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Chief executives in the UK and the US are now paid hundreds of times more than the people who actually create value in their companies. This is not innovation or entrepreneurship – it is extraction.

In this video, I explain why extreme executive pay is a driver of inequality, weak productivity, falling morale, and political corruption. I also show how tax can be used not to raise revenue, but to change behaviour – by making excessive pay expensive.

Drawing on proposals I developed for the TUC and current legislation proposed in the United States, I explain how fair pay ratios could be enforced through the tax system, why shareholders – not society – should bear the cost of excess, and why democracy itself is at risk if we do nothing.

Tax exists to shape outcomes. This is one outcome that it must shape.

https://www.youtube.com/watch?v=X5jvx5ytcuE?si=Gp01UbiB6mY8V4rZ

This is the audio version:

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This is the transcript:

There are a multitude of problems in the world, so many that I can't possibly tackle them all in one video, so I will pick on one, and that is the outrageous levels of chief executive pay that exist in the world right now.

In our largest companies, particularly in the USA, but also in the UK, chief executives - the people who are supposedly in charge of these companies - are being paid hundreds of times more than the average person working for them.

That is outrageous, partly because of its contribution towards the growth of inequality, but also because this money isn't earned; it's all about extraction. We should therefore be tackling this because that extraction comes at cost to the rest of us, including everyone who has a pension. So, is there anything we can do about this? Yes, of course there is. Tax is the solution that we need. Let me explain.

Chief executive pay has lost almost all relationship to the contribution that is made by the people being paid these exorbitant sums. In the USA, it's not uncommon now for a compensation ratio to be in the order of five hundred to one. In other words, the chief executive is paid five hundred times more than the average worker in the country in question. In the UK, multiples of many more than a hundred to one are still quite commonplace. At present, it's being proposed that Elon Musk should get something like $1 trillion of compensation from Tesla for his work over the next few years, and this is absurd because, however we look at it, Elon Musk is not creating that much value in that company, which he didn't even create.

He's not delivering value: he's taking it, and this is true of all chief executives.

They're not innovators as they like to claim.

They're most certainly not entrepreneurs because entrepreneurs put their own money at risk with the possibility they won't get it back, and these people are on the payroll and getting massive rewards, which are pretty much guaranteed, whatever happens to the companies for which they're responsible.

They're not creators.

They are, in fact, manipulators paid massively to ensure that they can extract value from society on behalf of the shareholders they serve. Inequality is, as a result, engineered at the top of this process.

So what can we do about it? We can change the tax rules.

Tax exists to shape behaviour in society. I wrote a book about this in 2015 called The Joy of Tax, and in that I explained that tax does not fund government spending, which is something I explain often on this channel. It does control inflation, but as importantly, it also exists to shape social outcomes.

Chief executive pay is a clear case where intervention through the tax system is required to create an equitable policy outcome, and tax is ideal for this purpose. When I was working for the Trade Union Congress in the UK, the TUC, which I did for several years, from about 2008 until 2011, I wrote a policy for them on this very issue, and I still think it was quite a good one. I suggested that no company in the UK should get tax relief if it paid its chief executive more than 10 times median pay in a year.

Now median pay for the UK as a whole is around a bit over £30,000 now, so somebody earning much more than £350,000 a year, which is true of almost every large company, chief executive would not see tax relief provided to their employer on all the payment made to them.

Now, what that means is that the employer can still pay the sum in question, but he won't get tax relief on the payment in question, increasing the cost of the payment.

Let's just explain that in slightly more detail. Suppose that £300,000 was the allowable limit, then if the company chose to pay £1.3 million, in other words, £1 million over the allowable limit, then they would not get tax relief on £1 million, and that would increase their tax bill in the UK, at a 25% corporation tax rate, by £250,000.

So, in other words, paying an excess salary will cost the company in question considerably more. That's fine if the shareholders decide they want to bear that cost, but they should bear that cost. Everybody else in society should not. All I'm saying is if we want to have inequality created by these companies, the rest of society shouldn't be subsidising them to do so.

What this does is, of course, align reward with internal pay fairness, and why not? What's wrong with that? Why does a chief executive need to earn more than £350,000 or so a year? What are they going to do with it all? So this is a proposal designed to ensure that the tax system prioritises the value of labour and not executive rent seeking.

There's an alternative proposal on the table in the US on this issue right now. It's being proposed by Senator Bernie Sanders, the veteran left-of-centre campaigner in the US Senate, and Rashida Tlaib, who is a Congressperson from Michigan in the USA.

