

## Pay inequality

*Proposal.* As reported in the press, Labour may consider legislation to limit the ratio between the highest and lowest pay in any organisation.

*My reaction.* Highly desirable. A most worthy proposal. Pay inequality is a major ill at present. And the disgracefully high salaries taken by some employees really do need to be curbed.

*Problem.* It seems likely to be painfully easy to evade the envisaged legislation. A company can readily contract out all its lowest paid jobs, and will do so to a subsidiary or to an independent company depending on how the legislation is worded. And a company can easily contract out its highest paid jobs to “consultants” and “interim managers”, as many do at present. Indeed, that dodge has other advantages, and it is reported that even some senior “civil servants” already benefit from it.

*My vote.* No. The motivation is good, but it seems likely to be as effective as a proposal to alleviate thirst in the desert by collecting rainwater in a sieve. Old Labour acquired a much deserved reputation for legislation which was well meaning but ineffective, and sometimes even counter-productive. One of the few merits of NuLabor was that it avoided that trap. Let us not return to old ways of thinking.

*Some suggestions.* So what's the alternative? I don't know. But here are a few things which we might think about.

1. We should accept that it should generally be left to companies to decide how to spend their money. But those companies should accept that it is up to the government to decide how their earnings should be taxed.
2. Nobody seems to object to Corporation Tax (CT) being charged on profits before distribution of dividends to shareholders. Which principle being conceded, it is attractive to consider the same treatment for, and thus charging CT on, all discretionary payments which are made from the trading profits of a company. This would include all staff bonuses, and all voluntary contributions, e. g. to political parties and charities.
3. And having got that far we might consider treating as discretionary, and hence subject to CT, other outgoings such as remuneration packages in excess of (say) £200K, and all payments to individual staff masquerading as consultants.
4. We might even go further and legislate to charge CT on all profits which are currently disreputably exported by means of tribute money such as franchise fees, or overpriced purchases from or other contributions to parent companies and other associated companies.
5. None of which would be easy to frame effectively, given the amount of money at stake and the ingenuity of expensive accountants and lawyers. So we might consider copying a simple and apparently effective piece of Australian legislation: if the only purpose of any scheme it to avoid tax then it doesn't!
6. Further, in the interests of “austerity”, we clearly need to recruit enough high-quality tax inspectors to be sure to collect the tax due from the major corporations.

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