

A FORCE FOR FAIRNESS?

WHAT COULD THE EUROPEAN UNION DO
TO COMBAT ECONOMIC INEQUALITY?



About the High Pay Centre

The High Pay Centre is an independent non-party think tank established to monitor pay at the top of the income distribution and set out a road map towards better business and economic success.

We aim to produce high quality research and develop a greater understanding of top rewards, company accountability and business performance. We will communicate evidence for change to policymakers, companies and other interested parties to build a consensus for business renewal.

The High Pay Centre is resolutely independent and strictly non-partisan. It is increasingly clear that there has been a policy and market

failure in relation to pay at the top of companies and the structures of business over a period of years under all governments. It is now essential to persuade all parties that there is a better way.

The High Pay Centre was formed following the findings of the High Pay Commission. The High Pay Commission was an independent inquiry into high pay and boardroom pay across the public and private sectors in the UK, launched in 2009.

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The **Friedrich-Ebert-Stiftung (FES)** is a non-profit German political foundation committed to the advancement of public policy issues in the spirit of the core values of social democracy through research, education, and international cooperation. The FES, headquartered in Berlin and Bonn, has 13 regional offices throughout Germany and maintains an international network of offices in more than 100 countries.

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Introduction

Many important rights for UK workers were introduced as a result of European Union (EU) legislation. These rights remain protected by EU laws. The EU has also instituted a cap on bankers' bonuses, while commentators and campaigners have proposed further action at EU level to contain economic inequality

This report analyses polling conducted in order to answer the following questions:

- > Does the UK public understand the role of the European Union in guaranteeing certain key rights at work?
- > Is there public support for these rights, and the role of the EU in setting them (as opposed to national governments)?
- > Is there public support for further EU measures to tackle inequality more generally?

of the Capital Requirements IV Directive, limiting bonus payments for top bankers to 100% of their annual salary, or 200% if supported by 65% of shareholders in a vote.² Given that bonuses in the financial services sector, which disproportionately accrue to the very highest-paid, are a significant contributor to economic inequality, the bonus cap is potentially a significant tool for tackling the gap between the super-rich and low and middle-income earners.³

The case for EU wide measures

The so-called 'Social Europe' policy emerged in the 1980s under the European Commission President Jacques Delors, who sought to ensure key rights for workers across the EU.⁴

The argument for the application of such policies at European level is based on the case for common standards in a single market. Companies trading across the EU need to operate under similar rules. If companies in one country are able to force workers to work longer hours and dismiss them more easily, this gives them an advantage over rivals across the EU. Other countries are then pressurised to slash workers' rights in a 'race to the bottom.' The result is that no country is particularly advantaged, but workers in every country are forced to work longer hours in more unstable jobs with fewer rights.

The case for the bankers' bonus cap, as a measure to contain top pay rather than prevent a race to the

Background

Many policy measures designed to ensure a better working life for UK workers originate at EU level.

For example, the 'Working Time Directive' guarantees the right to refuse to work more than 48 hours a week, with at least 20 days paid holiday a year and regular breaks at work; the Temporary Agency Work Directive extends these rights to agency workers, while the Pregnant Workers Directive established an EU-wide right to paid maternity leave and protection from dismissal for pregnant workers.¹

The EU has also implemented a cap on bankers' bonuses as part

¹ *Common rights in a single market? The EU and rights at work in the UK*, Involvement and Participation Association, 2014 p10 via file:///C:/Users/Luke/Downloads/Common%20rights%20in%20a%20single%20market%20-%20The%20EU%20and%20rights%20at%20work%20in%20the%20UK%20(2).pdf

² European Commission, *Capital requirements regulation and directive – CRR/CRD IV* via http://ec.europa.eu/finance/bank/regcapital/legislation-in-force/index_en.htm

³ Brian Bell and John Van Reenen, *Bankers pay and extreme wage inequality in the UK*, 2010 via <http://cep.lse.ac.uk/pubs/download/special/cepssp21.pdf>

bottom, is more complicated. The rationale for the cap's introduction was based on concern regarding perverse incentives (see box 1).

Again, however, there is an additional argument relating to common standards. If the cap applied in just one country, this creates the risk that bankers will simply relocate to another, rather than reduce pay in line with societal expectations. This risk is reduced if a cap is agreed across Europe (though critics have suggested that bankers could still leave to work in Asia or North America).