Their suggestion is that if a chief executive's pay exceeds a fifty-to-one ratio, in other words, the ratio between their pay and that of a person on median earnings in the US is more than 50, then the tax rate of the company in question should go up by half a per cent.

Just to put that into real terms, what that would mean is that if a chief executive in the US was paid a bit more than £2 million or so a year in dollars, of course, then the tax rate would go up by 0.5%, because that's what that ratio implies.

If the ratio becomes a hundred to one, the tax rate of the company should go up by 1%

and at two hundred to one, the tax rate goes up by 2%. So when we reach a ratio of five hundred to one, which is known, the corporation tax rate of the company in question would increase by at least 5% on all its profits.

Now, this is a considerably more expensive proposal than the one that I made for the TUC here in the UK in 2010; it would, in fact, mean that Tesla could owe more than $100 billion of extra tax over the next decade. But so what? If it chooses to make excessive payments to its chief executive? Shouldn't it bear the price of that?

That's quite deliberately the case here. Excessive pay is being made expensive. The subsidy to that pay is being withdrawn because of the inequality that is being created quite consciously by the companies in question, and the incentive is being provided to increase the rate of return to ordinary workers rather than to people who are simply extracting profit from the companies that they happen by chance, coincidence, and without necessarily having significant ability, to be managing at this point of time.

The incentive to redistribute power within companies , if this change were to be made, would be enormous. Tax would shift norms, in other words. The aim is that; not to raise revenue. In fact, the desired revenue from this tax would be precisely nothing because all pay ratios would be reduced to no more than fifty to one, and that would be perfect; that would be a desirable outcome.

This is important because sometimes the purpose of a tax is not to raise money; the purpose of a tax is to stop something happening, and that's the point here.

The point arises because extreme wealth in the USA, and around the world, is equating to political influence. The people who are enjoying this excess pay are, as we have seen, using their political power arising from the fact that they are chief executives of companies, to align themselves with Donald Trump against the interests of the working people of the USA and for, in many cases, something that looks horribly like fascism, which is threatening the rest of the world.

Democracies cannot become private assets of the 0.01% in the world, which is the risk that we face now, and this measure is designed to enforce that idea as well.

We have this problem as badly in the UK. Our boards reward their own class. They all rank themselves against each other to decide how much they're owed, so if one person gets a pay rise within the executive class, others then demand one as well, or else they claim they'll go abroad or just won't come into work for less than a few million extra a year, and so on.

The result is that everybody else sees that at the top of the companies they work for, there is basically what I would call corruption; a corrupt sense of entitlement, and that is corruption in this context, where productivity and morale collapse elsewhere in the company as a result. Workers are being punished while the wealthy take more.

What is more, workers know they're being treated as expendable in this process, whilst the chief executives consider themselves to be essential. In fact, the relationship is the other way round. Without workers, these companies can't survive. Chief executives come and go at a rate of knots. Few remain in office for more than five years because they've made so much in that period, they don't need to bother anymore. As a consequence, it's clear who is more important.

But we have an economy built for rentiers - those who extract value from it and not for society - and that's the cause of growing anger in our world and failing social trust.

Inflation is also driven by this greedflation, and that's unsurprising because, of course, this drags pay up at the very top of the pay ratios in a way that is wholly unproductive for society at large.

And there's a collapse in the belief that work is valued, which means that we have a hollowed-out democracy created by these people, driven by their greed.

What could we do? We could combine these proposals into a new UK model. I haven't got a precise answer as yet. A little bit of work would be required on that, but the point is that what we want to ensure is that workers share the gains they create in the companies that they work for.

And this requires worker representation on pay committees for a start. These people should not be allowed to pay themselves what they wish without taking into consideration the interests of the people who actually work for them.

And we need to use tax to end the extraction of profits by these people and to support, instead, the creation of real value by real companies working on behalf of real people in real communities where real products are made to meet real needs.

We must replace excess with fairness, and greed with accountability, and tax is the tool to deliver that. Overpaying chief executives is not a right that they must enjoy. We can change it, and we must. Wealth must serve society. We must reward work, but we should stop the reward for exploitation, and what I'm suggesting is that we have the power to deliver just that.

So what do you think? Do you think we should put a cap on executive pay through the tax system? Do you think they pay too much? Do you think that impacts the way you think about your own value and work? Let us know. There's a poll down below.

Poll

[poll id="273"]

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