December 2007

THE GREAT CEO PAY RACE: Over Before it Begins

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GrowingGap.ca

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ISBN 978-0-88627-590-7

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IF 2008 is like 2006 (the most recent year for which data are available) Canadians will work full-time all 2008 to earn an average wage of $38,998.

But by 10:33 a.m. January 2, the 100 best-paid CEOs of public companies in Canada will have already pocketed that average Canadian wage.

And they will continue to earn the average Canadian wage every nine hours and 33 minutes for the rest of the year.

By the end of the day on January 2, the average of the top 100 CEOs will have made more than $65,000.

That's what happens when you make an average of $8,528,304 — which is what Canada's 100 best paid CEOs made in 2006. The worst-paid CEO in that top 100 list received $3,059,604. The best-paid CEO enjoyed $54,709,465 in total compensation.

On average, the best-paid 100 CEOs make more than 218 times as much as a Canadian working full-time for a full year at the average of weekly employment earnings. That represents a significant gap between the rich and the rest of us.

For someone working at the minimum wage, the contrast is beyond extreme.

By 1.04 p.m. New Years Day in 2006, the best-paid CEOs pocketed what took a minimum wage worker all of 2006 to earn. Every four hours and four minutes, the best-paid 100 CEOs keep pocketing the annual income of a full-time full-year minimum wage worker.