Common standards at both top and bottom could also be said to encourage a more enlightened approach to company stewardship. Rather than increasing output by forcing workers to work longer hours for less money, companies achieve a competitive advantage by motivating and engaging their staff; investing in innovation and productivity and building a better product or service than their rivals. Rather than paying vast sums of money to recruit external appointments to strategic positions, companies must develop their own training, development and succession planning procedures to maintain a pipeline of internal talent ready to take on key responsibilities within the organisation. Ultimately, the latter approach is more closely aligned with the interests of society.

The threat to common standards

UK workers' rights guaranteed by the EU are now under potential

Box 1: Perverse incentives and the rigged executive talent market

There is widespread concern that potentially large bonuses encourage excessively risky or unethical behaviour on the part of bankers. If bankers are offered a large pay award (on top of their base salary) for hitting a particular target, there is a danger that they will prioritise that target above legal or ethical standards, or the long-term interests of the bank. Manipulation of the LIBOR interest rate by traders is one such example.

There is also an argument that top pay has cartel-like tendencies. For example, bankers' pay is ultimately set by other well-paid professionals. Around one third of people sitting on the remuneration committees of large companies in the UK are themselves company executives, whose own pay is affected by 'the going rate' for other company directors and leading professionals, such as bankers or city lawyers. The 'remuneration policy' agreed by the remuneration committee is then voted on by shareholders – or in practice by well-paid fund managers who again take their cue for pay from what bankers and company directors receive. Therefore, in this market the buyers have an incentive to push prices up, prompting some commentators to call for external regulation.

threat from the prospect of a re-negotiation of the terms of Britain's EU membership.

Enabling the UK Government to cut workers' rights and remove the limit on bankers' bonuses has been a key demand of lobby groups seeking to re-negotiate Britain's membership of the EU. For example, the 'Business for Britain' group has called for repatriation of EU social and employment legislation' and 'protection for the financial services industry' as part of a fundamental

change to Britain's EU membership.⁵ The 'Fresh Start' group representing 130 Conservative MPs has also called for the repatriation of social and employment legislation.⁶ The Working Time Directive, in particular, has been subject to vociferous criticism.

Given that the Directive sets minimum standards – it does not prohibit the UK from reducing working hours even further, or giving people rights to longer breaks or paid holidays – it is fair to conclude that the Directive's critics would consider reducing or eliminating these rights.

It is now Conservative Party policy to hold a referendum on Britain's EU membership, subject to a re-negotiation process that is already, to all intents and purposes, underway, with interest groups setting out their demands and commentators speculating as to what will and will not be re-negotiated. Given the influential list of figures from politics and big business lining up to call for the repeal of social and employment

legislation - and the workers' rights and measures to contain inequality that they guarantee - it is important to highlight the significance of these proposed changes, and debate their implications

In the first instance, this means asking whether the public understand what is at stake, and what future role we should envisage for 'social Europe' more generally. ■

Methodology

The following survey was conducted using ICM's online omnibus survey. The omnibus covers a nationally representative sample of 2,000 adults aged 18+, with interviews spread across Great Britain in proportion to incidence. Data has been weighted by geo-demographic variables to be fully representative of the spectrum of British adults.

⁴ *Common rights in a single market?* P8

⁵ Business for Britain, *The change we need sets out key reforms needed to keep the UK in the EU*, 3 February 2015 via <http://businessforbritain.org/2015/02/03/the-change-we-need-sets-out-key-reforms-needed-to-keep-uk-in-the-eu/>

⁶ Guardian, *TUC accuses Tory Eurosceptics of trying to undermine labour law*, 16 January 2013 via <http://www.theguardian.com/politics/2013/jan/16/>

Polling results

Do people understand that key policies on work originate at EU level?

Criticism of EU policies such as the Working Time Directive is often made in euphemistic, general terms relating to 'Brussels bureaucracy' or 'EU red tape'. As such, it is very plausible that there is limited public awareness of the precise detail of these policies, or of the role that the EU plays in guaranteeing workers' rights.

Our polling on the EU first asked if people understood that measures such as the cap on bankers' bonuses or workers' rights

guaranteed in the Working Time Directive or the Pregnant Workers' Directive originated at EU level. A question on the level of Government responsible for the introduction of the minimum wage was also included by way of comparison

The results show that an overwhelming majority of people do not appreciate that measures to guarantee minimum standards for workers and combat inequality – specifically, the rights to paid holiday and maternity leave and the bankers' bonus cap – were initiated by the EU.

