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Conditions are critical: why publicly-funded bail-outs for private companies must include social and environmental conditions

The coronavirus and the need for support for businesses

With markets in freefall, supply chains fracturing and consumer spending drying up as a result of the coronavirus, it is very possible that many major UK businesses will require financial support from the government in the coming weeks.

The travel and leisure sectors – hotels, restaurants, airlines – have been hit particularly hard. The airline industry is the first (with potentially more to follow) to request a 'bail-out' from public money.[1]

There are many good reasons to support such a bail-out. Taking the UK aviation industry as an example, it employs over 300,000 people directly, and claims to support around 1 million jobs in total.[2] The impact on the livelihoods of thousands of people and communities if industries of this scale failed would be terrible.[3] Outside the extraordinary circumstance of the coronavirus, their business models appear viable, and thus Government financial support would not represent a case of public money wasted.

Learning from past mistakes: the bankers' bail-out

At the same time, however, the UK government's most recent programme of (high-profile) bail-outs during the 2008-09 global financial crisis was flawed in many ways, and it will be important not to repeat past mistakes.

Banks were allowed to proceed with vast pay awards funded both directly and indirectly with public money. Around 5,000 bankers in the UK were each paid over £1m in 2010, shortly after the government spent £850bn on supporting the sector, including £76bn on shares in Lloyds and RBS.[4]

The UK government remains the majority shareholder in RBS and only sold its last shareholdings in Lloyds in 2017. Disclosures required by the UK and the EU highlight the scale of the excess that continued under public ownership. RBS recorded payments of over €1m to 72 bankers in 2019, and paid 6,128 employees over £100,000.[5] Lloyds paid over €1m to 54 bankers in 2017, the final year in which the government retained a stake in the business, and paid 4,888 employees over £100,000.[6]

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[1] Guardian, *UK airlines call for multibillion bailout to survive Covid-19 crisis*, 15 March 2020 via https://www.theguardian.com/world/2020/mar/15/uk-airlines-call-for-multibillion-bailout-to-survive-covid-

[2] Sustainable Aviation, *UK aviation industry socio-economic report: 2016* via https://www.sustainableaviation.co.uk/wp-content/uploads/2018/06/SA-Socio-Economic-Report.pdf

[3] For the airlines industry, in particular, though emissions urgently need to be reduced in order to tackle the climate crisis, this should be a managed transition so as not to harm the livelihoods of those employed in the industry.

[4] Independent, *£850bn: the official cost of the bank bailout*, 4 December 2009 via https://www.independent.co.uk/news/uk/politics/163850bn-official-cost-of-the-bank-bailout-1833830.html

[5] Royal Bank of Scotland plc, *Annual Report and Accounts 2019* (p100 and p105) via https://investors.rbs.com/~/media/Files/R/RBS-IR/results-center/rbsg-ara-2019-140220-0245-v3.pdf

[6] Lloyds Banking Group plc, *Annual Report and Accounts 2017* (p 98 and p105) via https://www.lloydsbankinggroup.com/globalassets/documents/investors/2017/2017_lbg_annual_report_v3.pdf

This equates to hundreds of millions of pounds spent by each company accruing to fewer than 10% of employees. It seems difficult to contest that more effective cost discipline could and should have been enforced without affecting the success of the businesses, given the potential for substantial savings and the fact that without the bail-outs the jobs would not have existed at all. The sums of money spent on top earners could also have made a significant difference to the incomes of lower-paid Lloyds and RBS staff if distributed more evenly. A 2020 trade union survey found that one third of Lloyds staff are currently experiencing financial difficulties.[7]

Over the past decade, fines worth hundreds of millions of pounds have also been meted out to RBS (for issues including LIBOR manipulation, foreign currency exchange manipulation and IT failures) and Lloyds (for issues such as LIBOR manipulation and the mis-handling of PPI complaints) for misconduct issues occurring since the two banks were bailed out.

Both the bonus payments and misconduct issues highlight massive and well-documented problems with the culture of UK banking. The UK government failed to use its stake in two of the UK's biggest banks to address these problems.

Public tolerance for taxpayer-funded excess

This resulted in lasting damage to the reputation of banking and British business more generally. The perception that public money was channelled into the financial services industry, without proper conditionality or accountability, and subsequently appropriated by wealthy bankers still endures.

