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Shared Prosperity and Economic Democracy: A Manifesto

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Fifteen years ago, the High Pay Centre was established to meet an emerging need at a pivotal moment in time; the fallout from the financial crash had raised serious concerns over corporate responsibility, real term wages were beginning to stagnate and the effects of austerity were making themselves felt on public services and wider living standards. Clearly, the economic system was failing to serve the interests of people and the planet. Widespread environmental degradation, driven by large multinational corporations and asset-owning elites, was accompanied by a decline in worker power, the growth of unaccountable and opaque corporate influence, and a widening democratic deficit.

While the focus of HPC has been dynamic, responding to the needs and political context of the time, it has become one of the leading voices on pay inequality and how this interacts with corporate governance, business responsibility and employment rights. These concerns sit within the wider context of rising economic inequality, including entrenched wealth inequality and the growing concentration of assets in the hands of a select few. These trends are inextricably linked to the dominance of shareholder capitalism, which privileges returns to capital over wages, worker voice and a shared societal purpose.

There have been significant wins in the fight against these forces: from greater transparency on CEO pay to improvements in employment rights. However, the scope of these changes falls well short of what is required, and there is a growing risk that issues of pay inequality and corporate accountability are being de-prioritised, with real consequences for workers and wider society. Enhancements in transparency have allowed policymakers to signal a commitment to tackling irresponsible business practices, but have ultimately lacked the force required to prevent CEO pay from spiraling out of control. At the same time, the backlash against ESG, the return of bankers' bonuses and the prevalent notion that business regulation is incompatible with growth are illustrative of a collapse in previous commitments to corporate responsibility.

Ultimately, the political class has failed to acknowledge how inequality negatively affects outcomes in areas like education, health and social fulfillment, while also contributing to the rise of populist politics that has wider implications for social and political stability. Politicians have not come close to addressing the fact that a broken business model remains at the root of growing social ills. The UK is trapped in a world of wage stagnation and falling living standards where ownership of the economy remains heavily concentrated and a small elite retain disproportionate control over wealth, assets and corporate decision-making.

Given the lack of ambition from political leaders to truly tackle inequality over previous years, the Starmer Government offered some cause for optimism. Although important questions remain about implementation, the package of strengthened employment and trade union rights should not be forgotten during the current political instability. These reforms will enable individuals across the country to go about their work with greater security, dignity and fair treatment. While it may take time for this to impact upon pay and living standards, the foundations are there.

At the same time, however, this agenda has been weakened from its initial manifesto form, and the Government has abandoned plans on corporate governance reform while also reducing 'red tape' on business. The new political administration should seek to restore this vision for a new economic settlement whereby government has a hand in determining business purpose, ensuring firms prioritise workers, communities and sustainable growth. A failure to tackle inequality at the root risks a corresponding failure to address many of the social ills afflicting society today.

Shared Prosperity

For decades, government has accepted the narrow definition of growth espoused by large businesses across the UK. HPC research has consistently demonstrated how wealth created by firms and their workforces is commonly extracted by shareholders via dividends and share buyback schemes. While it is not completely a zero-sum game, the way in which a lack of regulatory intervention has enabled such trends has undoubtedly come at a cost to employees in terms of lost wage increases and investment in training, as well as wider society in terms of underinvestment in infrastructure, rising consumer costs and weaker long-term economic resilience. A new vision of prosperity has to involve the interests of all stakeholders, from security for workers to respect for the environment and enhanced societal living standards.

At the heart of this issue is the imbalance in power and accountability between the narrow interests of those who dominate the economy, and the associated inequitable distribution of resources this causes. Shareholders, insulated through diversified portfolios, are not those most exposed to corporate failure or falling profits, yet they continue to receive the greatest rewards. Ending shareholder primacy must be a priority for any incoming administration, while a shift in ownership structures will also be vital. This could be done by expanding employee ownership models or requiring firms to meet certain standards on their social impact and internal inequality.

At the same time, incentives will not be enough alone to create the level of systemic economic change needed. A lack of accountability has enabled irresponsible corporate behaviour to the detriment of society, yet criminal sanctions against company directors for this conduct are absent. Society is now accustomed to the steady string of scandals and environmental harm caused by large businesses. To address this, more stringent sanction is needed against firms and those running them when things go wrong. This should include reforming directors' duties, with tough sanctions on directors that don’t meet their responsibilities to society and workers, alongside stronger legal and financial penalties on firms.