01 Which decision making body, if any, do you think established the following measures that apply in the UK?

	Maximum size of bonuses that bankers can be paid	Minimum standards for workers, such as paid holiday and maternity leave	Minimum wage that all workers must be paid
United Nations (UN)	1%	2%	
European Union (EU)	12%	25%	12%
UK Government	34%	51%	67%
Local Councils	1%	1%	1%
There are no such rules - it's only voluntary	25%	2%	1%
Don't know	26%	20%	17%

This is a concerning finding, given that re-negotiation of the UK's terms of membership of the EU, and potentially our membership of the EU altogether, are now being widely discussed at the highest level of UK politics. There seems to be a widespread lack of public understanding of what EU exit or even re-negotiation could entail.

Is there public support for these measures?

Following on from this question, we wanted to find out whether these EU measures enjoyed public support when survey participants were told they were mandated by the EU.

There is clear public support for the bonus cap, and for common

02 The maximum size of bankers' bonuses is limited by European Union (EU) rules. Under these rules banks cannot pay bonuses that are worth more than twice a bankers' annual salary. To what extent do you support or oppose these rules?

Strongly support	48%
Somewhat support	23%
Net support	70%
Strongly oppose	7%
Somewhat oppose	7%
Net oppose	14%
Don't know	16%

03 European Union rules mean that all workers are guaranteed 20 days holiday a year and cannot be forced to work more than 48 hours in a week. Pregnant women are also guaranteed paid maternity leave.

These rules mean that firms in individual countries cannot cut paid holiday and maternity leave or increase working hours beyond a certain level. To what extent do you support or oppose these rules?

Strongly support	52%
Somewhat support	28%
Net support	82%
Strongly oppose	2%
Somewhat oppose	6%
Net oppose	8%
Don't know	110%

standards on workers' rights, specifically, the entitlement to paid holiday, a maximum working-hour week and paid maternity leave. Again, when taken with responses to our first question, this is a worrying finding. It seems that most people support the bankers' bonus cap and minimum standards for workers, without realising that they are guaranteed by the EU and are therefore potentially threatened by EU exit or re-negotiation.

With regard to the bonus cap, the findings also have a more

immediate implication: the cap was attacked by the UK Government, which unsuccessfully challenged its introduction at the European Court of Justice.⁷ Banks have been criticised for moving from a system of bonus pay to 'allowances', supposedly in order to get round the cap.⁸ This polling shows that there is strong support for capping bonuses. Government and Banks – both of which depend on public consent to operate- should take heed of public opinion and ensure that the cap is rigorously applied, rather than attempt to reverse or subvert it.

tuc-accuses-tories-labour-law
⁷ BBC News, *Osborne abandons challenge to EU cap on bankers' bonuses*, 20 November 2014 via <http://www.bbc.co.uk/news/business-30125780>
⁸ Financial Times, *City bankers to evade EU bonus cap with 'role-based' allowances*, 13 April 2014 via <http://www.ft.com/cms/s/0/02213446-c19d-11e3-b95f-00144feabd0>.

Is there public support for the principles behind ‘Social Europe’?

The previous question notes that certain workers’ rights and the bankers’ bonus cap originate at EU level, so it seems that there is clear support for the principle of

common European standards on these issues.

Nonetheless, it is worth establishing whether or not the public accepts the basis for European agreements on workers’ rights and tackling inequality.

04 Which of the following statements comes closest to reflecting your views?

The European Union (EU) should set limits on bankers’ bonuses and protect certain rights for workers, in order to guarantee fair pay and working conditions for all workers across the EU and ensure that all companies operating in the EU play by the same rules	49%
Individual countries should not have to follow limits on bankers’ bonuses and rights for workers set by the European Union (EU) so that they have more control over their economic policies and companies are free to compete with other EU countries.	30%
Don’t know	20%

By a significant margin, voters accept the basis for common rights across the EU, even when presented with the alternative argument. This seems to reflect an

acceptance of the ‘social Europe’ agenda and the need for European agreement to prevent a ‘race to the bottom’.

Should the UK withdraw from EU agreements guaranteeing workers' rights?

