

Giving not just taking

Speech on High Pay, 8 February, 2018 - Institute of Directors

CHECK AGAINST DELIVERY

Introduction

Good Morning.

Thank you to the High Pay Centre for organising this event and also my thanks to the Institute of Directors for hosting us this morning.

I've been wanting to give this speech – certainly after 4 years as Shadow Business Secretary – even more so having been a leading Remain spokesperson for the last two years.

I make this speech as a friend of business. The huge added value in aggregate made by business is beyond doubt.

Everyone is talking about Carillion but it is in no way representative of business in general in our country. My comments today are focused on the UK's bigger businesses, not your average business in my constituency.

I believe we need a new partnership with business for reform so I think this is a great venue to debate these issues.

Six years ago

Six years ago back in 2011 I helped to launch the High Pay Centre and shortly after I gave a speech at the Institute of Chartered Accountants in 2012 setting out Labour's position on the issue at that time.

I was the Shadow Secretary of State for Business and FTSE100 executive pay that year had risen by 27 per cent to an average of £4m.

In contrast, that year workers' annual earnings had risen by just 1.4 per cent to £26,500, and this was only part of the story, because - as the Institute of Fiscal Studies - reported, pre-tax earnings had fallen by 7 percent.

So top executive pay had begun to accelerate upwards, while wages had been contracting since around 2007.

In 2008 tax payers were told they were bailing out the bankers who had not only caused the financial crash but had been richly rewarded in the process. And the rewards did not reflect economic performance or any entrepreneurial skill.

Over the previous decade the value of FTSE 350 companies had increased by 8 per cent while the average total earnings of executives in those companies had increased by 108 per cent. By 2012, the ratio between CEO pay and the average wages of employees had grown to 75:1.

For many, the ratio had become a social signal indicating the moral failure of our economic system.

Sir Roger Carr then chair of the CBI called on business to show it was a 'force for good'.

Its former Director-General Sir Richard Lambert warned that executive pay was damaging the reputation and interests of British business.

And that year, Edelman's Trust Barometer revealed the collapse of public trust in government and business across the western economies.

The public and my own party was angry about the growing inequality.

But business was defensive: Labour didn't understand how markets worked; they said Ed Miliband sounded too left wing.

My job as shadow Business Secretary had been to try and build a relationship.

It was not always easy.

And then in 2014-15 there was a jump of 3.4 per cent growth in median real household disposable income. Labour lost the election, and complacency settled in. The pay ratio almost doubled to 130:1. The following year it rose to 148:1.

The complacency was a huge mistake.

Income growth has now once again slowed to a halt.

True, the pay ratio has slipped back to 120:1, but inequality is set to increase at the fastest rate since the 1980s.

Incomes over the next few years are predicted to rise slowly at the top, stagnate in the middle, and fall at the bottom.

George Osborne and Philip Hammond's £12bn of welfare cuts will reduce the incomes of the poorest third of families by an average of £715.

My speech back in 2012 was peppered with facts and figures.

They provide good evidence to back up an argument, but they tend to go in one ear and out the other and they quickly get forgotten.

In any case what counts in politics are not facts and figures, it's what people feel.

And in the six years since, those numbers and percentages and the massive pay ratios have turned into a surge of popular anger at the unfairness of our economic system. This anger has crashed into the real world with a devastating impact.

Unfair pay

The accelerating pay ratio was telling a story about what our country was becoming.

A tiny elite consuming far too much of everything.

An economy extracting wealth rather than making it.

A society in which the powerful put their rights before their obligations.

And the wider consequences:

our cities divided against our towns;

our rural areas poor and neglected;

the young angry at the older generations;

and millions abandoned to dead end jobs and low wages. They feel they have no stake in the future of the country.

In their view those who broke and bent the rules accumulated vast sums.

Those who played by the rules gained little or nothing.

The years of stagnating wages and growing inequalities were a social malignancy.

Our political class did not do nearly enough.
Our business class made excuses and did nothing.
The country lost trust in government.
It lost trust in big business.
And it began to lose belief in itself.

