we aim to make this clear in the report.

Structure of the report

In Chapter 2, the report begins by exploring the key trends in pay over the last four decades. Chapter 3 sets out the findings of our original research, focusing on attitudes to pay and desert. Chapter 4 discusses the implications for policy and sets out the key areas in which the second report will develop policy proposals.

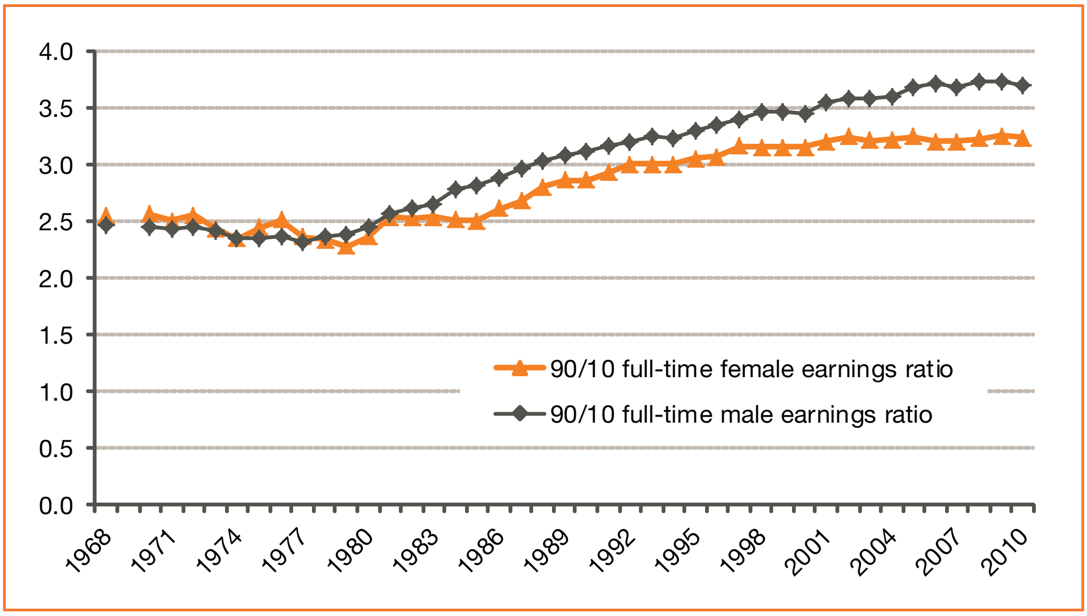
2. PAY IN LONDON AND THE UK
TRENDS, PATTERNS AND DRIVERS

The focus of this report is the relationship between pay and desert, and what the basis of desert in the context of pay should be. It is important to ground this discussion in an appreciation of how pay across the earnings distribution has evolved in recent decades. In this section, we set out how pay has changed in the last four decades, with a particular focus on top pay. Not only has top pay undergone the most significant transformation, but it is also where issues of pay and desert arise most strongly.

Trends in pay

One key trend in pay over the last 40 years has been the widening gap between high and low earners. Figure 2.1 shows the 90/10 earnings ratio for both men and women between 1968 and 2008. In 1968, a man with earnings at the 90th percentile (just inside the top 10 per cent of earners) was paid 2.5 times more than a man at the 10th percentile (just inside the bottom 10 per cent of earners). By 2010, that ratio had risen to 3.7.

Figure 2.1
Trends in the 90/10 pre-tax pay ratio for male and female employees, 1968–2008



Source: Hills et al 2010
Notes: Figures are for full-time gross weekly earnings before tax.

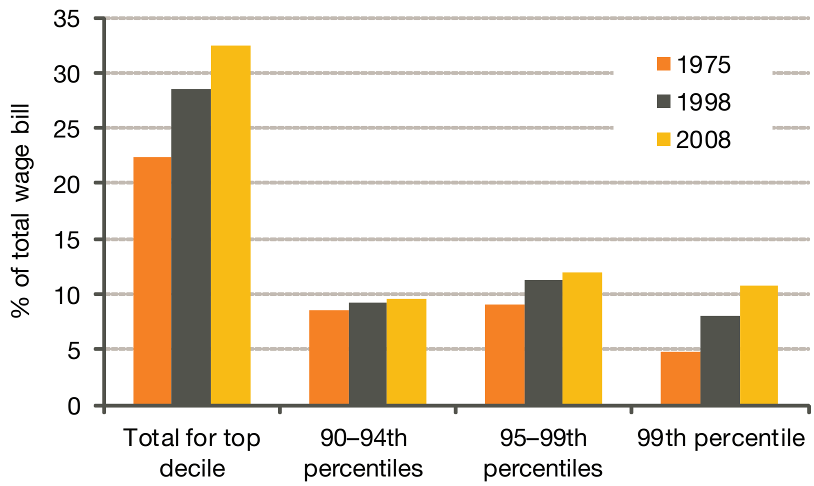
The chart shows that wage inequality measured in this way increased markedly from the beginning of the 1980s for both men and women, and this is also the point at which *income inequality* – the gap between poorer and richer households after taxes and benefits – began to rise in the UK (Brewer et al 2009). In the 1990s, the rise in wage inequality slowed down a little, increasing at about half the pace of the 1980s. During the 2000s, the gap between lower and middle earners (the 50/10 ratio) stopped growing but the gap between middle and higher earners (the 90/50 ratio) continued to rise (Bell and Van Reenen 2010). The chart shows some levelling off of the trend towards rising pay inequality, particularly for women, but the earnings gap as measured by the 90/10 ratio remains substantially larger than at the end of the 1960s for both men and women.

High pay

The 90/10 measure of inequality gives an indication of what has been happening to pay across the majority of the earnings distribution but does not pick up trends in earnings among the top or bottom 10 per cent. A number of studies have found that it is pay among the top 10 per cent that has been increasingly 'racing away' during the last 30 years (Brewer et al 2009, High Pay Commission 2011).

Analysis of annual tax records by Bell and Van Reenen (2010) shows that the share of total UK wages that were paid to the top 10 per cent of earners rose from 22 per cent in 1975 to 32 per cent in 2008 (see Figure 2.2). Annual pay data captures bonuses and other irregular earnings better than weekly pay data and is therefore a more accurate reflection of the overall pay packets of the very highly paid. Within the top decile, the top 1 per cent of earners did particularly well, more than doubling their share of the wage bill from 4.8 per cent in 1975 to 10.8 per cent in 2008. This huge rise in the incomes of top earners has been described as 'a personal wealth boom on a scale not seen since the end of the nineteenth century' (Lansley 2009).

Figure 2.2
Share of total wage bill accruing to the top earning percentiles, 1975–2008



Source: Bell and Van Reenen 2010

This disproportionate rise in top pay has been concentrated in Britain's publicly listed companies. Analysis commissioned for the Hutton Review of Fair Pay in the Public Sector shows that, in 2000, FTSE 100 chief executives earned 47 times the UK median wage; by 2009 this ratio had increased to 88 (Hutton Review of Fair Pay 2010). The analysis also shows that this pay ratio increased in the somewhat smaller organisations listed on the FTSE 250 and the Alternative Investment Market, although not as dramatically. FTSE 100 CEOs earned an average £2.3 million in 2009, including bonuses and share options, and FTSE 250 CEOs had average earnings of £1 million in the same year.

The boom in executive pay over the last 30 years came after a 30-year period of very moderate growth among top earners. Between 1949 and 1979, executive pay grew by an average 0.8 per cent a year in real terms, whereas over the last 10 years it has grown by around 7 per cent a year in real terms (HPC 2011). Executive pay did fall slightly at the beginning of the 2008 financial crash but began to rise again in 2009, indicating that the recession has not significantly altered the long-term trend.

Alongside the increase in the share of wages accruing to higher earners, the total pot of national wealth being spent on wages has fallen over the last three decades. The proportion of national income going to wages is partly cyclical, in that it tends to rise at the beginning of recessions but fall back during recovery as profits start to increase again. However, the share of GDP going to wages has undergone a sustained decline since the mid-1970s. In 1980, wages accounted for approximately 58 per cent of GDP and this had fallen to 53 per cent by 2008, with an increasing share of national wealth going to profits (Lansley 2009). Workers have not benefitted proportionately from increases in productivity, as median wage growth has lagged behind productivity growth. The result is that while wages have become more unequal, the relative pot of money available for wages has also been squeezed.

Explaining trends in pay

Key trends in pay over the last four decades have been the fall in the wages of people in lower occupational groups relative to those in higher occupational groups, alongside a very significant rise in pay right at the top. The wage premiums attached to higher-level qualifications, particularly university degrees, have also risen (Machin and Van Reenen 2007). The explanations for these patterns lie partly in broad labour market, economic and technological changes. They are also linked to changes in the bargaining power of workers at different points of the earnings ladder, as well as transformations in management practices and corporate governance within organisations.

Labour market trends

There is a significant body of research demonstrating that the rise in relative wages for workers in higher occupational and/or higher educational groups is related to skill-biased technical change (SBTC) (see Machin and Van Reenen 1998; Machin 2011; Autor et al 2008). This is a process whereby the application of new technology in the workplace raises demand for workers with higher level skills capable of operating the new technology. Consequently, their employability and wages improve, while at the same time the wages and employment prospects of less-skilled workers are damaged (Machin and Van Reenen 1998).

