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DO WE NEED GOVERNMENTS TO MEDDLE WITH CEO PAY LEVELS?

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A number of pundits and activists regularly claim CEOs are grossly overpaid compared to average workers. Their solution: raise taxes or impose a government mandate such as limiting CEO pay to some arbitrary ratio relative to the lowest paid worker.

A recent report is the latest to suggest CEO pay is too high because the top 100 Canadian CEOs in 2013 earned an average total compensation of $9.2 million or 195 times the average worker's pay. Such a comparison is deeply flawed and only fuels alarmist views about income inequality.

For starters, the comparison breaks a basic rule of statistics by comparing apples to oranges, using a definition of CEO pay that is much more wide-ranging than that used for average workers.

Specifically, the compensation figure for CEOs includes not just base salaries but all forms of compensation such as bonuses, company shares, stock options, "perks," and pensions. Meanwhile, the pay of average workers only includes their salaries—not pensions and other benefits. So right from the start, the so-called "pay gap" between workers and senior management is exaggerated.

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Another glaring issue with the comparison: the top 100 CEOs are not a representative sample of Canadian corporate leadership. These are not your average corporate leaders; they are the top people—the superstars with unique talents and qualities in high demand. Presenting their compensation as being typical of CEOs is like saying Sidney Crosby's salary ($12 million) is representative of the average NHL player's salary ($2.4 million).

An ideal comparison would compare the average Canadian CEO's total compensation to the average worker's total compensation. Unfortunately, there is no such readily available data. But data from Statistics Canada's National Household Survey, though limited, allows for a more apples to apples comparison.

The data cover a narrow measure of compensation: wages and salaries. And the data are for a broad occupational group: senior management (which includes more than just CEOs—for instance, senior government managers and officials fall into this group).

In 2010, the latest year of available data, the wages and salaries of the average senior manager was $142,434. That is 3.4 times the wages and salaries of the average worker ($42,445)—a far cry from the "195 times" figure cited above.

In 2010, judges were the highest paid, with average wages and salaries of $199,756 or 40.2 per cent more than the average senior manager ($142,434).

Digging a little deeper into the data reveals the average senior manager is not even the highest paid occupation (based on wages and salaries). In 2010, judges were the highest paid, with average wages and salaries of $199,756 or 40.2 per cent more than the average senior manager ($142,434). The average petroleum engineer ($154,249) also made more than the average senior manager.

The story is the same if we consider the median (which mitigates the effect of outliers like extremely high or low wages and salaries) rather than the average. In 2010, the median senior manager earned $86,824 in wages and salaries or 2.6 times the median worker ($33,094).

Still, the total compensation of heads of large corporations is sometimes in the eight-figure range so surely some of that money could have gone to pay a lot higher wages for other workers instead? But this assertion does not withstand scrutiny.

Take Gordon Nixon, the former CEO of the Royal Bank of Canada (RBC), as an example. At $14 million, Mr. Nixon was the highest paid Canadian bank CEO in 2013. In the same year, RBC had about 74,000 full-time equivalent employees. If Mr. Nixon had taken a pay cut of 20 per cent and distributed it evenly among RBC's full-time employees, it would have increased their hourly wage by only two cents.

Even if Mr. Nixon had given up his entire compensation, it would have translated into a mere 10 cents more per hour for RBC's employees. Clearly, Mr. Nixon's compensation package was not preventing RBC workers from enjoying dramatically higher wages.

The point is not that CEOs deserve more or less pay relative to average workers. The compensation of senior managers is a matter for owners to fret about. Decisions about CEO pay are not for governments to meddle with and they should not be made on faulty and misleading statistics.

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