And so when government and business joined together to warn the country against the risks of leaving the EU, when we warned of economic disaster, 17 million people, many decent middle of the road voters, heard the call to take back control, took a step into the unknown and voted Leave.

None has better foretold what happens in these circumstances than George Orwell.
'At any normal time' he wrote, 'the ruling class will rob, mismanage, sabotage, lead us into the muck; but let popular opinion really make itself heard, let them get a tug from below that they cannot avoid feeling, and it is difficult for them not to respond.'

However much I opposed it - and I will keep on campaigning for a different course – one has to acknowledge that Brexit was that tug from below.
It was a warning to government and business to put their houses in order.
A demand for a country in which everyone has a part to play and each has a fair share of the rewards as well as the responsibilities.

Who we are

The last time our country went through a period of profound change immediately after the war, a new settlement was put in place by the Attlee Government.

Out of this grew the welfare state and the NHS, our role in setting up the United Nations and NATO. Achievements that belonged to a patriotic people who had faith in their parliamentary democracy. They expected everyone to contribute to the common good and they believed that in return we should look after each other.
It became part of the British identity.

In the post-war years we built homes and New Towns.
We gave hundreds of thousands of working class children the education to rise into business and the professions.
We stood for modernisation and the white heat of a technological revolution.
The middle class professions expanded.
By the 1970s we had become a more equal society than at any time in our history.

I am not taking you on a trip down memory lane to lose ourselves in a make belief past.
It was not an idyllic time.
Many lived hard, difficult lives.
The class system held back millions.
To be a person of colour like me was a different experience altogether.
Racism was widespread.
And of course the economy was about to collapse in crisis.

But deep in our national culture was the belief that ordinary working people made our country great and that in return the role of government was to look after their interests.

It was a covenant of trust and reciprocity that had been built over generations by people's sacrifice and struggle, and in the last three decades, government and business have neglected this covenant and broken it.

They failed to keep their side of the bargain.

So we have become a troubled, half-governed, leaderless country fallen into corrosive distrust. At this moment in our history, as we negotiate leaving the EU, when we need leadership and a vision of the future, we have neither.

And so people look back to the past, to what Britain has been, not to lull ourselves into a false sense of wellbeing, but to remind ourselves about who we are, so that we can recover our self-esteem and overcome the adversity we face.

Back in the 1980s, not far from here in Jermyn Street, my father set up his office.

He was an entrepreneur, running an import/export business.

He worked hard and took risks and he did well.

He became a member of the IoD, one of the few to also worship Harold Wilson.

He taught my sister and I that nothing comes easily in life.

You have to work hard for it.

One of my great pleasures as an MP is to visit the schools in my Streatham constituency.

The young people I meet have an ambitious energy.

They are full of hope for the future.

They don't expect to be given everything on a plate.

They know the world is an unpredictable and risky place.

But they are ready to give it their best shot, and it's up to us to give them a helping hand.

What is business for?

Politics was not my first choice.

I had originally planned to go into my father's business, but he died when I was a boy and I had to think again and so I trained to be a lawyer.

I worked in employment law before being elected to Parliament.

And so my heart is set in both business and politics, and when I ask the question,

What is business for?

I ask it of myself.

Few go into business just for the money.

The challenge is to create something, to support our children, and to contribute to society.

Sure it is about personal reward, but to succeed and to grow a business requires two ingredients.

Capital and Labour.

An enduring business model requires a productive partnership between the two.

But this partnership between capital and labour needs rebuilding.

And capital with nothing to restrain it has often become a bully.

Workers in retail warehouses monitored by the minute, denied breaks.

Sacked if ill.

Workers paid the lowest wage legally allowed and some paid lower.

Working for their poverty.

No job security.

No respect.

Nobody in this room would put up with these working conditions or survive a day under them. There are businesses – household names - whose practices disgrace our country and give modern capitalism a bad name, and we should say so.

Some may think I exaggerate.

I can hear the warnings about the dangers of all powerful unions.