The SBTC argument has been further developed by studies demonstrating task-biased technical change (TBTC) (see for example Autor et al 2003, Autor and Dorn 2009). This thesis suggests that computerisation raises the demand for skilled workers who can perform non-routine tasks, but reduces the demand for routine jobs, some of which (like clerical work and some manufacturing jobs) tend to be done by people with middle-level education. At the same time, there is little effect on workers doing non-routine jobs requiring no or only low-level qualifications (like cleaning or food service) since such tasks cannot be performed easily by computers, although some low-level jobs are also made obsolete by the application of technology.

A number of academics argue that this process is driving a hollowing out of the labour market – growth in both high-paid jobs at the 'top' and low-paid, low-level jobs, alongside a decline in middle-level jobs (Machin 2011, Goos and Manning 2007). Labour market polarisation would be consistent with a growing divergence in the distribution of earnings. However, the extent of this trend in the UK is contested, with data based on occupational classifications (rather than pay) showing broad stability in the share of jobs classed as 'low-level'[1] since 1987 alongside significant growth in 'high-level'[2] jobs (Wilson et al 2008).

1 These are: elementary, personal service, sales and customer service, plus machine and transport operative occupations.

2 Managers, senior officials and professionals.

This data does show a falling share of employment in mid-level occupations,[3] although this share is projected to remain broadly stable to 2017.

International trade may also have had some role in widening pay disparities. Van Reenen argues that trade with low-wage economies such as China has led firms in countries like the UK to speed up the application of technology, thereby accelerating task-based technical change (Van Reenen 2011). However, the available evidence suggests that trade has not directly dampened wage growth at the bottom by increasing competition between low-paid workers in the UK and those elsewhere (Van Reenen 2011, Machin 2011).

Previous research by IPPR has shown that the overall effects of migration on levels of pay in the UK have been almost zero (Reed and Latorre 2009). However, immigration may have had a small negative effect on wages at the lower end of the labour market, and the local impact in some areas may be more pronounced. New migrants have also been found to place downward pressure on the wages of existing migrants (Reed and Latorre 2009; Manacorda et al 2006). Foreign-born workers are concentrated in London: in 2009, a third of migrant employees and nearly half of self-employed migrants were based in London, but London accounts for around only 13 per cent of total UK employment (Rienzo 2011).

Employers in London tend to find it easier to fill low-skilled vacancies than elsewhere, partly due to higher numbers of migrants, but also because of the large student population and new graduates, who may take on entry-level jobs while they look for other work (Prime Minister's Strategy Unit 2004, HM Treasury 2007). Given that there is little incentive for employers to raise wages when recruitment is relatively easy, high competition for entry-level jobs may prevent wages from rising in the long term. Large-scale migration from abroad has been a fairly recent phenomenon, however, occurring after the initial growth in wage inequality in the 1980s.

Despite the power of the SBTC and TBTC arguments and related empirical evidence, the picture is more complex. First, wage inequality has increased *within* narrowly defined occupational groups, suggesting that rising wage inequality is not only the result of skill- or task-biased technical change (Brewer et al 2009). Second, while SBTC and TBTC have affected all developed countries, wage inequality has not risen uniformly across the economically advanced world. Jobs which are broadly similar in skill level and design command very different wages across European countries (Bosch 2010). Third, within a general trend of task-based technical change, it is not clear why those in the very top percentiles should have been able to accrue such large earnings increases. Taken together, these points suggest that there are other drivers of widening pay disparity in the UK which lie in the specific institutions and arrangements that influence pay setting.

Collective bargaining and labour market institutions

There is considerable evidence that the relative bargaining position of labour has been in decline since the 1970s, driven by a number of factors. The downward trajectory of union membership is well documented, falling from a peak of 13.2 million, or half of all employees, in 1979 to 7.4 million, about a quarter of all employees, in 2008/09 (BIS 2011). Membership is particularly weak in many low- to middle-earning occupations: 44 per cent of professionals are union members compared to 13 per cent of workers in sales and customer service jobs, and 18 per cent of people in elementary occupations (ibid).

3 Associate professionals, administrative and skilled trades occupations.

The scope of collective pay agreements is also in decline, with the proportion of employees whose pay is affected by collective agreements falling from 70 per cent in the late 1970s to 31 per cent by 2010 (Gallie 2009, BIS 2011). In the private sector, just 17 per cent of workers were covered by collective agreements in 2010. These trends suggest that the ability of unions to protect the wages of lower and middle earners from the effects of technological change is in decline. Statistical studies have found that falling union densities are linked to rising wage inequality, although the effect is modest (Machin 2011).

Alongside the decline in union power, other sources of collective bargaining were also eroded during the 1980s. The Fair Wage Resolution, which had been in place in one form or another since 1891, sought to extend collective bargaining by ensuring that employees contracted to work in the public sector enjoyed wages and conditions similar to those generally established in the relevant industry. The UK was also a signatory to ILO Convention 94, which made similar stipulations. In 1983, the Fair Wages Resolution was abolished and the ILO Convention renounced as a precondition of privatisation.

The push for labour market deregulation in the 1980s also led to the abolition of the wage councils, which had previously set statutory minimum wage rates and conditions in a number of industries based on negotiations between employers and unions. Several councils were abolished in the 1960s and 1970s but the powers of all councils were significantly curtailed in 1986, and they were finally abolished altogether in 1993. This left the UK with no wage floor until the National Minimum Wage Act of 1998. The presence of a national minimum wage since 1999 is credited with raising the wages of the lowest paid and reducing the gap between low and middle earners (Coats 2007).

The Labour government of 1997–2010 implemented a number of measures designed to reintroduce elements of the Fair Wages Resolution, using the power of the state as a purchaser to guarantee fair wages for workers beyond those it directly employs. The 'Two Tier Code'[4] introduced in 2005 was designed to ensure that new private sector staff working on public sector contracts enjoyed comparable wages and conditions to staff transferred directly from the public sector. In the NHS, 'Agenda for Change' was introduced to ensure comparable pay for non-clinical staff. However, the Two Tier Code has been withdrawn from central and local government by the Coalition and replaced with a weaker good practice code, ostensibly to help smaller organisations win government contracts.

Beyond the effect on collective bargaining, analysts have also suggested that the increased use of subcontracting and increasingly complex supply chains have, in both the public and private sectors, broken the 'social contract' between workers and management, and obscured differences in pay by separating high and low paid jobs into different organisations (Hills 2004, Wills et al 2010). Overall, the move away from collective and relatively centralised forms of wage setting towards decentralised, flexible and individualised pay setting is an important trend that may be part of the explanation for the inability of the wages of low to middle earners to keep up with those of higher earners.

High pay, the 'talent myth' and financialisation

Successive governments in the UK since the 1980s have justified rising high pay on the basis that it creates incentives for entrepreneurship and innovation, driving economic growth. Influenced by management practices in the United States, this theory precipitated the shift in many European countries to performance-related pay within firms (Muller 2000). Often referred to as arms-length management, the aim is to incentivise

4 Formally called the Code of Practice on Workforce Matters in Public Service Contracts.

senior managers by rewarding them if and when they deliver strong profit growth for shareholders. The use of performance-related pay in the corporate world has expanded significantly in the UK over the last three decades (HPC 2011).

Performance-related pay mechanisms provide strong individual performance incentives, but evidence suggests they are also highly flawed. Executive salaries soared over the 1990s, but Babchuk and Fried (2004) found that bonuses in the United States over the period were weakly correlated with performance and that managers received equity-based rewards regardless of firm performance. In the UK, Gregg et al (2005) found that CEO remuneration packages awarded between 1992 and 2002 bore no relationship to company performance. The expansion of performance-related pay may also be one explanation for the widening of pay gaps within specific occupations. The High Pay Commission find that even within FTSE 100 CEOs, pay rises have varied significantly (HPC 2011).

Performance-related pay has also made pay deals more complex so that shareholders and boards find it increasingly difficult to understand deals – and hold executives to account (ibid). American and (to a lesser extent) British companies have tended to pay executives a greater share in stock options rather than salary than in other countries, which makes executive pay increases less visible and more susceptible to the vagaries of the stock market (Bruce et al 2005). Babchuk and Fried argue that the complex design of incentives deliberately decouples pay from performance and obscures the amount executives are paid in order to avoid courting outrage (2004).

One standard view explaining the rise of executive salaries is that recruiters increasingly have to compete for scarce talent with firms all over the world and therefore offer talented executives top pay. In practice, however, global competition for executive positions could also act as a *downward* pressure on wages because it increases the pool of potential applicants. There is also no strong evidence that senior executives are any more mobile than other employees. The High Pay Commission has established that 60 per cent of the FTSE 100 CEOs in post between 2005 and 2010 were UK nationals and that the second-most represented country of origin was the United States, where executive pay is *higher* (2011). The same study also found that of the 54 CEOs who left FTSE 100 firms between 2005 and 2010, 44 went into retirement and only one left because they were hired by a rival company (ibid). The idea that companies need to pay high salaries to protect their ‘talent’ from being poached by rivals is therefore highly questionable.

A further explanation for rising top pay is that senior executives are sometimes said to be facing increasing risk as company horizons become increasingly short term, the size and complexity of organisations rises, and the legal obligations placed on companies and their executive team become increasingly onerous. However, there is little evidence that the risk and responsibility placed on senior executives has increased in proportion to executive pay over the last three decades (Isles 2007).