Short-Termism

A second defining feature of the UK’s business model is the way in which it prioritises short-term strategic decision-making that undermines the security of employees. HPC research has shown how returns to shareholders have consistently outstripped employee wage increases, while in a significant proportion of firms returns to shareholders were higher than the company’s net profit, including at some that made a loss. Allowing this model to continue will only deliver further economic instability, wage stagnation and corporate scandal.

To truly deliver the kind of long-term, practical decision-making needed, structural reform is required. Strengthening trade union recognition and collective bargaining rights would be an important step in rebalancing power within firms. Investor stewardship should also be reoriented to ensure that the significant ownership rights granted to institutional investors are exercised in support of long-term value creation rather than short-term returns. There is plenty of good work happening in this space, including those fighting for greater clarity on fiduciary duty to promote enhanced societal outcomes.

However, as HPC has often found over the previous fifteen years, the ability of those that are determined to address these imbalances in the economy to act effectively is frequently hampered by the information available. UK business reporting remains opaque, with extensive information gaps that limit understanding of the impact of short-term corporate decision-making, as well as the extent to which reforms will deliver their intended impact. Although transparency should not be relied upon in and of itself, measures to enhance information on private firms, as well as more granular disclosures on pay and governance mechanisms within large listed firms, will improve accountability and enable a clearer assessment of corporate behaviour.

Participation

On a societal level, there is a dominant sense that key decisions on the economy and working lives are decided by distant institutions over which society has very little control. This can have a multitude of effects, including a lack of individual fulfillment, the rise in populist politics and what has been described as a decline in ‘ordinary hope’ that the issues that society faces today can ever be addressed.

Given it is where we spend the majority of our time, addressing this issue in the workplace is crucial. However, there remains a clear democratic deficit when it comes to employee participation and voice in the places in which they work. Fundamentally, work should provide security and dignity. Instead it is often shaped by cost-driven decision-making that undermines job quality, security and the sense that people have a say in shaping the systems that affect them. This raises a fundamental question: how can businesses act in the interests of staff if those same people are not meaningfully consulted in the decisions that shape them?

Mandating the election of worker representatives to boards would go a long way to ensuring the views of the workforce are incorporated into firm strategy. Further formal consultation and voting rights on key workplace decisions would strengthen employee voice in areas that directly impact on working conditions, pay and job security.

The current voluntary model of corporate governance enables firms to demonstrate ‘goodwill’ through weak employee consultation exercises and carefully worded corporate language. The evidence from this experiment is clear: companies will default to doing the bare minimum if the system does not involve more forceful compliance mechanisms to compel meaningful action. Government procurement contracts should therefore only be awarded to those firms with solid records on employee voice, internal wage inequality and transparency.

Conclusion

The question that HPC has consistently sought to address over its fifteen years of existence is: what kind of economy do we want to live in? This question generates a range of further discussions, including what represents a fair wage ratio between bosses and workers, who should hold decision-making power in the economy and how best to hold irresponsible behaviour to account?

These questions have pointed to an economic system that values fairness, transparency, accountability and voice. Neither can be placed above the other in terms of importance, given the level of interdependence between them. A system will struggle to maintain accountability without transparency over how it operates, while voice is crucial to ensuring fairness in decision-making processes.

Fundamentally restructuring the dominant business model won't happen overnight. It will require careful consideration and collaboration between a variety of stakeholders, but we should be prepared to value openness by supporting firms who are transparent about where they are failing currently. This will naturally require a dismantling of the incentives that reward appearing 'good' over being honest, while also ensuring government is willing to sanction firms that continue to misrepresent their societal impacts and responsibilities.

Efforts also need to acknowledge the fact that the UK is subject to a transnational model of capitalism, with our norms, practices and standards fundamentally shaped by European, and to a greater extent, American models. For too long fears over international competitiveness have prevented ambitious domestic reformers from achieving crucial reform, instead incentivising the dilution of regulation and standards in the interest of mobile capital and foreign investment. Addressing these issues will therefore necessitate greater international collaboration on global corporate governance. Without such a transnational shift, domestic efforts to rebalance ownership, power and accountability will struggle.

This week the High Pay Centre will close after fifteen years of operations. While there is a threat that scrutiny of pay inequality may weaken, we are confident that HPC's work and legacy will be continued by those fighting for a fairer economy, and the issues it has raised will remain central to ongoing debates about what fairness looks like.