CHART 1 Canada's Top Paid CEOs and the Rest

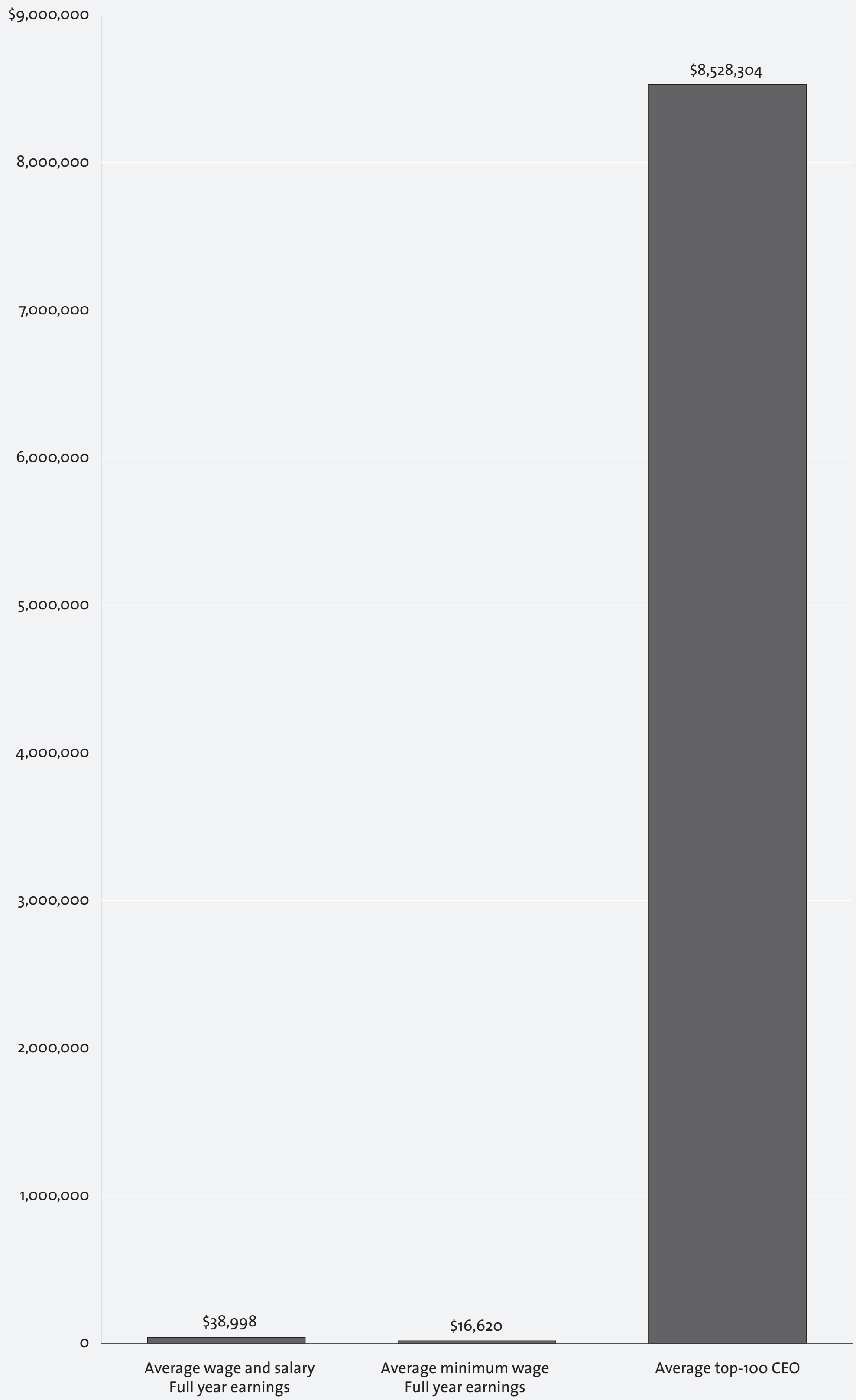


Chart 1 compares the annual earnings of the best-paid 100 CEOs, a Canadian working full-time, full-year at the average of wages and salaries, and someone working full-time, full-year at the average minimum wage.

How to make sense of these vast differences? Here are a few metaphors to help visualize the gap in earnings between our best-paid 100 and the rest of us.

If the race for the average income is a marathon for most Canadians — taking them an entire year of full-time work to earn $38,000 — for the average CEO it is a sprint of just less than 200 metres.

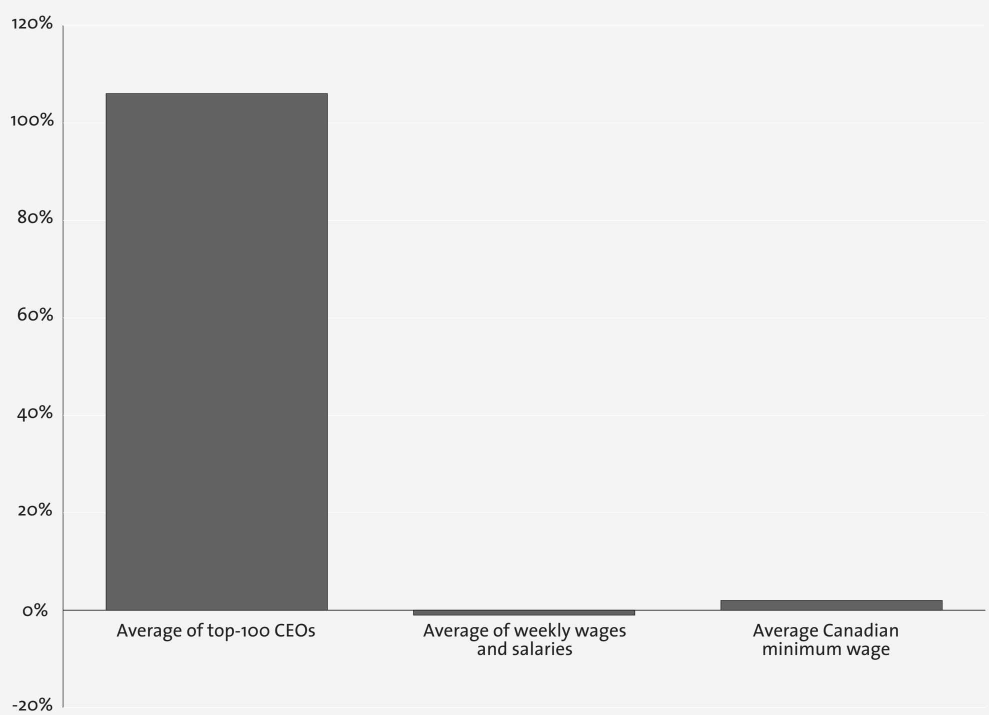
To put it another way, if the average CEO is perched atop the CN tower, Canadians making the average wage are merely two steps up a six-foot ladder. Comparatively, the minimum wage worker is standing in a three-foot deep hole.

In fact, the best-paid 100 CEOs earn more in a single year than all the residents of many small and medium-sized cities in Canada. For example, in 2006 the highest-paid 64 CEOs matched the total earnings in 2006 of all of the residents of the City of Brandon, Manitoba, population 41,511.[1]

While there has always been some degree of income inequality in Canada, inequality this extreme is a recent phenomenon.

In 1998, the best-paid 100 CEOs pocketed an average $3,457,150. By 2006 their average earnings increased by 146%. By contrast, the average of weekly wages and salaries in Canada increased by only 18% during that period.

CHART 2 **Inflation Protection?**
Percent change in employment earnings after adjusting for inflation, 1998 to 2006



In 1998, the best-paid 100 CEOs earned 104 times more than the average Canadian earnings. In 2006, the best-paid 100 CEOs made 218 times as much.

