REDUCING WAGE INEQUALITY BETWEEN THE HIGHEST AND LOWEST EARNING WORKERS

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EXECUTIVE SUMMARY

Wage inequality between high-earning workers and low-earning workers in the UK has raised significant concerns. Analysis of the UK pay and wage data identifies three issues contributing to the escalating wage inequality. **Bonuses, incentive schemes and share-based rewards** have disproportionately boosted executive pay, making gaps larger than base salary figures. These inequalities have clear social consequences, such as increased crime rates and a lack of economic stability. Current reporting mechanisms only require disclosure and not fairness, which allow firms to continue to maintain such disproportionate wage gaps. This policy brief recommends strategies to combat these issues, such as **incorporating a pay ratio model, introducing mandatory public reporting of pay ratios and addressing unjustified wage gaps across sectors.**

SOCIAL CONSEQUENCES OF WAGE INEQUALITY

Wage inequality between the highest and lowest earners in a company have far-reaching social consequences.

The Equality Trust shows that the **richest fifth of society earns more than 12 times as much as the poorest fifth**[1]. These differences are not only striking in purely financial terms but also have a significant social impact.

Research by Whitworth in 2012[2] shows that rates of violent crime are lower in more equal countries. Because less people live in serious poverty, there is less 'strain' on them to attain financial success. By contrast, in countries where there is higher inequality, there is also a higher probability of people committing crimes in order to attain economic stability and prosperity[3].
"Almost all of the bivariate correlations between inequality and violent crime outcomes are positive"[4].

Owing to wage inequality, there is great difference between the resources available to poorer and richer families to invest in their children's education and development in their early years.
This in turn leads to differences in 'cognitive attainments'[5], decreases social mobility[6], and creates greater disparities between the lives of the wealthy and the poor, as they 'live their life in different institutions'[7].

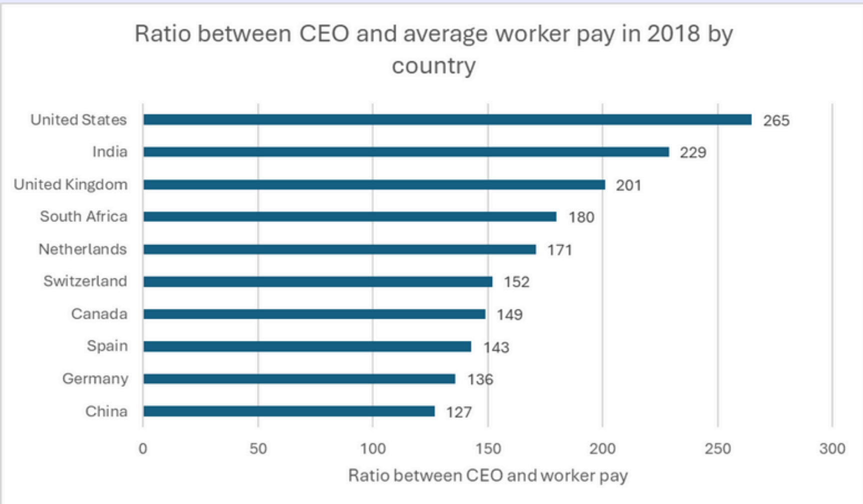

Figure 1- The ratio between CEOs' and an average workers' pay in 2018 in the world's largest economies[8].

Recommendation: In order to reduce wage inequality, a ratio should be implemented to cap the difference between the highest and lowest earners in a company.
A 20:1 ratio would ensure lower earners' salaries rise proportionally to that of higher earners[9].
The lowest earning worker should be considered to be working 40 hours per week (full time).

[1] Equality Trust, 'The Scale of Economic Inequality in the UK' (Equality Trust, 2022) <https://equalitytrust.org.uk/scale-economic-inequality-uk/> accessed 12 November 2025
[2] Peter Dorey, 'A "Middle Way" Between the Free Market and Full Equality: A Pay Ratio' in Anders Örtenblad (ed), *Debating Equal Pay for All* (Palgrave Macmillan 2021) 117
[3] Adam Whitworth, 'Inequality and Crime Across England: A Multilevel Modelling Approach' [2012] 11(1) Social Policy and Society 27
[4] Matthew Polacko, 'Causes and Consequences of Income Inequality – An Overview' [2011] 12(2) Statistics, Politics and Policy 341
[5] Miles Corak 'Income Inequality, Equality of Opportunity, and Intergenerational Mobility' [2013] 27 (3) Journal of Economic Perspectives 79
[6] Jonathan J. B. Mijs 'The paradox of inequality: income inequality and belief in meritocracy go hand in hand' [2021] 19 (1) Socio-Economic Review 7
[7] Jose Sanchez, 'Pay gap between CEOs and average workers, by country 2018' (*Statista*, January 2019) <https://www.statista.com/statistics/424159/pay-gap-between-ceos-and-average-workers-in-world-by-country/> accessed 26 November 2025
[8] ibid
[9] Peter Dorey, 'A "Middle Way" Between the Free Market and Full Equality: A Pay Ratio' in Anders Örtenblad (ed), *Debating Equal Pay for All* (Palgrave Macmillan 2021) 117