Polling conducted in the aftermath of the crisis but while the Government maintained substantial direct and indirect support for UK banks found that more people in Britain disagree with the notion that what is good for business is usually good for the rest of society than agree.[8] Similar polls have shown that respondents favoured the proposition of increased taxation, bigger government and more spending over lower taxes, smaller government and less spending by 56% to 41%, while 72% agreed that 'regulation is often necessary' compared to 26% inclined to the view that 'regulation is often an unnecessary burden.'[9]

It is incontestable that these sentiments are borne out of people's experience of the crisis and the Government bail-outs. Writing after the 2016 referendum on EU membership, Vote Leave Campaign Director Dominic Cummings (now Prime Minster Boris Johnson's Chief of Staff) noted the growth in anti-business sentiment, and suggested it played a role in the referendum result:

"Even among the world of Thatcherite small businesses and entrepreneurs opinion is deeply hostile to the way in which banks and public company executive pay work. Over and over again outside London people would rant about how they had not/barely recovered from this recession 'while the politicians

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[7] Guardian, *One third of Lloyds Bank staff are struggling financially, survey reveals*, 9 February 2020 via https://www.theguardian.com/business/2020/feb/09/one-third-of-lloyds-bank-staff-are-struggling-financially-survey-reveals

[8] YouGov*, What the world thinks of capitalism: YouGov's seven nation poll for the Legatum Institute, 2015* via https://social.shorthand.com/montie/3C6iES9yjf/what-the-world-thinks-of-capitalism

[9] Populus*, Left Wing Populism Survey 2017* via http://www.populus.co.uk/wp-content/uploads/2017/09/OmLeft_Wing_Populism.pdf

and bankers and businessmen in London all keep raking in the money and us mugs on PAYE are paying for the bail-outs."[10]

The industries likely to require financial support from the government in the coming weeks in light of the coronavirus do not share the same high pay culture of the banking sector, and the coronavirus is a slightly different scenario to the banking crisis, in that it is not of the affected companies' own making.

However, the same inequalities between senior managers and low-paid workers undoubtedly persist. For example, the highest-paid directors of Easyjet, Virgin Atlantic and International Airlines Group (the owner of British Airways) were paid £5.8m between them in their most recent financial year.[11]

It is likely that the UK economy will shrink as a result of the coronavirus, and people's incomes will inevitably be affected. It is vital that those rich enough to lose out financially and still maintain a very high standard of living endure a larger share of the losses. This can be facilitated by 'redistribution' (government support, funded at least in part through taxation), but what the former Labour Party Leader Ed Miliband called 'predistribution' (ensuring more evenly distributed incomes without the need for redistribution via the tax system) will also be important.

Therefore, fair pay conditions relating to pay gaps and distribution of pay between high and low earners throughout the company ought to apply to any future bail-outs.

Companies receiving public money should serve the public interest

The response to the coronavirus also highlights the extent to which private companies are dependent on the safety net provided by the government.

The myth of all-powerful corporations and superstar CEOs, shaping economic forces rather than being at their mercy, has again been exposed.

While the virus outbreak is clearly an extreme event, any bail-outs would represent the second time in little over a decade that substantial amounts of public money (ultimately paid for by ordinary workers) have been committed to the rescue of major corporations (and thereby the investments of wealthy investors and the lucrative jobs of well-paid executives).

It is only fair that these companies are required by the terms of their support to act in a way that results in better outcomes for society as a whole rather than solely in pursuit of profit maximisation, when these objectives come into conflict.

Key conditions for bailouts

1) **Commensurate public stakes in the business** – Financial support for large businesses provided by the Government should entail a stake in the business proportionate to the value of funding provided, giving the government shareholder voting rights, ensuring that it can

[10] Dominic Cummings's Blog, *On the referendum #21: Branching histories of the 2016 referendum and 'the frogs before the storm'* – 9 January 2017 via https://dominiccummings.com/2017/01/09/on-the-referendum-21-branching-histories-of-the-2016-referendum-and-the-frogs-before-the-storm-2/

[11] High Pay Centre research based on the relevant annual reports

advocate for responsible business practices over the longer term. Importantly, the government as a shareholder would be able to push businesses to meet climate targets.

2) **Fair pay at the top** – Government should impose maximum pay ratios between the highest-paid and median employees of bailed-out companies. This would avert the spectacle of wealthy executives of failed companies accessing hundreds of thousands, and potentially millions, of pounds worth of public money, while also creating an incentive to pay lower-paid staff more generously. We would suggest setting the initial ratio at 10:1, which would still equate to a very generous six figure salary for executives, similar to a senior public servant and more than enough to retain or attract suitable candidates for the role.

3) **Fair pay at the bottom** – Companies should commit within a set timeframe to paying the real living wage, an independently accredited hourly wage level (currently set at £9.30 across the UK and £10.75 in London) that is judged to be the minimum amount necessary to support a dignified standard of living. Certification also requires the living wage to be paid to contracted staff, meaning that low-paid roles contracted to agencies – for example, cleaners or security guards – would also receive a good enough wage to live on.