Over the last decade in particular, the growth of wages at the very top has been driven in large part by increasingly hefty bonus payments in the finance sector. Bell and Van Reenen (2008) find that 60 per cent of the wage gain enjoyed by employees in the top earnings decile between 2002 and 2008 went to finance workers, despite accounting for just 12 per cent of employees in the top decile. In the finance sector, bonuses accounted for 35 per cent of wages paid to those in the top decile and just over half of wages paid to those in the top percentile in 2008.

Analysts have argued that the ability of the finance sector to take an increasingly large share of the wage bill is part of a broader process of financialisation whereby financial markets, institutions and senior employees gain increasing power over economic policy and an increasing share of national wealth as a result (Palley 2007). The financialisation argument provides an alternative explanation for rising pay packets in the top few percentiles because it suggests that the expansion of top pay has been at least partly driven by the growing power of financial institutions and their senior executives, rather than global talent competition, greater organisational complexity or improvements in performance.

Financialisation has also driven the expansion of firms, like hedge funds, that offer all staff extremely high remuneration packages rather than having a pyramid pay structure. Although much of the research reported here concerns pay structures within organisations, it is important to recognise that the not all organisations will operate a strongly hierarchical pay structure.

The growth of top pay deals in the finance sector may also have pushed up senior pay elsewhere, assisted by weak corporate governance arrangements. A relatively small number of pay consultancies dominate both the US and UK markets, offering companies guidance on incentive design and the market rate for top executives, based on the median pay for similar roles across different companies. This may lead to competitive benchmarking, as companies fight to out-price each other (Conyon 2007, Bolchover 2010). Consultants generally recommend a competitive price and are unlikely to recommend CEO pay at 'below market'. The Hutton Review of Fair Pay also found that the growth of top pay in the private sector has had some influence on senior pay in the public sector, although top public sector pay deals remain significantly below those in the private sector (2010).

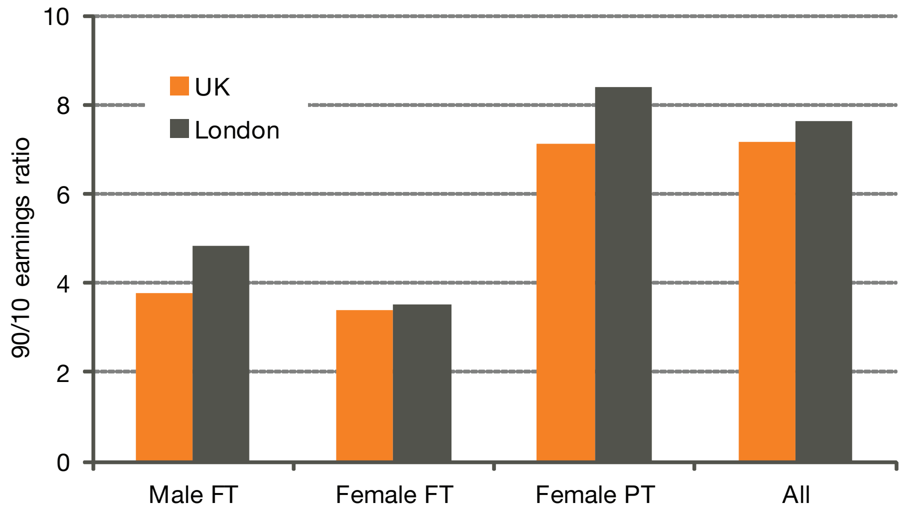
The recent financial crisis has brought the issue of pay and performance to the fore, with increasing concern that certain compensation mechanisms actually create perverse incentives, such as rewarding risk taking in pursuit of short-term profits at the expense of the long-term stability of a company (Bolchover 2010). Similarly, the interest of shareholders may not always promote the long-term stability and sustainable growth of firms. Many executives are encouraged (often through performance-based incentives) to generate short-term profits by streamlining organisations. But trimming back budgets to maximise profit inevitably curtails long-term investments in machinery, workforce skills, and research and development. This may explain poor levels of business investment in the UK over the past few decades (Chang 2010).

Some studies have suggested that one reason for differences between countries is the extent to which excessive pay settlements or large pay gaps provoke public outrage. Bruce et al (2005) cite the relative self-restraint exercised by the UK's business community in the 1990s when compared to the United States. Periodic soul-searching over weak governance structures in the UK and public anger at the vast CEO gains after the privatisation of various state industries kept a tap on excessive increases over the decade, while in the United States there was little public scrutiny of growing executive pay packets (Bruce et al 2005). In some countries, unions may also be able to exercise informal pressure on boards to keep senior pay within reasonable limits.

Pay in London

Figure 2.3 shows that the pay gap (as measured by the 90/10 ratio) is slightly larger in London than the UK as a whole among most groups of employees. For example, the ratio for male full-time workers in 2010 was 4.5 in London compared to 3.7 across the UK, although there is very little difference among full-time women. The chart also shows that there is much greater wage dispersion among part-time workers than full-time employees. Across all employees, the 90/10 ratio is 7.6 in London compared to the UK average of 7.2. This suggests that pay inequality is higher in London than elsewhere in the UK.

Figure 2.3
90/10 pay ratio by gender and working hours for employees in London and the UK, 2010

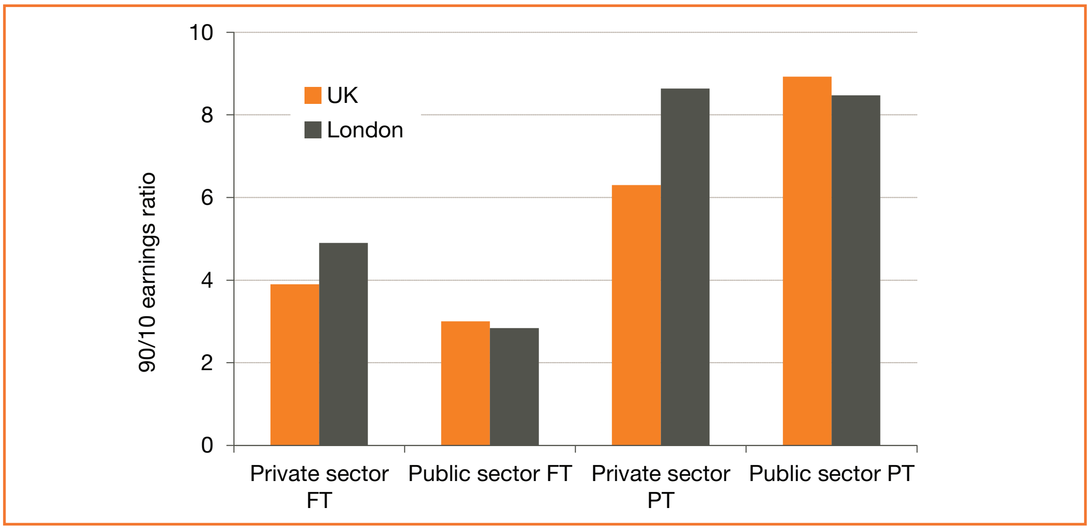


Source: Authors' calculations using gross weekly pay from ASHE 2010[5]
Note: Male part-time employees are excluded due to small sample sizes.

The pay gap is particularly wide in London's private sector for both full-time and part-time workers. The 90/10 ratio for full-time private sector workers in London is 4.9 compared to 3.9 among workers across the UK. Figure 2.4 also highlights wider pay dispersion in the private sector compared to the public sector in both the UK and London.

5 Annual Survey of Hours and Earnings. Published tables are available here: http://www.statistics.gov.uk/statbase/product.asp?vlnk=13101

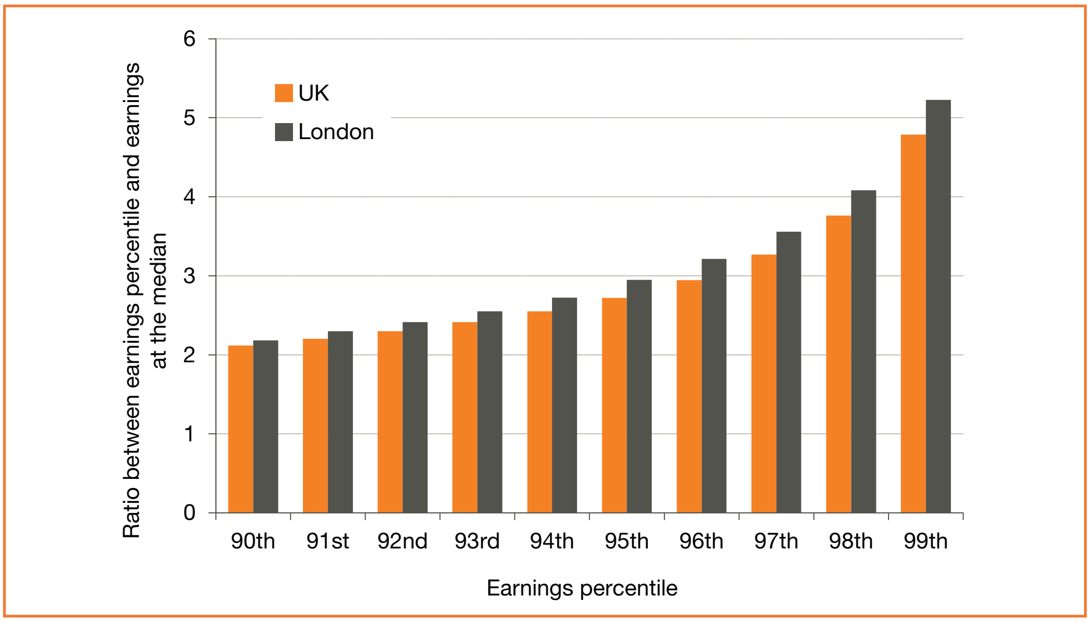
Figure 2.4
90/10 pay ratio by sector and working hours for employees in London and UK, 2010



Source: Authors' calculations using gross weekly pay ASHE 2010

Relative to the median, London's top earners are more highly rewarded than those in the UK as a whole. Figure 2.5 shows the rising gap between earnings at the median and the 90th to 99th percentiles for London and the UK, with an increasingly larger gap among high earners in London. At the 99th percentile, London employees are earning 5.2 times more than workers at the median, compared to a ratio of 4.8 across the UK. Higher pay in London is driven by higher living costs as well as the concentration of higher level jobs in the capital: management and professional roles account for 36 per cent of London's employment compared to 29 per cent for the UK.[6]

Figure 2.5
Ratio between median and 90th to 99th weekly earnings percentile for employees in London and UK, 2010



Source: Authors' calculations using ASHE 2010
Note: Figures are for all employees and for weekly earnings.