INADEQUATE CONSIDERATION OF BONUSES & INCENTIVES

Wage inequality comparisons and the existing tax system fail to adequately account for bonuses and incentives, even though these make up significant portions of executive remuneration.

Only 21% of FTSE-100 CEO Remuneration in 2023 consisted of the Base Salary[10]

Wage comparisons without bonuses and incentives is therefore uninformative especially when considering high earners.

The high prevalence of performance-contingent Long-Term Incentive Payments in compensation packages is also problematic as they can result in unexpectedly large payouts and can drive executives to short-term decision-making[11].

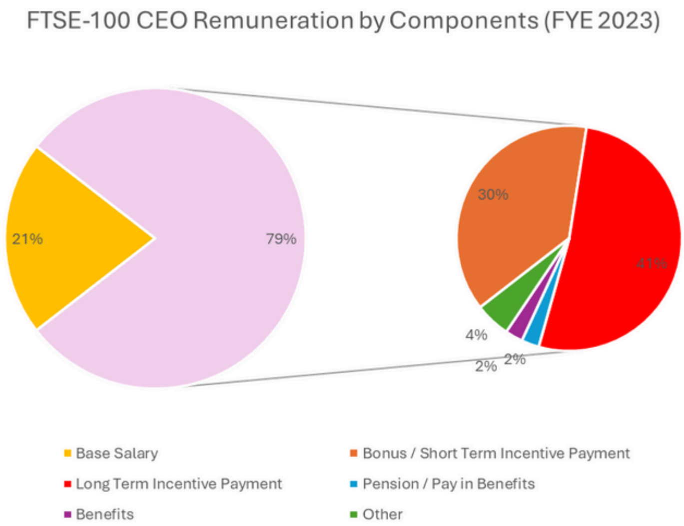

Figure 2- Chart showing the composition of FTSE-100 CEO remuneration in 2023, demonstrating the high significance of non-base-salary remuneration components[12].

The pre-tax fiscal income share of the top 1% of UK adults has risen from 6% in the 1980s to 15% in 2022[13].

While monetary bonuses and incentives are generally taxable on income tax's progressive rates, the existing tax system clearly does not tackle wage inequality effectively.

Further, executive compensation packages often take advantage of tax planning mechanisms. Company share option plans or enterprise management incentive schemes allow some remuneration to be taxed on the lower capital gains tax rates[14]. Additionally, deferred options and salary sacrifice schemes are used to structure tax liabilities[15]. This highlights that wage inequality comparisons need to include all bonuses and incentives as wage inequality is not sufficiently balanced or redistributed through the existing tax system.

Recommendation: The wage calculation for the ratio should include all bonuses and incentives, even if conditions for bonuses are ultimately not met. Where remuneration includes shares, the purchase price should be regarded as part of the wage. Any increase in share value should be included in the wage calculation in the two years following the share transfer.

[10] Andrew Speke and Luke Hildyard, 'Analysis of UK CEO Pay in 2023: High Pay Centre' (*High Pay Centre,* August 2024) <https://highpaycentre.org/wp-content/uploads/2024/08/CEO-pay-report-2024-ACTUAL-FINAL.pdf> accessed 12 November 2025

[11] ibid

[12] ibid

[13] Isaac Delestre, Wojciech Kopczuk, Helen Miller and Kate Smith, 'Top income inequality and tax policy' (*IFS Deaton Review of Inequalities*, April 2022) <https://ifs.org.uk/sites/default/files/output_url_files/Top-income-inequality-and-tax-policy-IFS-Deaton-Inequality.pdf> accessed 12 November 2025

[14] Arun Advani and Andy Summers, 'Measuring and taxing top incomes and wealth' (2024) 3(1) Oxford Open Economics 1113

[15] Arthur Kohn and Janet Cooper, The Executive Remuneration Review (7th edn, Law Business Research Ltd 2018)

OBLIGATIONS FOR REPORTING MECHANISMS

Across the United Kingdom, companies have an obligation to report executive pay; however, these systems fail to balance the wage inequality between executives and low-paid workers.

