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Economic inequality: Are we at the turning point?

New statistics offer hope—but the accuracy of such figures is notoriously difficult to assess

by Danny Dorling / August 23, 2017

The news hardly made the headlines when it came out earlier this month. On Thursday 3rd August the High Pay Centre reported that the 100 CEOs of the UK's highest valued public companies had, on average, seen their pay reduced by 17 per cent in the year to 2016. Now, instead of (again on average) receiving £5.4 million a year they each only took home £4.5 million, almost a million less in a year, or roughly half a million after paying tax. The average pay of the 25 highest paid UK CEOs dropped by even more, some 24 per cent, so not only were UK CEOs overall being paid less, but inequalities within that group were falling.

The response of the press was lukewarm with the typical headline being "Executive wages may have fallen, but the case for pay ratios is even stronger." The ratio of average CEO to average employee pay had fallen from 145:1 to 129:1 in a year. It will have to fall by more again and again and again if the UK is to even begin to dream of becoming an averagely unequal affluent country. But that is not impossible, especially if the press remains unimpressed by future falls in top "remuneration." It happened before from the 1920s through to the early 1970s. And at the start of that period the falls in inequality were not recognised. No one said "well done for being less greedy."

It is possible that CEO pay falls are temporary or that bosses have found another way of rewarding themselves that is more opaque, but it is equally possible the falls are real and could continue.

We certainly shouldn't get out the bunting just yet. A long way below CEOs come the top 1 per cent, who on average earn much less than a tenth of what a FTSE100 CEO earns. The average incomes of those in the 1 per cent were first reported to have begun to fall a few years ago, shortly after 2010, but whether they actually did fall was at that time very hard to assess.

"Never has economic inequality been of such interest to so many people worldwide"

The UK introduced a 50 per cent top rate of income tax for a very short period, in April 2010, a month before Labour lost power. This had several effects, including incentivising many in the richest 1 per cent to pay their tax early, at the lower old rate of 40 per cent. But it also coincided with a rapid jump in the number of people in the UK registering new companies with no employees, the numbers of which rose by 9 per cent in the year to 2011, but by only 2 per cent and 1 per cent in the subsequent two years. That increase is unlikely to have been due to a sudden transient increase in entrepreneurial zeal. It was most likely due to the advice of very affluent individuals' accountants on how to reduce their tax liabilities.

It is not impossible that other very recent turns in inequality such as those seen in India and China are partly due to the super-rich becoming better at hiding their income and wealth.

But even that could be a sign that we have reached a turning point—they are now more afraid of the tax authorities; or of governments exposing corruption at the top and demining that annual pay ratios are published. Right now it is very hard to tell and wildly different statistics are bandied around. Never, though, has economic inequality been of such interest to so many people worldwide as it has been recently.

There is a very recent precedent for what appears to have happened in the UK and it comes from the USA just one year earlier. In the US, the average pay gap between bosses and workers fell between 2014 and 2015, the most recent years for which we have data. In 2014, the average pay of CEOs of the 500 top-ranked companies in the US was 373 times that of the average US worker. By 2015 that ratio had fallen to 335 times, partly because many trade unions had been successful in pay disputes, increasing the average annual pay of workers by $900 a year to $36,900. More importantly, the average pay of the bosses appeared to fall from $13.5 million a year to $12.4 million.

However, even if we are at a global tipping point, there is still an awfully long way to go and we have to be very careful when assessing the pay of CEOs because it is not at all transparent.

Alternative estimates of the US CEO to average worker pay ratio published in the *Atlantic* in late 2016 put the ratio at an almost unbelievably high 949:1 in 2014 and so it may be almost as high as that today, if falling. In 1980 the same US pay ratio was 42 times, rising to 107 times in 1990. From 2017 onwards. the US Securities and Exchange Commission will "require public companies to disclose the ratio of the pay of their CEOs to the median compensation of their employees." Again, all this additional scrutiny suggests we may be at a turning point, even if we cannot be that precise about just how bad inequality currently is in a country like the US or the UK, where the very rich try so hard to hide their incomes.

This is an updated edited extract from "The Equality Effect: Improving life for everyone" by Danny Dorling, published in 2017 by New Internationalist