6 Figures are from Nomis. https://www.nomisweb.co.uk/Default.asp

Hills et al (2010) found that inequality, whether measured in hourly wages, weekly earnings, incomes or household wealth, is greater than any other region or UK territory. The concentration of wealth at the top is also more pronounced in London than anywhere else in England: in inner London, 20 per cent of the population receive 60 per cent of the total income and in outer London 50 per cent, compared to 40 per cent in the rest of England (MacInnes and Kenway 2009).

Unique elements of London's labour market may exacerbate the trend towards rising wage inequality. London has enjoyed strong growth in managerial and professional occupations and moderate growth in elementary and service occupations over the last three decades (LDA 2010). Skilled and semi-skilled mid-level jobs, such as administration, skilled trades and process, plant and machine operative occupations have been in net decline over the same period.

These trends are projected to continue, with very strong demand for managers and professionals and substantial net demand for sales and customer service roles and in elementary occupations once replacement demand has been factored in. Meanwhile, the number of people with low or no qualifications grows increasingly smaller. The danger is an over-supply of intermediate skills for a limited number of jobs, creating competition between people with low and intermediate skills for low-skilled jobs. The result is likely to be underemployment of the skilled population, and rising unemployment for the low-skilled population as they are squeezed out of the labour market (ibid).

3. ATTITUDES TO PAY, REWARD AND DESERT

Having reviewed the major trends in pay over the last four decades, in this section we examine attitudes towards the current organisation and setting of pay in the UK, drawing on poll findings and a series of deliberative workshops. Our goal is to understand attitudes to how pay is determined and to highlight concerns about how well pay at all levels currently functions as a reward for particular qualities and attributes.

We begin by exploring the beliefs and arguments that workshop participants used to justify or critique the current organisation and setting of pay. We then set out the main areas in which participants raised concerns about the role of pay as reward and the extent to which pay at different levels can be said to be 'deserved'.

Research methods

YouGov poll

IPPR commissioned a YouGov poll with a representative sample of 2,337 adults from across Great Britain between 7–9 March 2011.[7] The sampling allows for breakdowns of results by region (including London), gender, age and social class. The results allow us to compare attitudes in London to those held elsewhere in Britain.

Deliberative workshops

IPPR researchers conducted six deliberative workshops in April 2011 with a total of 47 people who lived or worked in London. The workshops were organised as follows:

1. One workshop with 10 participants earning more than £80,000 a year before tax, including incentive-based pay. We call this group the 'very high earners'.
2. Two workshops with a total of 17 people earning between £40,000 and £80,000 a year before tax, including incentive-based pay. One workshop was held with eight private sector workers; and a second workshop was held with nine employees from the public sector. We call this group the 'high earners'. Across the UK, people earning more than approximately £46,000 a year before tax are in the top 10 per cent of earners (ASHE 2010).
3. Three workshops were conducted with a total of 20 people earning less than £30,000, including eight people who were out of work. Across the UK, 70 per cent of employees earn £30,000 or less before tax (ASHE 2010). We call this group the 'low to middle earners'.

Deliberative workshops are similar to focus groups but are primarily used to introduce new information to participants to understand how people's attitudes can change as they learn more about a subject. The goal is not to change people's opinions but to understand how they respond to different kinds of information and different arguments. They are also useful for testing responses to different kinds of policies or solutions.

Explaining attitudes to pay setting

The research conducted for this report confirmed that attitudes to the current structure of pay are diverse, at times contradictory, and reflect ideological divisions as well as

7 Full results are available here: http://www.ippr.org/publicationsandreports/publication.asp?id=820

people's own experiences and awareness of wider trends. In this section we set out these divisions, looking at how people justify or critique the status quo. We identify which attitudes are associated with an acceptance of the way in which pay is currently set, and which are associated with a desire for change. The aim is both to understand what drives concern about the current functioning of pay and where myths about how pay is organised might need to be countered.

Bases for critical attitudes to current pay setting

Many people in the discussion groups thought that the way that pay is currently structured and determined is unfair. Unprompted, a number of participants in the low to middle earner groups were keenly aware of the trend towards rising wage inequality and increasingly large rewards at the top. Higher earners in the public sector also shared these concerns.

> **'In the last 20 years we've grown used to this huge disparity between what the masses are earning and what the top executives are earning … When did this happen? It certainly wasn't in existence 20 years ago, not to the same extent that it is now.'**
>
> Female, 55, public sector, earning £50,000–£60,000

People who were aware of the trend tended to be troubled by it. They contrasted senior pay in their own organisations, which they suggested was 'spiralling out of control', with ordinary workers who were currently experiencing pay freezes or very small rises, and felt that this is often unjustifiable.

> **'People aren't so much concerned about inequality, they're concerned about a sense of something being unfair. There's been a rapid increase of salaries in the top decile or whatever and this is what is concerning people. Why have they benefitted so much from the economic growth that's been happening? Why are they getting such a bigger piece of the pie than everybody else?'**
>
> Male, 33, public sector, earning £40,000

People's attitudes towards the way that pay is currently determined were also reflected in their attitudes towards work and the relative importance of pay as a motivation for hard work. Many low to middle earners and higher earners working in the public sector highlighted a diverse range of motivations for work independent of pay, including a desire for job satisfaction, social interaction and camaraderie at work.

This did not mean money was not important. People wanted to earn enough to meet their needs, and all research participants saw pay as an important way of rewarding hard work, loyalty and strong performance by employees. Where this was lacking, it affected motivation. For example, participants working in the public sector felt that the current public sector pay freeze, combined with a negative media narrative around public sector pay, was having a detrimental effect on staff morale and performance.

People who were concerned about rising wage inequality were more likely to recognise the underlying power relationships and structural inequalities that help determine pay. Several people argued that employers are able to use their relative power to promote what were perceived to be unfair pay structures.

> **‘It’s an exploitative relationship. If people are on the minimum wage because for one reason or another they can’t move up the structure and earn more money, then bosses are going to say, ‘Oh lovely, I can get more out of these people’ and get away with it.’**
> Male, 55, private sector, earning £10,000–£20,000

Justifications for the status quo

These findings contrasted with the views of those who did not question the status quo when it came to pay and reward. These people justified high executive pay and in some cases expressed negative views of employees in lower-paid jobs or particular sectors. This group argued that high pay provides an important role in incentivising effort and performance at a senior level, and tended to justify high wages as a reward for high levels of stress and hard work. Large executive pay packages were also justified on the basis that they create employment and wealth for the majority.

The very high earners, and higher earners in the private sector, were particularly likely to reject the idea that very high executive pay might be problematic. They did not accept that large gaps or apparently unfair levels of pay would have a negative effect within organisations or wider society. Although high earners represent a relatively small section of the population, their views were also echoed among some lower earners.

A more accepting view of the current pay structure was underpinned by two key beliefs. First, this group saw pay as being set through a technocratic process which values skills and talents appropriately. They had a strong faith in the market to set the right level of pay for jobs at all levels. There was an assumption that supply and demand work well in the labour market and that wages represent the correct value of someone’s skills and experience. This led many higher earners, particularly those in the private sector, to conclude in the first instance that rising top pay was the result of legitimate market forces and should not be a cause of concern.

> **‘It’s market forces. If the company director isn’t worth that money, in terms of bringing in business and making sure the company remains profitable, he’s not going to get paid that much. If the company fails, he’s not going to get that much.’**
> Male, 46, private sector, earning £40,000–£50,000

Second, people who were less critical of the current structure of pay had a strong belief in self-determination, and tended not to recognise the impact of luck or the constraints facing some people in the labour market. This often reflected people’s own experiences or expectations of social mobility. In particular, many of the higher earners working in the private sector expressed faith in their own ability to earn much larger amounts of money, and associated themselves and their own personal attributes with very high earners rather than mid-level earners. Lower earners were seen to have the chance to ‘move up’ and their current position was posited as a choice.

> **‘If you’re going to lump yourself in with the [low earner] category, you’re never going to earn that sort of money.’**
> Male, 46, private sector, earning £40,000–£50,000

Some in this group agreed that high pay could be excessive – but also saw its presence as evidence of meritocracy.

> **'To me [one million pounds] sounds like a disgusting amount, but then it's a society where I can earn that amount of money if I apply myself.'**
> Male, 37, private sector, earning £40,000–£50,000

The exception to this trust in social mobility was discrimination, particularly gender discrimination, which was brought up as a constraining factor by many participants. In general, however, among the majority of higher earners and some low to middle earners there was a sense that the amount someone earns is a personal choice. If someone wants a particular lifestyle, they can simply choose a well-paid career and work hard.