Under the Company Act Regulations[16], Firms are required to disclose CEO's pay ratio and yearly pay outcome, meaning that the public can see the wage gap. For example, the **High Pay Centre reported that the median pay for FTSE 100 CEOs rose to £4.19 million in 2023**[17], which indicates that **highly paid workers earn 120 times more than average full-time workers**[18].

In 2025, Marks & Spencer's CEO, Stuart Machin's pay rose by 40% jumping from 5.1 million to more than 7 million; however, staff wages did not change[19]. Reporting requirements make companies publish these disparities; however, with the absence of legal regulations, transparency is just ceremonial. Companies justify pay gaps by associating high executive pay with productivity objectives, because when CEOs succeed, companies see positive outcomes, like increased revenue. However, these policies are rarely implemented for lower-paid employees because these policies reduce profit for companies by increasing operating costs.

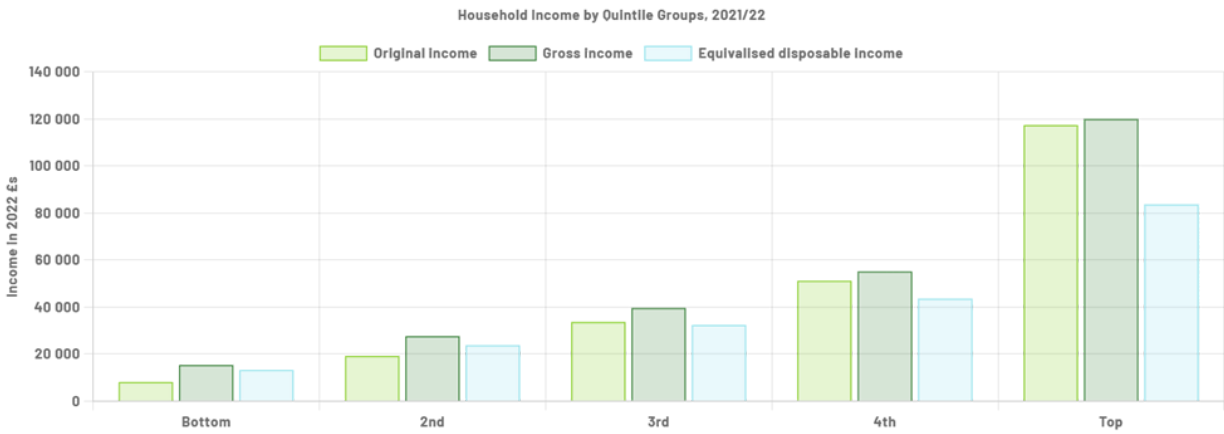

Figure 3- Research by the Equality Trust showing the disparities between the richest and poorest earners in society[20].

Mandating reporting would help in reshaping this figure, narrowing the gap between higher and lower earners by making it compulsory for companies to publish their data By making reporting mandatory, companies would be incentivised to publicly confirm their push for reducing wage inequality.

Recommendation: Mandating public reporting of pay ratios would incentivise companies to narrow wage gaps by making wage disparities visible and comparable. This transparency would strengthen accountability and create reputational and competitive pressure to improve pay for lower-paid employees. This reporting should be enforced via penalties for non-compliance.

[16] Department for Business, Energy & Industrial Strategy, 'New Executive Pay Transparency Measures Come into Force' (*GOV.UK*, 1 January 2019) <https://www.gov.uk/government/news/new-executive-pay-transparency-measures-come-into-force> accessed 1 December 2025
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[18] CIPD, 'Executive Pay' (CIPD Viewpoint, 2024) <https://www.cipd2025..org/uk/views-and-insights/cipd-viewpoint/executive-pay/> accessed 23 November 2025
[19] Fashion Network, 'M&S CEO Stuart Machin Sees 39% Pay Rise to £7.1 Million in 2024–25' (Fashion Network, 13 November 2024) <https://uk.fashionnetwork.com/news/m-s-ceo-stuart-machin-sees-39-pay-rise-to-7-1-million-in-2024-25,1736356.html> accessed 26 November 2025.
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SUMMARY OF RECOMENDATIONS

1. A pay ratio of 20:1 should be implemented to cap the difference between the highest and lowest earners in a company, reducing income inequality.
2. The wage calculation for the ratio should include all bonuses and incentives regardless of whether they are conditional.
3. Share remuneration should be initially included at purchase price and share value increases should be added in the following two years.
4. Have public mandatory reporting of pay ratio to incentivise companies to reduce the wage gap between higher and lower earners, with penalties in place for non-compliance.

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