As striking as these figures may be, they tend to understate the true differences. On the CEO side, the data include only corporate executives with the title of CEO in a company traded publicly on a Canadian stock exchange. It does not include the salaries of executives of public companies who do not have the title of CEO.

So, for example, it does not include the $27,698,000 U.S. paid to Frank Stronach of Magna (back when the U.S. dollar was worth more than the Canadian dollar) or the pay of executives of corporate subsidiaries. It also excludes the pay of executives of private companies, including major investment organizations.

Including these highly-paid executives in the list would have bumped many of the public company CEOs from the list and increased the average pay, showing an even bigger income gap between the richest CEOs and the rest of us.

Furthermore, because leveraged buyouts and foreign takeovers of major Canadian corporations take these companies off the list of major Canadian public companies, they also take their CEOs off the 100 best-paid list.

On the "rest of us" side, the comparison assumes that both the average Canadian employee and the average minimum wage worker work full-time for a full year. If the actual average weeks paid and hours work had been used, the differences would have been even more extreme.

This spectacular explosion in the size of CEO pay packages is not an aberration. It is a reflection of a dramatic trend in the gap between earnings at the top of the economic elite and those of the rest of us.

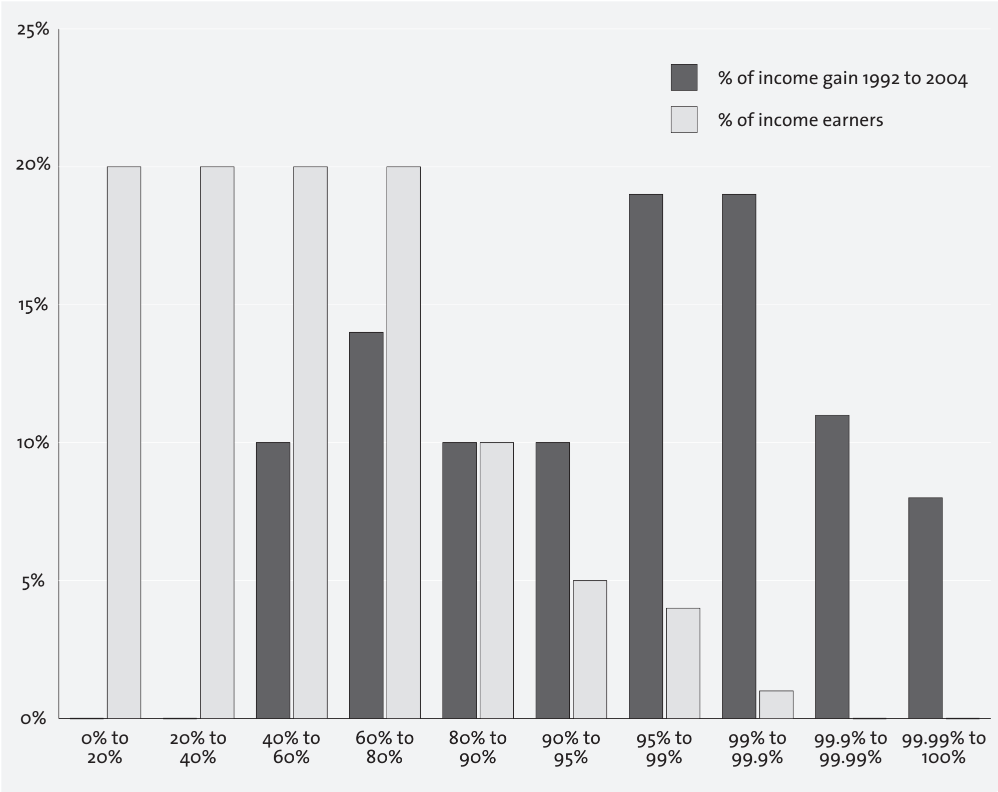
In an important study released in September 2007, Statistics Canada shows that most Canadians' real incomes did not increase from 1992 to 2004. That story changed in the highest-income 10% of Canadians. The bottom half of the top 10% maintained its share of total income: their income grew at the same pace as the average. But in the top 5%, the share of total income increased from 21% to 25%. More than 90% of that gain actually went to the top 1% — the richest of the rich.[2]

Chart 2 shows, for income percentile ranges, the share of all income earners in that range and the share of 1992 to 2004 income gains attributable to that range.