People who were more accepting of the status quo appeared to be driven by the profit motive to a greater extent than more critical research participants. However this was not only – and perhaps not predominantly – about accumulating personal wealth. Instead, pay and incentive-based rewards such as bonuses served as a marker of success, and helped people to benchmark their performance against their peers. The organisational profit motive was important for this group, to the extent to which some high earners in the private sector struggled to see how workers in non-profit-making sectors could be motivated and described public sector workers as 'unambitious' or 'lazy'.

The very high earners also tended to promulgate a number of myths about the drivers of high pay. Some of their justifications for the rapid growth of high pay have already been questioned in Chapter 2 above. For example, participants cited a trend towards 'hypermobility' among top executives, both between countries and between organisations, and changing corporate expectations, such as additional legal and financial risk for top executives. However, some of their arguments do appear to have some legitimacy: for example, that company boards are demanding financial results over increasingly short timescales.

Many of the higher earners also cited drivers of rising executive pay which contradicted their own assertions that wages are set through a technocratic and fair process. These included:

- increased pressure on shareholders to pay above-average rates and to use pay as a way of signalling that they have appointed the best person
- more and higher value 'add-ons' such as bonuses, pension options and shares, pushing up the value of the total remuneration package
- the imperfect and subjective nature of performance-related pay
- the role of intermediaries such as lawyers, agents and consultants in negotiating good pay deals for executives, regardless of performance
- a move towards disclosure of senior pay deals, putting pressure on boards to agree to above-average deals.

Participants from across the earnings groups also argued that pay is often driven by how much profit is available within a firm or sector, and the extent to which particular roles are directly responsible for revenue generation. For example, while participants valued the work of care assistants far more than that of bond traders, they also accepted caring roles would be paid much less than finance workers due to the larger profits available in that sector. This belief that sectoral differences are legitimate was also the reason that most participants thought workers in the public sector should earn less than their counterparts in the private sector. Public sector salaries were seen as coming from a fixed pot, whereas there was no necessary limit on the pot for private sector salaries. However, the evidence, presented above, that the finance sector's rising share of the wage bill has been partly down to its increased power over the UK's economic policy offers a good reason to challenge the assumption that sectoral differences are always valid. Similarly, falling levels of long-term business investment can be seen as a failure to properly channel (and share) the profits from economic growth.

Overall, the research participants in this study were fairly evenly split between those who questioned the current bases on which pay is determined and those who sought to justify the way that pay functions as reward. Those who criticised current arrangements focused on the way in which a small group of people has been able to capture a growing share of wages, and imbalances of power between workers at different points of the earnings hierarchy that influence how pay is determined. We return to these important points in the next section. Those who were, at least initially, largely content with the way that pay works at the moment derived their opinions from a faith in the market to set fair wages through an open and technocratic process, and an exaggerated belief in social mobility and individual agency. These findings show where the strongest misconceptions about how pay is determined lie. In the second report in this series we will consider how policymakers and others might seek to provide clearer messages and information about the more complex ways that pay is often decided across different roles.

Problems with how pay is currently determined

In this section we consider the specific challenges that participants raised about how pay is currently organised. Previous studies have found that people are most concerned about whether incomes or earnings (at all levels) are *deserved* (Bamford and Horton 2008, Hutton 2010). This is one reason why bankers' bonuses have been so contentious since the financial crisis. Our research explored public notions of 'desert' by looking at who gets what and why, and the extent to which people think this is 'fair'. The key issues that emerged as contentious included: extremes of high and low pay; the lack of reward for contribution in many jobs; the disproportionate focus on senior employees as drivers of organisational success; and the highly flawed nature of performance-related pay.

Extremes of high and low pay

An important area of consensus across the many of the workshop participants was a concern about the extremes of the pay distribution. Both low pay and very high pay were seen by the majority of participants to be problematic, and the arguments focused on desert as well as need.

There was a very strong agreement across almost all participants about the challenges of low pay, particularly in London, and a great deal of sympathy for low wage workers in the capital. Many of the concerns about low pay revolved around the high cost of living in London. Participants recognised that the minimum many low wage workers are required to spend on transport and housing costs is incompatible with their earnings and that, particularly with transport, the cost can be the same for higher and lower earners.

> **'Whatever [a cleaner] does in her job, she still has to get the same trains that we get, she's still paying the same cost, the same council tax that we are, so actually her cost of living in London is the same as ours. We might have bigger houses or whatever, but actually I don't know if it's possible to live in London at £14,000.'**
> Female, 34, private sector, earning £50,000–£60,000

There was a strong consensus that all work should pay enough to live on, or a 'living wage'. As a result, most participants agreed that the minimum wage is too low for London, and some felt it might be too low elsewhere as well. There was also broad support for some form of intervention to ensure that subcontracting is not used as a way to lower wages at the very bottom.

The workshops also revealed very widespread distaste among average and low earners surrounding *excessive* pay at the top. This was rooted in the idea that high pay beyond a certain point is simply unnecessary, no matter how apparently well-deserved.

> **'No matter how much work you put in, nothing's worth a million pounds.'**
> Female, 18, student

Many low to middle earners were shocked when the salaries of CEOs in large, 'household name' companies were revealed, using words like 'disgusting' to describe the pay packages. When presented with pay structures for model organisations based on real-life companies, participants were particularly surprised by the gap between the CEO and the people in lower levels of management outside the core executive team.

This sentiment was held equally by participants who were more accepting of unequal outcomes as it was of those who saw inequality as fundamentally unjust. However, there was no clear agreement about where the threshold between 'deserved' and 'excessive' high pay might lie. Some participants were quite conservative, suggesting that £100,000 was a reasonable boundary (anything beyond that seemed excessive and unnecessary to some); others mentioned figures like £1 million as the absolute limit. Conversely, few of the very high earners or higher earners in the private sector saw excessive pay as a problem per se, so long as it is deserved.

The IPPR/YouGov survey found support for the idea that pay gaps between the top and bottom are too large within organisations. Just over half (52 per cent) of adults in full- or part-time work agreed that the salary difference between the highest and lowest paid people in their workplace was too big. Less than a fifth (18 per cent) of working respondents felt that the gap was about right and only 2 per cent believed it was too small.[8] The poll also found that across Britain, 78 per cent of adults agreed that the government should take action to reduce the gap between high and low earners in the UK. This figure was slightly lower in London at 75 per cent. Of those who thought the government should take steps to reduce the pay gap, 82 per cent thought they should do so in both the public and private sector.

In order to understand what is driving concern about pay gaps within organisations and a desire for action to tackle these gaps, the IPPR/YouGov poll asked about pay in specific jobs across the earnings distribution. Table 3.1 shows the median value that that respondents gave for how much they think workers in different occupations earn, and how much they *should* earn. It also shows the actual average annual salary. The most significant variation occurs at the top of the table: the mean figure given in response to the question 'How much should a CEO earn a year before tax?' is £350,579, compared to actual average earnings of £1 million. The poll results suggest an effective pay and bonuses cut of 65 per cent for these top earners. A smaller effective pay cut is given to a CEO of a large council, with respondents feeling that people in this role are overpaid by about a quarter.

8 10 per cent answered 'Don't know' and 18 per cent did not have any colleagues.

Table 3.1
Perceptions of annual earning earnings before tax, 2011

Profession	'Do earn'	'Should earn'	Actual average salary	Effective pay cut/rise
CEO of a large national company	£638,912	£350,579	£1,000,000	–65%
CEO of a large council	£102,333	£98,403	£130,000	–24%
Secondary school teacher	£36,593	£37,389	£36,308	+3%
Prison officer	£29,006	£32,246	£26,828	+20%
Painter and decorator	£23,993	£24,891	£22,329	+12%
Office cleaner	£13,732	£16,803	£14,119	+19%

Source: IPPR/YouGov poll[9,10]

Further down the table, there was support in the poll for higher wages for the other four occupations, although only a very small rise in the case of secondary school teachers. The largest effective wage increases were awarded to cleaners and prison officers. However, the rise in pay among these occupations is much smaller than the pay cut that the public would support for the highest earners out of our six occupations. Table 3.1 also highlights the way in which people tend to underestimate pay at the top, and this was also found in the workshops.

While the IPPR/YouGov poll covered only six occupations, the results are supported by other polls. A BBC/ComRes poll conducted in September 2010 found that the mean 'should earn' salary for FTSE 100 CEOs was just £118,000, compared to an actual average pay package of £2.1 million (ComRes 2010). At the other end of the scale, the mean 'should earn' salary for care assistants was £24,000 when their actual earnings are approximately £16,000 a year. Conversely, the 'should earn' salary for mid-level occupations – technicians and nurses – was very similar to their actual earnings. This may be similar to our findings for secondary school teachers in Table 3.1.

Similar questions were last asked in the British Social Attitudes survey in 1999, which found that the public thought the chair of a major British company should have earned £75,000 compared to their then-average pay package of £555,000 (Hills 2004). Respondents also supported slightly higher wages for shop assistants and unskilled factory workers. Across the surveys, there is little evidence of support for a different hierarchy of pay: the polls do not find that most people think cleaners should be paid more than teachers, or teachers paid more than CEOs. Respondents reserved the highest wages for CEOs and others who are currently highly paid, and the lowest wages for those currently paid the least. Rather, the concern is about the *level* of pay at the extremes.

