

Wealth series 14: Do we need a pay ceiling?

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CEO pay in the UK is spiralling out of control. The median FTSE 100 boss now takes home £4.5 million a year – while millions struggle to live on the minimum wage. If we can set a minimum wage, why not a maximum pay cap? In this video, I explore why inflated executive pay is unjustified, how it fuels inequality, and how a cap – at around £370,000 – could rebalance our economy. Would a maximum pay cap strengthen fairness, rebuild trust in business, and restore democracy? Watch to find out – and let us know what you think in the poll.

<https://www.youtube.com/watch?v=GKevsgaMxAQ?si=hOEmcnKWs2Vam8JF>

This is the audio version:

https://www.podbean.com/player-v2/?i=xkkiu-196475c-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Do we need a maximum pay cap in the UK?

I ask the question because in a whole series of videos on this channel, we've been looking at the problems that excessive wealth creates in the UK. And one of the problems that is created by excessive wealth is the fact that some people have vast amounts of income in this country, and a great many people are living on the minimum

wage, or less. The consequence is massive inequality, not least because the minimum wage is just not enough to live on in the UK.

So, if we can set a minimum wage in the UK, why can't we set a maximum pay cap? That's the question that I'm going to be asking in this video.

The reality is that in most large companies, and it is by and large, very large companies who pay the sorts of money that we are talking about here - banks, large quoted companies who are on the stock exchange, big supermarkets, big drug companies, things like that - those companies are managed by people who like to call themselves risk takers and entrepreneurs. But the truth is, they are no more risk takers than the person who is working on their shop floor, whether that is literally the shop floor in a factory, or the shop floor in a shop, or wherever else they might be in their organisation.

They are simply salaried employees with all the protections that go with that: good pensions, probably excessive pensions, and very strong contracts, which require them to be compensated very well if they leave early. These rewards are not in any way linked to risk because the fact is, they're going to be paid month in, month out, whatever they do during the course of their employment.

So these inflated pay packages are utterly detached from contribution or need, and yet they create massive inequality in our society.

They skew company resources towards the few at the top.

They undermine morale because of the massive pay differentials between the top of a company and the bottom of a company, with very often chief executives earning more than a hundred times a year than those who are at the bottom of the organisation get.

And those pay gaps fuel inequality across our whole society, not least by highlighting how divided the world is, but they also create concentrations of wealth, distorting housing, rental housing through the buy-to-let market, finance and politics. All of that is deeply detrimental to well-being in this country.

So let's just look at some data. The UK minimum wage now pays, on a full-time salary, depending upon the number of hours worked a week, between £22,000 and £25,000 a year. That sounds a lot to people of my age. My first annual salary when I started work just a few years ago now, was £3,000 a year. So in the circumstances, £25,000 sounds extraordinary. Except I could make ends meet on £3,000 just about, and frankly, on £25,000 a year now, you would struggle. It is impossible to sustain a decent family life at this level.

But the question is, if that is the floor, what should be the ceiling, and why haven't we got one? This is a question about justice, cohesion, and economic balance.

Let's look at some suggestions on the ratios between minimum pay and maximum pay that have been made by some organisations.

The High Pay Centre has existed for years in the UK, a think tank that looks at this issue day in, day out, all year round, and it's done excellent work over many years. It suggests a ratio of ten-to-one in the UK with regard to pay in an organisation. The highest paid person in an organisation, they say, should be paid no more than ten times the pay of the lowest paid person in the organisation. And presuming that the lowest-paid person is therefore on the minimum wage, we'd be talking about a maximum pay of around £250,000 if we use their guidance.

Some time ago, when I was working for the Trade Union Congress, the TUC, I wrote a suggestion for them on ratios to median pay. And I suggested another ten-to-one ratio. But I suggested that the minimum wage shouldn't define this and that the median wage in the UK should, and the median wage now is around £37,000 a year. That would suggest that nobody should be paid more than £370,000. The advantage of this number is that it is not dependent upon what is happening inside one company, but sets a general limit. And I actually favour this higher figure. I think it's absurdly generous, but it's still an effective limit. And I challenge anyone to argue convincingly that more is necessary.

But let's just look at what is paid. If we look at the companies who are in what is called the FTSE 100, the Financial Times Share Index for the top 100 companies in the UK, the median chief executive of a company in that index is paid £4.5 million a year. If we look at the mean, that's the average in mathematical terms, the one that most people think of is the average, it's £5.1 million a year, a sum of money that is so far beyond most people's imagination, and so far beyond anyone's need, that it is quite out of touch with reality.

No wonder so many of these companies seem to be so remote from us and so remote from serving our needs.

The median value of other directors in those companies, the top 100 companies in the UK, was around £2 million a year.

