Pay Rise Campaign - Briefing Paper No1

Why we need a maximum CEO/Management to worker pay ratio

The recently published Forbes Rich List shows there are over 400 billionaires in Europe. It serves as a reminder that inequality has grown substantially since the 1980s and that the gap between top pay and average pay is getting bigger and bigger. While some have unimaginable wealth, Europe has over 30 million working poor, many workers struggle to make ends meet, and others have seen no real pay rises for years.

It is time to cut the pay gap with:

- pay rises for all workers
- a maximum CEO/management to worker pay ratio
- greater pay transparency, including publishing the pay ratio in company annual reports

CEOs in Europe earn over 100 times more than the average wage. In the US, the country with the highest pay inequality, the average pay of CEOs is 354 times higher than that of average workers – while in the 1970s the ratio was fairly stable between 20:1 and 30:1.

The figures for Europe clearly illustrate that workers are left behind in terms of pay because top-level management is securing more than their fair share:

Country	CEO-to-worker pay ratio
USA	354:1
Germany	147:1
Spain	127:1
Czechia	110:1
France	104:1
Sweden	89:1
United Kingdom	84:1
The Netherlands	76:1
Norway	58:1
Portugal	53:1
Denmark	48:1
Austria	36:1
Poland	28:1

Source: AFL-CIO: Paywatch

It is high time to reduce this kind of wage inequality among workers by establishing a maximum CEO/management-to–worker pay ratio. A maximum ratio would reduce wage inequality from both ends of the pay spectrum by raising wages at the bottom while at the same time preventing excessive wages (or wage increases) at the top.

A maximum CEO/management-to-worker pay ratio would benefit:

- Workers because it would help to compress wage structures and in doing so lift the relative and absolute level of lower wage groups. In doing so it would ensure that average workers equally share the benefits of economic progress instead of only the top 1% of wage earners.

- Society because a more compressed and equal wage structure fosters social cohesion and the feeling among workers of being an equal part of this society which is essential to prevent political radicalism.

- Companies because research has shown that large pay disparities within companies negatively impact a company's economic performance. In companies with high pay ratios workers feel a sense of injustice and reduced well-being more often. Such companies have higher levels of worker turnover, higher levels of work-related illnesses, more work-related conflicts and lower levels of workers' morale and commitment to the success of the company – which are all factors reducing the company's productivity. Research by the Harvard Business School has also shown that consumers prefer companies with lower pay ratios and that this can be an important factor in shaping the public image of a company.

- Investment because excessive executive pay can harm the long-term success of the company by creating wrong and misleading incentives. Research has shown that highly-paid executives are more likely to take risky decisions to maximise short-term profits which harms industrial development.

The establishment of a maximum CEO/management-to-worker pay ratio is however only one element in a re-orientation of the criteria on which CEO/management pay should be based. The maximum pay ratio can only work if at the same time transparency of management pay is increased. An important step in this direction could be the obligation to report and publish the CEO/management-to-worker pay ratio in the annual company reports. This would increase the public pressure to comply with the maximum pay ratio.

Another important element of a management pay reform is the introduction of new more sustainable criteria for executive pay. This means that executive pay – and in particular the variable components such as bonuses – should not only be based on the short-term rate of return but on more long-term social and ecological indicators of which the fulfilment of the maximum CEO/management-to-worker pay ratio would be one element.

For more information:

ETUC pay rise campaign www.payrise.eu
How to achieve a pay rise http://payrise.eu/how-to-achieve-a-pay-rise/
#OurPayRise

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