Taken together, the survey results and workshop findings demonstrate considerable anxiety among the public about excessively high pay, as well as low pay, rooted in arguments about both desert and need. However, the evidence presented in Chapter 2 seriously undermines the idea that very high pay of the magnitude currently experienced in the UK can ever be said to be genuinely deserved, since it has grown out of all proportion with both improvements in company profits and the demands placed on senior employees. The remainder of this chapter sets out the concerns that research participants

9 Sources of actual average salaries: Hutton Review of Fair Pay (2010) for CEO of a large company (FTSE 250) and a large council; median gross annual pay for full-time workers for remaining occupations, taken from ASHE 2010.

10 This is in relation to actual median earnings.

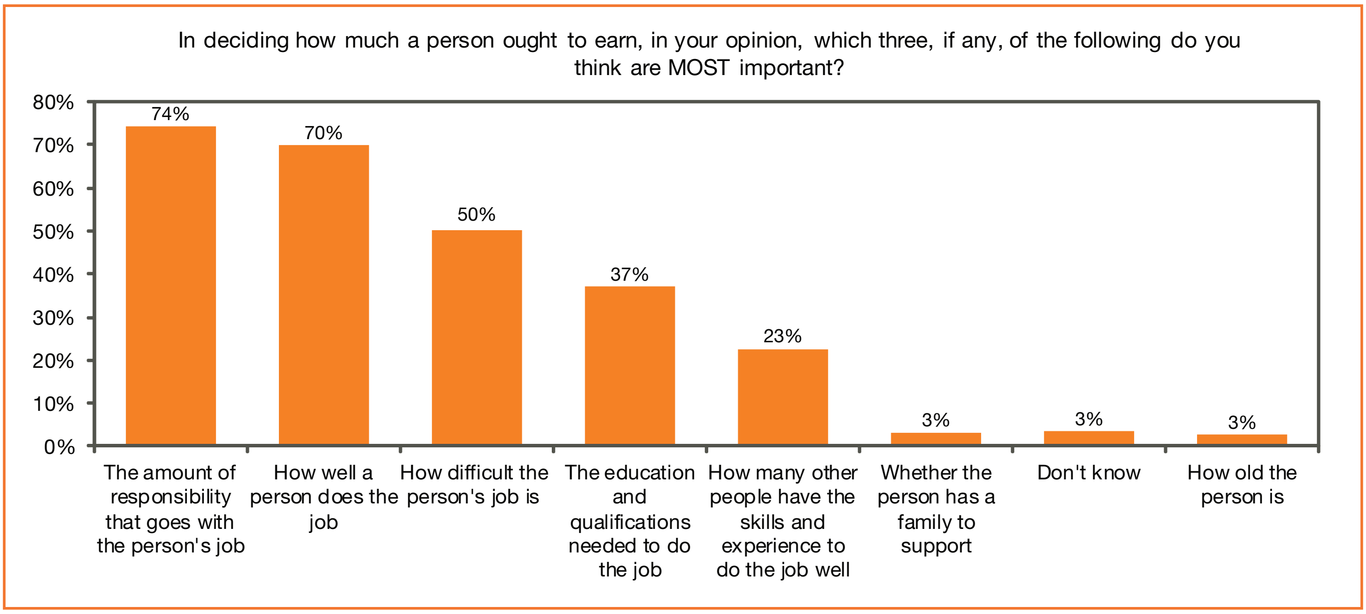
had about the relationship between pay and desert, and alternative bases for better reflecting the contribution of all workers in their pay packets.

What should pay reward?

The idea that pay at all levels should be a reward or recognition for particular qualities resonated strongly with research participants, who also expressed a strong consensus about what those qualities should be. The IPPR/YouGov poll asked respondents which three factors from a list of seven should be most important in determining how much someone is paid. Figure 3.1 shows that two key factors stand out: the level of responsibility associated with a role, and how well the job is done, that is, performance. Half of respondents also chose difficulty as one of their three preferred drivers of pay.

Just 37 per cent thought the education and qualifications needed to do the job should be an important factor, and just under a quarter (23 per cent) agreed that the number of other people who have the right skills and experience to do a job is important. Factors that are more closely linked to the individual than the job – such as age or family responsibilities – were seen as important by very few respondents.

Figure 3.1 Preferred influences on pay



Source: IPPR/YouGov survey

In the deliberative workshops with low to middle earners, participants agreed very closely with these poll findings. Difficulty, responsibility, risk and performance were repeatedly chosen as ideally being the most important drivers of pay. Importantly, respondents argued that those factors should drive pay across the board, regardless of education, occupation or earnings.

> **'I think anyone who is doing their job really well, that should be recognised and they should be rewarded accordingly regardless of whatever profession they're in.'**
> Male, 26, public sector, earning £20,000–£30,000

Among a number of participants in the low to middle earners workshops, there was a strong presumption against setting pay on the basis of formal qualifications, driven by a sense that this would work against people who are less able academically but are either hard workers or perform well in the workplace.

> **'You might not have the qualifications but if you pick up the role very quickly and you're very good at that, then you don't want to be penalised.'**
> Female, 31, public sector, £20,000–£30,000

Even among those with university degrees, there was agreement that higher level formal qualifications do not necessarily signal talent, aptitude or a strong work ethic.

However, a distinction was made between formal qualifications and 'skills', which were generally seen as an important driver of pay. Participants noted that some skills have a higher value because they are rare, more transferable or at a higher level, and agreed that people with these skills should be paid more. Conversely, it was argued that the skills used by low-wage workers such as hotel receptionists or cleaners tend to be common and generic, and so it was reasonable that such workers could not command very high wages.

> **'If you want a good marketeer you need to pay a bit more. If you want a good receptionist then you can pay the average receptionist wage and still pick and choose. It [marketing] is higher level anyway but it is a more transferable skill, you can work across any sector.'**
> Female, 40, public sector, earning £40,000–£50,000

Effort, as measured for example by working hours, was also seen as an important driver of pay by some participants, but there was a debate about whether long working hours tended to be associated with high or low pay. As with the poll results, there was general agreement that age and caring responsibilities should not affect pay rates.

The workshop participants were also asked to relate factors influencing pay to specific occupations to understand how people think their preferred drivers of pay work across the earnings distribution. Initially, participants tended to associate their preferred influences on pay (responsibility, difficulty, effort and performance) with higher level roles, and this was used to justify the higher wages in these occupations.

> **'It's a huge responsibility running [an organisation]. There are so many different aspects to it. You're managing lots of people and you've got to have your eye on the ball.'**
> Female, 55, public sector, earning £50,000–£60,000

The responsibility attached to executive and management-level jobs centred on responsibility for other people's jobs. Higher earners in particular also associated senior roles with risk and referred to the great personal and professional risk attached to poor performance in senior roles. However, a number of participants stressed that risk and responsibility are also high in some lower paying jobs, particularly caring roles, which are often undervalued, and in some mid-level jobs like teaching. Overall, participants pointed to a hierarchy of responsibility, with the responsibility for other people's jobs held by managers in the private sector being the most important, but also recognising the other forms of responsibility present in many other occupations.

Participants generally agreed that there should be some kind of premium for long working hours, but longer working hours were usually associated with senior, higher paying roles at first. However, a number of participants noted that longer working hours are not always directly linked to pay.

> **'If you work long hours, sometimes it means you get less … the fact that you have to do that, doesn't necessarily mean that it's going to be recognised.'**
> Female, 40, public sector, earning £40,000–£50,000

On the issue of performance, there were mixed views about the extent to which good performance is currently reflected in pay at all levels. Some people argued that in some private sector jobs, particularly those linked directly to revenue generation, it is much easier to monitor performance and reward people accordingly. This was also linked to the idea of risk, with some jobs being perceived as higher risk because performance is monitored more closely.

> **'If you're not earning the bank sufficient money then you're going to get booted out. You've probably got a very loose and flexible contract if you've got a contract at all, so they can say sorry, your last month's sales figures are bad, you're out. Whereas with a prison officer, there are all sorts of levels you go through before you are booted out.'**
> Male, 55, private sector, earning £10,000–£20,000

However, a number of participants also noted that strong performance is often not rewarded or even recognised in many lower paying jobs. For example, one participant cited her employer, a large transport company, where inspectors carry out regular spot-checks on cleanliness of station facilities but there is no mechanism for cleaners who had been shown to be performing very well to be rewarded. Participants generally agreed that good performance tends to be rewarded in some occupations (usually higher paying ones) but not in others (usually lower paying ones).

Overall, both poll respondents and workshop participants agreed that the key qualities that should be rewarded by pay are the responsibility and difficulty of a job, how hard someone works and how well they do their job, and how useful their skills are. There was agreement that these factors should apply across different roles and earnings brackets. Responsibility, difficulty, effort and skill are used by many to justify the higher wages of top earners, and this was supported by the majority of our workshop participants. However, many participants argued that these qualities are also present in many other roles, including those associated with low and mid-level wages. The fact that these qualities are not sufficiently rewarded through the pay of many lower earners was a source of concern.

Who is responsible for success?