Given that the public seem to favour a role for the EU in ensuring

common standards and preventing a race to the bottom on working conditions, it would seem to follow that they would oppose the idea of re-negotiating or removing existing EU rules in these areas.

05 If the terms of the UK's membership of the European Union are to be re-negotiated or reduced, which of the following statements comes closest to reflecting your views?

Issues such as the bankers' bonus limit and guarantees of paid holiday and maternity leave should not be re-negotiated or removed	39%
Issues such as the bankers' bonus limit and guarantees of paid holiday and maternity leave should be re-negotiated or removed	30%
Don't know	31%

Though the margin is smaller and many remain uncertain, there are still significantly more people who oppose re-negotiating the UK's commitment to EU guaranteed workers' rights and a cap on bankers' bonuses than there are people who support them. Again, this reflects support for the

principles of social Europe and suggests that a strong voice in the EU debate making a case for EU membership based on the need for minimum standards across Europe in an increasingly globalised economy would find a receptive and supportive audience.

Is there support for more radical measures as an extension of ‘Social Europe’?

The debate on the EU thus far has focused on what EU agreements the EU could and should attempt

to re-negotiate. This has looked at limiting and reducing the scope of ‘social Europe’ measures. But given that our findings have revealed mainly positive attitudes to the principle of European agreements on areas like workers’ rights and

06 To what extent would you support or oppose the introduction of the following measures which would apply to every country in the European Union (EU)

	A maximum pay gap, so bosses cannot earn more than a fixed amount above the average employee of their company	A minimum level of corporation tax on company profits, meaning that all tax on businesses in the EU could not fall below a certain level	An annual wealth tax on the richest 2.5% of the EU population - at 1% for those with wealth over £750,000 and 2% for those with wealth over £3.5 million	A European minimum wage, set at 60% of average earnings in each individual country
Strongly support	35%	24%	31%	24%
Somewhat support	31%	35%	29%	36%
NET support	66%	59%	60%	59%
Strongly oppose	11%	9%	11%	5%
Somewhat oppose	5%	5%	7%	10%
Net oppose	16%	15%	18%	15%
Don't know	18%	26%	22%	25%

the bankers' bonus cap, it also seems appropriate to ask how 'Social Europe' could be extended or renewed.

Our final question looked at policies that could potentially form part of such a programme.

Far from wanting a withdrawal from European agreements on social and employment legislation -unleashing a race to the bottom or a new era of competitiveness, depending on your perspective - UK voters show great enthusiasm for closer European

integration beyond that discussed by any mainstream politician.

Not one of the measures we polled is opposed by more than a fifth of respondents, while each enjoys the support of well over half of voters.

While we do not necessarily endorse these policies, either individually or as a package, the fact that the public respond so favourably to each suggests that they should be part of the debate about the future role and structure of the EU. ■

Conclusion

These results are illuminating, and contain a number of key lessons, particularly for supporters of the UK's membership of the EU.

Most of the population is unaware of the key role played by the EU in guaranteeing many of their rights at work and thus, the implications of a withdrawal or re-negotiation of EU membership. Public opinion will be a vital factor in determining any future negotiating position that the UK Government takes with regard to the terms of the UK's membership. So it is vital that public attitudes towards the EU are based on an understanding of what the EU does and how it effects their lives.

This means an open debate on EU membership that clarifies and debates the rights that UK workers enjoy as a result of EU legislation and what the loss of these rights might mean. At the moment, we are sleepwalking into the loss of vital working rights.

There is clear support for existing EU measures to prevent 'a race to the bottom' across Europe, and of the principles behind them, so progressives should not feel afraid of making this case for the EU.

So far, pro-EU arguments have focused largely on the benefits to business as articulated by business groups such as the City of London Corporation and the CBI. While it is important that their 'pro-business' case for Europe is heard, the choice of relationship that the UK enjoys with the EU is not limited to the business lobby's case for membership versus the Eurosceptic case for re-negotiation or withdrawal.

A third path exists, whereby the UK's engagement with the EU involves pushing, as EU members, for a more progressive Europe based on the reinvigoration of a social role for the EU. Many of the common problems facing different countries across Europe, such as inequality and a declining tax base, result from an increasingly internationalised economy and the potential for individual Governments to address them alone are limited. European-wide co-operation could achieve a great deal more and if advocated forcefully our polling suggests it would prove very popular. ■