4) **Fair tax** – The Fair Tax Mark provides independent accreditation that UK companies are paying a tax contribution in keeping with the spirit of the law. Corporate tax practices have proven controversial in recent years, and it would be intolerable for a business in receipt of public support to then go out of their way to circumvent tax requirements when they return to profitability. Therefore, as with the living wage, bailed-out companies should be required to commit to Fair Tax Mark accreditation. This would also promote more responsible tax corporate practices more generally.

5) **Worker representation on boards and full trade union recognition** – Worker representation on company boards is commonplace in most of Europe but is still very rare in the UK. Indeed, one study suggests the UK ranks above only Lithuania amongst the EU nations for worker participation in company decision making.[12] The 2018 Corporate Governance Code recommends worker directors as one option for improving accountability to stakeholders, but thus far the take-up has been low. Worker representation achieves a greater range of professional diversity in the boardroom, and ensures that boards better understand what is happening at all levels of their company, while trade union membership results in, on average, an 8% pay premium for low and middle workers compared to non-union counterparts.[13] As with the fair tax mark, mandating these conditions as part of bail-out terms would also encourage wider take-up.

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[12] Sigurt Vitols*, The European Participation Index (EPI): A Tool for Cross-National Quantitative Comparison Background paper*, European Trade Union Institution, 2012

[13] Statista, *Trade union wage premium: Average hourly wage of union member's as a percentage of average non-member's hourly wage in the United Kingdom from 1995 to 2018*, via https://www.statista.com/statistics/287278/trade-union-wage-premium-united-kingdom-uk-y-on-y/

6) **Sustainable Development Framework** – The UN Sustainable Development Goals (SDGs) and Paris agreement set out concrete priorities in terms of human development and climate action. Companies must have credible plans to align their business strategies with the SDG and Paris Agreement frameworks to build a fairer, resilient, and more sustainable economy. An example of a credible plan would be for companies to set science-based targets. This is already a key demand of impact investors, who want to make a positive social or environmental contribution alongside a financial return, as well as conventional investors who think that it may be useful in assessing which businesses are likely to be punished or rewarded by regulators and socially/environmentally conscious consumers.

7) **Commitment to investments in research, training and innovation: moratorium on buybacks and unsustainable dividends** – the UK has amongst the lowest levels of economic productivity in the developed world, which has been attributed to low levels of innovation, investment and under-skilled workers.[14] At the same time, HPC research in 2019 found that leading UK companies increased their returns to shareholders by 56% in the previous five years, with companies paying more in returns than they generated in net profits in 27% of cases. Requiring bailed-out companies to commit to a moratorium on buybacks and to only paying an agreed proportion of profits as dividends, as well as making certain undertakings in respect of investment, could help towards addressing the major economic challenges associated with low productivity.

8) **Recognition for business leaders** – RBS CEO Fred Goodwin (then 'Sir Fred') became the public face of the global financial crisis, as a result of the vast pay awards he accumulated while presiding over the bank's collapse. Disproportionate and unnecessary pay awards have obscured the good work that business leaders do as custodians of important social institutions. Whether or not they would accept the trade-off, more reasonable pay levels would make it easier to acknowledge CEOs' positive achievements, particularly in an economy characterised by very high levels of inequality such as the UK. Governments should commit to recognising the business leaders assuming responsibility for navigating the coronavirus crisis through the honours system as a reward for accepting the reciprocal commitments to responsible business practice outlined above.

These proposals are not intended as a manifesto set in stone, but to establish the principle of responsible business practices aligned with the interests of wider society across those businesses that receive support from public money, and to set out some ideas for what this might mean in practice.

While it would be naïve to think that the proposals (particularly those relating to top pay) will be welcomed by all business leaders, this does not mean that they are 'anti-business.' Indeed, though the circumstances may not be of their choosing, many boards might well appreciate formal accountability for delivering outcomes beyond returns to shareholders. The experience of the 'business roundtable' group of American CEOs - who recently issued a statement repudiating the

[14] Financial Times, *Britain's productivity crisis in eight charts*, 13 August 2018, via https://www.ft.com/content/6ada0002-9a57-11e8-9702-5946bae86e6d

notion that corporations exist principally to serve their shareholders, and setting out obligations to a broader range of stakeholders – suggests as much.[15]

By attaching these bail-out conditions, the government would create an environment in which responsible boards could lead those companies affected by the coronavirus back to sustainable success in a manner aligned with the interests of wider society. Public attitudes towards business leaders would move from resentment to respect, belatedly redressing the damage inflicted in aftermath of the global financial crisis over a decade ago.

[15] Business Roundtable, *Statement on the Purpose of a Corporation*, 2019, via https://opportunity.businessroundtable.org/ourcommitment/