In the lowest two income ranges in the chart, the lowest-income 40% of earners received 0% of the real income gains. In the middle 20% of income earners (40% to 60%) 20% of the earners received less than 10% of the gain in income. At the top end, the 4% of earners in the 90–94% income range received 10% of the income gains. The 0.09% of earners in the 99.9% to 99.99% range received 11% of the gain in income. And the highest-income 0.01% received 8% of the gain in income.

In 1992, to get into the top 1% of individual income earners in Canada you needed an income of $139,000 in 2004 dollars. In 2004, you needed an income of $181,000 to join that club. For the top 1/10 of 1% club, the price of admission increased from $402,000 to $648,000. And to get into the super-elite — the highest income 1/100 of 1%, the required income soared from $1.32 million to $2.83 million.

CHART 3 **Shares of Income Gain and All Earners** By income percentile, 1992 and 2004



And if these changes weren't enough, the super-elite got a significant helping hand from the rest of us over that same period as well. The Statistics Canada study also found that the rate of tax went down between 1992 and 2004 for the top 5%, with the biggest gain going to the top 1/100 of 1%, whose effective tax rate dropped from 40% to 30% over the period. As impressive as their before-tax income gain was, the after-tax gain was, in relative terms, even greater — paid for by the rest of us in reduced public services.[3]

What are the implications of this growing gap on Canadian society? What does it mean for our belief in equality of opportunity when the rich are soaring ever further out of reach? What does it mean for social cohesion when a significant minority of Canadians enjoy benefits from their participation in our economic life that are beyond the imagination of most of the rest of us? What does it mean for the health of our political process when our governments give to those who have and take from those who have not?

If we don't ask the questions, we'll never get the answers.

APPENDIX

Technical details

CEO PAY IN THIS PAPER represents total compensation derived from the management information circulars for 2006 provided by Canadian publicly-traded companies as required under securities regulations.[4] The average of the top 100 CEOs made $8,528,304 in 2006. The worst-paid received $3,059,604. The best-paid received $54,709,465.

The median income of the top 100 was $6,155,172. Half of the top 100 were paid more than that amount; half were paid less.

Average earnings for the rest of us comes from Statistics Canada.[5] Average weekly earnings for 2006 came to $747.08. Based on a paid working year of 52.2 weeks, that translates to an average for the year of $38,998.

In calculating the earnings of a minimum wage worker, it is assumed that he or she is paid full-time (40 hours per week) for a full year. The average hourly minimum wage in Canada is the weighted average (weighted by employment) of the provincial and territorial minimum wages applicable in 2006.[6]

The timing of the CEOs overtaking the rest of us is based on the following assumptions:

- The CEO is employed full-time, with a normal work day of 9:00 a.m. to 5:00 p.m.
- The CEO is paid for statutory holidays.
- Time on vacation is treated as time paid, just as it is in the calculation of average and minimum wage earnings.

Notes

1 Population data from 2006 Census of Canada; income data for 2000 from 2001 Census of Canada, adjusted for growth in average wages (provincial averages) from 2000 to 2006 and population from 2001 to 2006. Average earnings data from Statistics Canada CANSIM Table #281-0044.

Other comparisons:

	Population	**Top CEOs to match total earnings**
Corner Brook City	20,083	15
Charlottetown City	32,174	36
Truro CA	45,077	58
Edmonston City	16,643	11
Shawinigan CA	56,434	78
Cornwall City	45,965	49
Brandon City	41,511	64
Prince Albert CA	40,766	60
Camrose City	15,620	12
Vernon City	35,944	35
Whitehorse CA	22,898	46
Yellowknife CA	18,700	45
Nunavut	29,474	28

CA = Census Agglomeration (City and surrounding urbanized area)

2 Calculations from Brian Murphy, Paul Roberts and Michael Wolfson, "High-income Canadians", *Perspectives on Labour and Income*, September 2007, Statistics Canada Catalogue no. 75-001-XIE.

3 A telling conclusion that can be drawn from the Statistics Canada study is that, despite the claims of the tax cut sales pitch that the target is the poor, oppressed middle-income taxpayer, average effective tax rates on everybody but the highest-income 5% of Canadians declined only slightly, from 18% to 17%. The big winners were all at the top end of the income scale.

4 The list, complied from publicly-filed corporate documents, was published in the *Globe and Mail* Report on Business, 9 May 2007.

5 Statistics Canada, CANSIM Table #281-0044

6 The average is computed based on the highest minimum wage payable at any time during the year in each province or territory during 2006. Weightings are based on Statistics Canada labour force data on employment.