These findings indicate that the way that pay often fails to reflect the contribution that many people make to an organisation and instead focuses rewards on a small number of people at the top is problematic. However, the very high earners and high earners in the private sector that we spoke to justified the focus on the 'top team':

> **'There's ultimately a very small number of people that are phenomenally bright but also have the skills to run a company, the social skills to run a company at that level. It's just the nature of the world … If this person has those skills, then he deserves the money.'**
> Male, 37, private sector, earning more than £100,000

Higher earners largely agreed that the success of an organisation is usually the result of the input of a single CEO or small executive team, and this was used to justify very high pay for this group. This view remained constant when participants were pushed to think about large multinationals with thousands of employees and multiple management teams in multiple countries.

> **'Can a small team of people steer a company in a better direction? Probably, yes. In my opinion, strong management is phenomenally important. If someone can steer the ship in the right direction, and more importantly tie everyone together to follow that direction, then that is unbelievably powerful and I don't think you can underestimate it.'**
> Male, 29, private sector, earning more than £100,000

Conversely, many low to middle earners, and higher earners in the public sector, recognised without prompting the nature of the 'talent myth', which led them to question whether high pay is really deserved.

> **'At the end of the day a lot of people can do a job. Have these people got such great minds that they can earn so much money? … I do not think there is only one person who is so special, who's got all those skills, I think there are lots of people.'**
> Female, 40, public sector, earning £40,000–£50,000

Participants suggested that contacts and opaque pay-setting processes could be much more important than genuine ability and experience. They also felt that the level of responsibility in top jobs is sometimes overplayed in order to justify very high salaries.

> **'It's all weighted towards the company director being the only one that's responsible for the success. He's getting that big salary and it's almost saying that he's solely responsible for the success of the company … giving that one person everything and saying you are responsible and everyone else is just incidental.'**
> Male, 42, public sector, earning £40,000–£50,000

Opposition to the 'talent myth' among many low to middle earners and higher earning public sector participants was based on a consensus that, within an organisation, everyone contributes and everyone should be rewarded accordingly. As we have seen from the poll results, there is no desire among the public for flat pay structures and everyone we spoke to accepted the need for pay differentials, sometimes quite large ones. The key issue for many participants was the fallacy that organisational success rests in the hands of a small number of senior executives. As a result, the high pay attached to those roles felt undeserved and was a cause of concern. At the same time, the failure of current pay structures and systems to recognise the contribution that most employees make to organisational success was also seen as a source of unfairness.

The John Lewis Partnership model, where organisational profits are shared among all workers, was brought up without prompting in all the workshops. The model resonated with participants as an example of a fair system of reward: it was seen to justify the higher pay of senior managers as well as providing fairer pay for the majority of the workforce. Many participants also saw it as the reason behind John Lewis's strong reputation and brand credibility.

> **'I can't imagine a fairer system in this country, in a private industry … It looks fair because the company director, if he's on half a million and he's going to get 18 per cent extra bonus, all fair enough, because he's taken everybody with him. It's a pleasure to work for a company like that. It makes everybody want to work hard.'**
>
> Male, 53, private sector, earning £10,000–£20,000

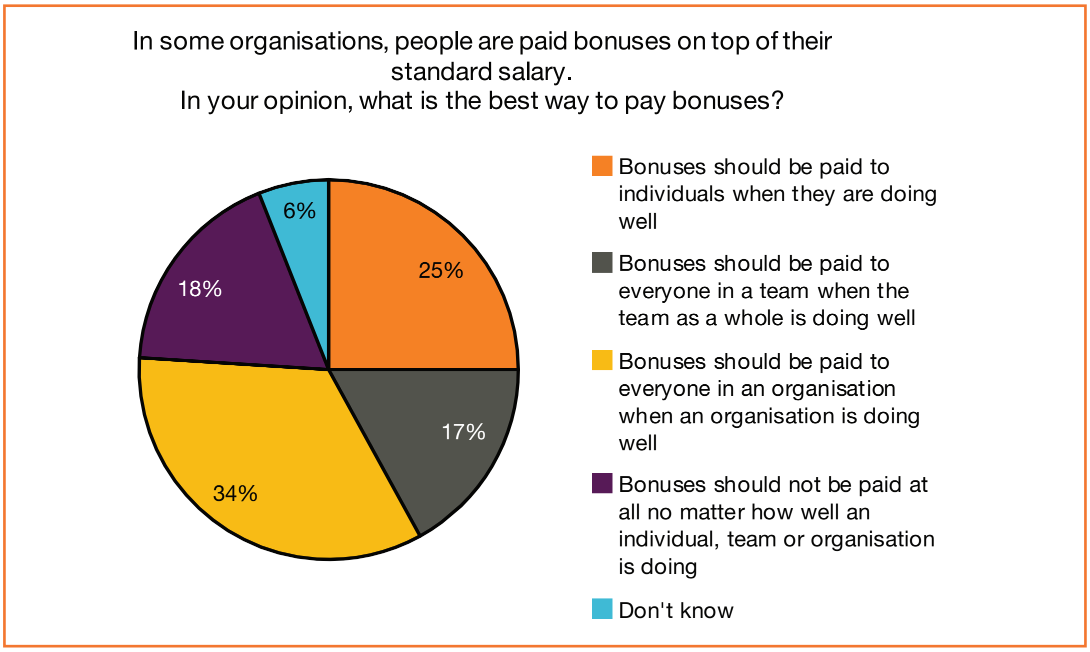
The risk that this approach to pay could create a 'free-riders' problem, where people receive the same bonus regardless of their relative effort or performance, was a concern for a minority of participants. Generally, there was a consensus that it is important to have a mixture of individual performance incentives and team or organisational rewards to ensure strong teamwork and commitment to the company.

Some people also thought greater emphasis on team-reward systems would reign in what they saw as an over-reliance on individual performance-related pay for high earners in sectors such as the finance industry.

> **'I'd like to see a greater proportion of reward linked to team efforts … I personally feel that would be a better model to link pay and reward to team results … When I first started [at a large retail bank], 15 per cent of your salary was performance-related and a slice was related to the company [performance] and now, as we've discussed, it's the 100 per cent plus that relates to [individual] performance and to my mind, it's gone too far that way.'**
>
> Male, 44, private sector, earning £150,000

The IPPR/YouGov poll explored one way of broadening out rewards to reflect the contribution of all workers, by asking about how bonuses should be structured. Figure 3.2 shows that 34 per cent of respondents preferred organisation-wide rewards, while 17 per cent thought bonuses should be paid on the basis of team performance. This means that 51 per cent of the public think performance should be assessed and rewarded on a group basis rather than an individual basis. Only a quarter of respondents thought bonuses should be paid based on individual performance.

Figure 3.2
How should bonuses be paid?



Source: IPPR/YouGov poll

Pay and performance in executive pay

Chapter 2 highlighted the expansion of performance-related pay at the top of the earnings distribution and examined the effectiveness of high pay as a reward for good performance. We focused on this question in the workshop with very high earners, given their initial emphasis on high pay being acceptable as long as it is deserved, and the pervasiveness of performance-related pay in the sectors in which they worked.

The very high earners we spoke to seemed torn on this issue. Initially, they argued quite strongly that higher pay in the private sector tends to reflect good performance and therefore is rarely of concern. Yet when prompted to consider how pay worked in their workplaces, they conceded so-called performance-related pay in practice was often negotiated through some combination of legal process and personal patronage.

> **'It comes down to very much a kind of finger in the air from their manager. There might be someone they really like but is just OK at their job; or somebody who may actually be better but they just don't bond with the guy. You know that's just standard. You can't get around that, that's the ethics of personality.'**
>
> Male, 37, private sector, earning more than £100,000

High earners reported that contracts for top jobs were often negotiated by a highly experienced team of lawyers, who ensured that CEOs would walk away with a large settlement whatever their successes or failures at the helm of a company. Participants in the discussion groups felt this was a relatively recent phenomenon, and that it was driving heightened concern about whether top pay is deserved.

'The growth [of senior pay] is a concern when the results aren't there. What you're seeing more now is these CEOs that are running companies and driving them into complete failure and yet they still walk away with their golden bye-bye and their huge pensions, and I think that's what's driven it up to people's consciousness now, far more than it was three years ago.'

Male, 37, private sector, earning more than £100,000

Participants in this group also raised some concerns about the relationship between company performance, individual performance and the ultimate amount of performance-related pay.

'It suffers from a couple of flaws in my view, one of which is the degree to which you can link an individual's performance to the performance of a company. And the second is about the clear line of sight between what the individual's performance is and then what they get as a bonus at the end of it. I don't suspect I'm the only person here who's come to their bonus meeting without really knowing what they're going to get because it's very hard to make a link between their performance and what they're going to get at the end of the day.'

Male, 44, private sector, earning £150,000

There was some agreement among the high earners that the rhetoric around pay and performance is overplayed in some sectors, and some recognition that it can be used by company boards as a cover for their reliance on pay as a signal of talent. This begins to get into the circular argument that talented individuals must be talented because they are highly paid.

Some very high earners also expressed anger about undeserved high pay: it seemed to undermine their world view of legitimate rewards for effort and performance.

'[Then CEO of Merrill Lynch] was a lucky man. He stepped into a CEO's shoes and fortunately for him the market was great. All he had to do was sit back in his chair, smoke his cigar and do nothing and just earn his money. That's unbelievable, to pay a man US$131 million in stocks and shares and then a US$30 million pay-off. That is incredible.'