The images of bags of rubbish and the unburied dead bodies of the Winter of Discontent.

A country held to ransom by industrial militants.

But this is not Britain today.

We ostensibly live we in a capitalist system, but too few believe they benefit from or have capital

And there are the objections to over regulation and the dead hand of bureaucracy.

Markets should be free from state intrusion.

And so on.

We all know the arguments against economic reform that have defended the status quo.

My response to them is that the status quo was and is simply not delivering for enough people, and now there is no status quo to defend, and we are living in very uncertain times.

Big business is not trusted and it will not easily win back that trust.

I should know, I am a politician and trust in Westminster is even worse.

I believe in the entrepreneurial spirit.

It was a part of my family.

It has shaped our common culture and common law.

I believe it is one of Britain's USPs.

But even the free marketeer, Adam Smith, who gave us The Wealth of Nations was emphatic that a commercial society can only survive if it is built on sympathy and fellow feeling.

Without a foundation in a strong society markets and the profit motive will rip apart the bonds of association that hold people together.

If we neglect, or exploit, or leave people behind, society starts to come apart, families break up, children suffer, growing numbers experience isolation and loneliness, neighbourhoods fall into disrepair and become hostile even dangerous places to live.

We need only look to America with Donald Trump to see where a country can end up.

Most people in Britain do not live like this, but far, far too many do and this poverty and blighting has changed the tone of our politics.

Today accusing critics of the banks of being anti-business will cut no ice.

Blaming politicians for not putting in the right rules on tax avoidance, just looks like bad faith.

Sure the laws might not be watertight and never can be, but people have obligations to the common good of their country.

And there is little mileage in defending competitive markets when business fails to call out crony capitalism and monopoly power.

Look at the power wielded by the new digital platforms like Google, Facebook and Amazon.

It allows all kinds of bad practice to flourish.

To build a successful economy we have to address the power of capital and rebalance its relationship with the labour interest.

I believe that business must lead the debate for economic reform and not retreat from it.

Business has deep cultural roots in this country.

It has a vital contribution to play in our national renewal but to demonstrate trustworthiness and get a hearing you must take the initiative and lead on reform.
Business should be the enemy of injustice and monopoly power and the champion of competition and fair play.

Recommendations

The debate on executive pay is an example of where business itself must lead the charge on reform and the IoD is doing so.

It is a debate that has polarised.

Some believe the market not the state should set the rate.

Others that Government should set an arbitrary cap.

I believe the better course is to build a regulatory framework linking pay to the contribution made and what can be considered just and proportional in each individual case.

And we need a new economic model for sustainable growth in the long term.

Pay incentives to deliver quick results are part of our problem and hamper improvements in productivity which are the best way of increasing the pay of the UK's workforce.

Back in 2012 we launched the High Pay Centre with twelve recommendations.

Less than half have been fully implemented.

Let's implement them all.

And here are three more recommendations.

First. We need a regulatory framework to incentivise companies to adopt pay structures for senior executives based on long-term equity and debt holdings of at least 5 years.

Second. We should move towards a system of Swedish style nomination committees which are composed of the four or five biggest shareholders in the company along with the non-executive chair of the board. The same committee would also recommend the structure and amount of remuneration.

Third, last year the IoD recommended that if at least 30 per cent of shareholders oppose a company's remuneration report at the annual general meeting, the company would have to reconsider their pay policy and give shareholders another vote. I endorse this suggestion.

But finally, we need a review into the 'absentee' shareholder. Much of UK company law relies on shareholders to exercise their rights to police the way in which their company is run. It is all very well empowering them to do so but we need them to active to have an impact. Government must explore how to encourage shareholders to actually exercise all these powers given almost a third of them fail to express an opinion on these matters.

I hope that we can build a dialogue about the future of business as a force for good.
For the health of our democracy I believe it is vital that we do.

Make money.

Success is good for us all.

Be excellent, be the best.

Pride is good for us all.

But also put something back.

The young people I meet in the schools I visit wish to follow in your footsteps.
Give them a hand as you would give to your own children.

Thank you.