So even if you weren't the ultimate boss, you just sat on the board, you were getting paid something like £2 million a year for turning up to work when many people will only be getting between £22,000 and £25,000 a year, and many of those people might be getting a state subsidy for their wages because the company they work for can afford to pay the boss £4.5 million, but can't afford to pay them enough to live on, and they require universal credit to make good their wages.

The average ratio, at the moment, of a chief executive to the minimum wage is around 180. To the median wage, it's around 120. And for directors who are not chief executives, the ratios are 80 and 54 to the median. It's quite extraordinary.

It isn't possible to talk about these sums being needed. It's just not the case that they are. But before we go on and discuss just what it is that we're going to cap. Let's be clear about what counts as pay. What I know from my experience of watching accountants, companies, lawyers abuse every tax rule and every regulation that comes their way, and that is the habit of some of them - they see that as their job to subvert the law - they will, unless pay is incredibly tightly regulated, do their very best to try to get around any figure for pay which simply represented the figure that was on the pay slip at the end of the month.

They would say, "Well, that's what you call pay. That's what we'll limit. But instead, we'll give people enormous bonuses. Or we'll give them perks, like very expensive cars or planes. Or we'll pay for their housing, or we'll provide them with an enormous pension. Or we'll give them big share options schemes, which they will be able to cash in one day, but which aren't part of their pay now." All of these are possibilities. And the reality is, all of these things are pay. And they must therefore be included in any pay cap. It's absolutely critical that we look at this.

And it would also be necessary to look at the abuses that are possible if companies spun their directors out of their organisations and put them into separate entities, like limited liability partnerships, where lawyers and accountants can, for example, earn millions a year now. That's an issue which will also need to be looked at, but we won't go further on it here.

The point is, we need to prevent avoidance. Companies must be prevented from paying special dividends on shares owned by directors; making loans to directors that are tax-free; or supposedly paying their own companies with very high rates of interest for loans that they advance; or by renting properties from them. All of these things have been seen. All of these things are possible. All of these things must be stopped. All of these things must be included in a pay cap.

And we have to apply this pay cap to every single public interest company in the UK. Now, public interest companies are, by and large, the quoted companies from which you buy very many of the things on which you are dependent. But it also includes things like very big charities and universities, who now pay ridiculous salaries to some of their vice-chancellors and other senior executives. And also, to housing associations, where it appears that high pay is now also a creeping phenomenon, even though they're meant to be providing services for people in need.

The fact is, all of these entities must be covered because the pay cap has to be enforced if it is seen to be fair.

And penalties must be applied if breaches are seen.

There's a particular problem, though, with regard to private companies. These are those which are owned and created by a person who might, as a consequence, make a very

large income and say, "But it's mine. I set up this company." And this is problematic and isn't the same as the situation of a public interest entity, where, as I explained earlier in this video, those people who work for them are almost entirely straightforward employees, just the same as the vast majority of their other staff are.

That's not true in some private companies. These people actually are entrepreneurs. But in those cases, there has to be something else, and that is that there has to be a cap on the amount of pay that can be made to a person on which tax relief can be given. So if we choose a pay cap of £370,000, the company, a private company, could make a payment to a director of as much as it liked. But it would only get tax relief on the first £370,000, and that will effectively increase the cost of the payment to the director in question. In other words, it will simply make the price of inequality higher for those who are benefiting most from it.

Now I know the arguments that will flow from this. People will say "Talent will flee", but the argument is simply not credible. If you really think that the future of the UK is dependent upon a handful of incredibly highly paid people whose greatest skill in life is manipulating the companies that they work for to pay them returns way in excess of what they're worth, then you've got a very distorted view of value and frankly, of talent.

There are vast numbers of people who could do the jobs of our chief executives, our finance directors, and everybody else in large organisations, and they would do those jobs for much less than £370,000 a year.

So I have absolutely no doubt that new talent, maybe better talent, would come forward if only we got rid of those who are the manipulators now.

The fact is, pay caps will strengthen trust in business and democracy and make talented people want to work for them.

They will then realise that their companies can redirect money towards investment, wages, and society. And the gain will be a rebalanced society, which recognises that everybody contributes to our well-being.

Pay caps are a tool for economic justice, tax justice, and accountability. Wealth should serve the economy and not dominate it. And a maximum pay cap is both fair and workable. So long as, and I make the point again, it is comprehensive, meaning that we must close every loophole.

In that case, let's aim for rewards that reflect contribution and not privilege. And tackle this source of wealth inequality once and for all, and without having to use tax very much to do so, because this is a problem that arises before tax ever comes into the equation, and tax should not therefore be the solution to it. Regulation should be.

What do you think? Do you think we should have a maximum pay cap? Do you think it

would be fair? Do you think it should be at £370,000 a year as I've suggested in this video? Or do you need more information?

Let us know. There's a poll below. And we'll be interested to hear what you have to say.

Poll

[poll id="203"]

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Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

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