Male, 41, private sector, earning £85,000

The discussion of performance-related pay with very high earners revealed that they were prepared to accept the criticisms laid out in Chapter 2 when pushed to think about how performance-related pay really works in their own organisation or sector. Having started from a position that high pay and performance-related pay are largely positive, the individuals we spoke to quickly conceded that the processes supporting the setting and monitoring of performance-related pay are often flawed and that that performance-related pay is often used to achieve goals other than properly and proportionately rewarding success. These findings could provide a useful basis from which to tackle assumptions around performance-related pay and the extent to which rapid increases in top pay can be justified.

4. CONCLUSIONS AND POLICY IMPLICATIONS

The findings presented in Chapter 3 demonstrate a sense of injustice among many people about the way pay currently functions, even some very high earners. The key source of concern hinged on the extent to which pay at all levels is a fair reward for the contribution made to an organisation's success, with an emphasis on responsibility, performance, skill and effort as the essential elements of that contribution. The research presented here demonstrates a sense that the contribution of high earners is often overplayed while the contribution of the average worker is undervalued. The evidence presented in Chapter 2 suggests this concern is well-founded.

In this section, we begin to explore what this means for policy and the areas in which government, business, unions and civil society might need to act in order to establish a clearer link between pay and contribution at all levels. The second report from this project will develop the policy implications of our research into concrete policy proposals.

The challenging backdrop to policy development in this area is that while many support further action to make pay fairer, they also doubt the ability of key actors to make any change. An ICM/High Pay Commission poll[11] found that three-quarters of people have no faith in government or business to tackle excessive high pay. More broadly, a poll for Policy Network found that just 16 per cent of UK residents agree that government is able to stand up to vested interests.[12] The key for the second report will be to develop concrete proposals capable of driving real change and gaining public support and confidence.

Key areas for policy

Myths about pay

Chapter 3 revealed a number of myths that need to be countered about the way in which pay works at the moment, in particular the sense that pay is set through a fair market process which involves no power dynamics. There may be a role for campaigners and civil society organisations, as well as policymakers, to try to counter some of these myths. This could be done in part by drawing on examples of where the market over- and under-values particular skills, and drawing on many people's sense of unfairness that high earners are not being hit by the current economic crisis in the same way as lower earners.

There is also a role for campaigners and policymakers in highlighting the real drivers of rising executive pay. Many higher earners will recognise the imperfect nature of performance-related pay and the drivers of increasing top pay as competitive benchmarking between companies, rather than increases in productivity or performance. Importantly, the idea that most people can be high earners if only they work hard should be openly questioned. In the second report, we will consider the best ways of countering some of these myths.

Low pay

The undeniable support for proper wage floors at the bottom of the labour market makes this fertile ground for policy intervention. That this is a relatively uncontroversial area as far as the public is concerned is reflected in the existing policies, strategies and campaigns designed to raise low wages. Without wanting to retread some of the well-worn ground on low pay, our policy proposals should explore the following:

11 Available at http://highpaycommission.co.uk/blog/interim-report-more-for-less-launched

12 Available at http://www.policy-network.net/news/3893/YouGov-polling-on-trust-in-centre-left-politics

National Minimum Wage: uprating and enforcement
The minimum wage has been very effective at ending extreme low pay and lessening wage inequality in the bottom half of the distribution. Experts seem to agree that the extent to which the minimum wage can be used to further raise the wages of the low paid is small (Coats 2007). However, we will explore arguments for better enforcement and alternative approaches to uprating (see for example Fair Pay Network 2010).

Living wage policies
Ongoing campaigns by civil society organisations are pushing for a 'living wage' among workers across the UK, with some success in London. Other research by IPPR is looking at the potential role of the living wage in reducing low pay, and we shall draw on this work as we formulate our final recommendations.

Public procurement and contracting
As employers and service commissioners, many statutory bodies have a role in setting pay and influencing pay in the private sector (Hutton Review of Fair Pay 2010, Wind-Cowie 2010). There is debate about the extent to which public procurement contracts are able to require effective wage floors above the minimum wage, and we will explore the legal and practical implications of this. Despite current moves to limit protections for employees contracted to work in the public sector, we will also investigate the scope for a modern fair wages resolution.

Productivity and skills utilisation
Low-wage work is often concentrated in sectors which rely on low-skill, low-productivity business models. Current research by IPPR is investigating how skills can be raised alongside an increase in employer demand for skills, so that higher level skills can be translated into productivity gains and higher wages. One idea is 'National Minimum Wage+', a voluntary scheme whereby companies would receive government support for skills training in return for agreeing to raise the wages of their workforce above the minimum wage. This would aim to ensure the productivity gain from training is divided between the trainee and their employer.

Excessive high pay
Rising executive pay has been the dominant trend in pay over the last 30 years and excessive pay at the top is one of the most pernicious examples of the breakdown between pay and desert. Measures to directly limit top pay are likely to be unpopular and hard to implement, but it is vital to address the underlying drivers:

Pay multiples: voluntary or mandatory
The use of a fixed ratio between earnings of the highest and lowest paid workers has been suggested as one way to limit top pay (Fair Pay Network 2010, Compass 2009, Hutton Review of Fair Pay 2010). This was popular with many of the low-to-mid earners in the workshops but some people had concerns about the practicalities. It should also be recognised that the pay multiples concept does little to deal with underlying issues of desert or dramatically alter the structure of pay for the majority of the workforce. However, we will investigate the potential of this policy option.

Transparency
One way of using the pay multiples concept would be to ask or require organisations to publish data about pay for the highest and lowest earners, or other aspects of company pay. The Frank Dodds Act in the United States requires publicly listed companies to publish the highest salary, median earnings and the ratio between the two. Many

workshop participants agreed that this would help them understand the structure of pay in their organisations and might also affect their choices as consumers. However, pay disclosure has also been blamed for helping to ratchet up top pay and there may be limits to transparency if it is not accompanied by a shift in power to consumers and workers.

Alternative ways of signalling talent
Among the very high earners we spoke to, it was accepted that company boards tend to use remuneration packages as a way of showing that they have recruited the best person. This has led to an 'arms race' between larger firms to pay the most, so that pay is no longer linked to any meaningful concept of performance or ability. We will investigate other ways in which boards could demonstrate wise recruitment choices, as well as the processes through which boards design remuneration packages.

Performance-related pay
Attempts to link executive pay to individual and company performance appear to have had the perverse effect of enabling top pay to rocket without any apparent improvements in performance. Some analysts propose strengthening the pay-performance link through stronger corporate governance and improved mechanisms for monitoring performance. However, the very high earners in our workshops suggested that stronger mechanisms could still be bypassed. We will investigate whether the concept of performance-related pay is fundamentally flawed.

Corporate governance
Performance-related pay for high earners and the 'arms race' for ever higher pay are key aspects of corporate governance, but other areas may also need to be strengthened. These could include the use and role of pay consultants, the role and composition of company boards and the activities of shareholders. The evidence presented in Chapter 2 suggests that in many cases, boards and shareholders have been incapable of reigning in top pay and making it more closely related to the genuine contribution of senior employees. We will consider improvements to corporate governance that could help to achieve this.

Financialisation
Alongside broader IPPR work on financialisation, the second report will consider the role of financial services in the UK economy, examine the case for policymakers to counter the trend towards greater financialisation and assess what this could mean for high pay in the finance sector.

Recognising the contribution of the majority
This was a very important point to emerge from the workshops: people do not necessarily resent the higher pay of senior employees (within certain parameters), but they do resent the fact that ordinary workers see very little of the rewards of what is strongly perceived to be joint effort. Some of the ideas we will explore here include:

Challenging the 'talent myth'
The idea that just a few people are capable of running successful companies and that they are then entirely responsible for success has been shown to be flawed. Yet it remains a powerful narrative and an easy justification for large pay deals. We will explore how the 'talent myth' can be countered.

Improving management–employee accountability
The erosion of unions in many workplaces coupled with increasingly complex organisational forms in some sectors has meant that relationships between staff and managers have become increasingly disconnected. We need to develop new institutions and mechanisms for accountability between managers and employees that could give staff more of a say in how pay is set across an organisation and encourage managers and workers to understand more about each other's roles. For example, in Germany, larger organisations must have employee representation on supervisory boards and this may be one reason that the executive pay has been more constrained than in the UK (Bruce et al 2005).

Shared rewards
The example of shared company or team bonuses was very popular with workshop participants and spoke directly to the desire for everyone's contribution in the workplace to be recognised. There are examples of where this approach works well, but questions remain about the extent to which these models could work in organisations with different ownership models, and the role of policy in promoting such practices.

Longer-term challenges
Many of the drivers of unfair pay hinge on quite fundamental features of British capitalism. It is important to consider the longer-term changes that might be required in order to effect a more fundamental change in how work is rewarded. Some of these issues include:

Ownership models
Some commentators have called for the growth of more democratic models of ownership, such as cooperatives and employee-owned businesses, as they tend to have flatter wage structures (Davies 2009). We will consider the long-term potential of these business models and the role they could feasibly play in creating fairer systems of pay.

Corporate short-termism
There is some recognition that very high corporate pay and squeezed wages further down the earnings ladder are driven in part by the short-term horizons of British businesses: a focus on fast and high returns rather than organic, incremental growth. We will investigate the extent to which this true and whether and how corporate timelines could be extended in order to incentivise fairer pay.

Restoring the collective power of workers
We will consider whether there are new institutions that could enable workers to improve their relative bargaining power in the workplace. This will be fundamental to maintaining the wages of low and middle earners, the majority workforce, relative to higher earners. This could include the role of modern unions but would almost certainly have to include other institutions given the current position of unions in many sectors.

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