Canadian Centre for Policy Alternatives
January 2017

Throwing Money at the Problem

10 Years of Executive Compensation

Hugh Mackenzie

www.policyalternatives.ca RESEARCH ANALYSIS SOLUTIONS

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

ISBN 978-1-77125-323-9

This report is available free of charge at www.policyalternatives.ca. Printed copies may be ordered through the CCPA National Office for $10.

PLEASE MAKE A DONATION...

Help us to continue to offer our publications free online.

With your support we can continue to produce high quality research—and make sure it gets into the hands of citizens, journalists, policy makers and progressive organizations. Visit www.policyalternatives.ca or call 613-563-1341 for more information.

The CCPA is an independent policy research organization. This report has been subjected to peer review and meets the research standards of the Centre.

The opinions and recommendations in this report, and any errors, are those of the authors, and do not necessarily reflect the views of the funders of this report.

ABOUT THE AUTHOR

Economist Hugh Mackenzie is a CCPA research associate based in Toronto.

5 **Throwing Money at the Problem**
5 Executive Summary
7 Introduction
8 CEO pay in 2015
9 Changes over time
10 Compensation in defiance of overall economic reality
13 The mechanics behind CEO pay
16 Extraordinary executive pay: Does it make sense?
20 Responding to CEO pay
21 Recommendations
23 **Appendix 1**
24 **Appendix 2**
26 **Notes**

Throwing Money at the Problem

10 Years of Executive Compensation

Executive Summary

Over the past 10 years, compensation for Canada's 100 highest paid CEOs has proven to be resilient in nature, weathering all kinds of economic storms, and continually breaking new highs.

Total compensation for Canada's 100 highest paid CEOs in 2015 hit a historic high, registering at $9.5 million — 193 times the average industrial wage in Canada.

Although public outrage over exorbitantly high CEO pay continues unabated, especially since the Great Recession of 2008-09, CEO pay in Canada takes a licking but keeps on ticking. Like clockwork, Canada's highest paid CEOs consistently earn what it takes a Canadian working full-time, year-round to make within the first working day of every new year.

This year is no different: Canada's 100 highest paid CEOs on the TSX index earn the average Canadian wage by 11:47 a.m. on January 3.

The average of the top 100 CEOs made $9.5 million in 2015. In sharp contrast, a Canadian working 52 weeks at the average weekly earnings rate for 2015 of $952.11 would have earned $49,510.

The gap is even bigger when you compare CEO pay to minimum wage earners' pay: the 100 highest paid CEOs would match the Canadian weighted average 2016 minimum wage—$11.18 per hour or $23,256 annually—by just after 2:00 p.m. January 2.

A review of CEO compensation in Canada over time shows that the average earnings of Canada's corporate top 100 increased by 178% between 1998 and 2015.

And there seems to be no end to the great heights to which executive pay will soar. Public outrage over the CEO pay gap hasn't curbed corporate boards' enthusiasm for lining the bank accounts of their executives. "Say on pay" votes were supposed to deliver cautionary messages about pay, but those votes are simply advisory and boards are free to ignore them, and usually do.

Among the author's recommendations:

- One line of attack would be to take compensation decisions out of the hands of the board of directors entirely, by making shareholder votes on pay mandatory rather than advisory.
- A second, less dramatic, change would be to change the accountability of compensation advisors to make them accountable to shareholders rather than to the board, like auditors.
- In the absence of corporate board leadership, it falls to government. Several options exist:
    - The key is to make changes in the system that change the incentives that are driving pay up so high. An easy starting point is to end the special tax treatment for proceeds of stock options in the personal income tax system. Right now, income earned through stock options is taxed at half the rate of ordinary income—a tax break that is worth billions to Canadian executives.
    - Higher top marginal tax rates on all earners would serve to dampen down the incentive to demand increasingly higher levels of compensation, regardless of the form it in which it is provided.
    - Another area of potential interest is the tax treatment of grants of stock, which have become a significant engine of compensation growth, both in Canada and the United States. Grants of stock are appealing to executives because the value that

accrues after the grant is taxed as a capital gain (at half rates) and to corporations because they simply issue new shares rather than dipping into the company's cash flow. A broader reform of capital gains taxation to even the tax playing field for all forms of income would serve to dampen down enthusiasm for stock grants as a form of compensation. And from the corporate end of the scale, requiring public corporations paying executives using stock to pay them with stock purchased in the market rather than through new issuance would change the way these compensation practices look to investors.

- A further measure could lean against the pressure to pay more by introducing a tax penalty into the *Income Tax Act* so that pay in excess of a given ratio to average pay would be subject to a tax penalty.

Introduction

Every January since 2007, the Canadian Centre for Policy Alternatives has highlighted one of the most visible symbols of income inequality in Canada: the dizzying pay gap between the 100 highest paid CEOs of companies in the TSX index and average Canadian wages.

The challenge we faced was how to express the astronomical discrepancy in terms that would connect to people's everyday life experience. This is not a unique problem — studies of income inequality have always struggled to find ways to communicate vast differences in income and wealth.

A statistical measure like the GINI coefficient provides the most comprehensive picture, but is intuitively meaningful to only a relative handful of income distribution researchers.

A simple bar graph comparing the two averages conveys the information completely, but makes the differences almost laughably obvious.

Images can be helpful, and we have used a few different ones over the years: a person of normal height standing next to the CN Tower in Toronto, or the comparison of CEO earnings with the entire income of the City of Brandon, Manitoba.

Perhaps the most famous image illustrating income inequality is known as Pen's Parade, named for the Dutch economist Jan Pen who came up with

the idea of an hour-long parade of dwarfs and giants to illustrate the extreme nature of income inequality in modern societies.[1]

Because we were comparing income from employment, the obvious way to locate a CEO's pay in everyday experience was to ask and answer the question: how long would a CEO have to work to take home the same pay as the average Canadian received in a year?

The answer — consistent over the years — has been stunning. Like clockwork, on the first working day of every year, the average of the 100 highest paid CEOs in Canada already pocket what it takes the average Canadian an entire year to earn. Usually by lunchtime.

CEO pay in 2015

This year is no different. Based on CEO pay data for 2015, reported in 2016, and the Statistics Canada average industrial wage for 2015, the average of the 100 highest paid CEOs in Canada will have surpassed the average Canadian's earnings before noon (11:47 a.m.) on the first working day of the year, January 3.[2]

In 2015, the 100 highest paid CEOs in Canada made 193 times more than the average Canadian rate of pay.

The average of the top 100 CEOs made $9.545 million; a Canadian working 52 weeks at the average weekly earnings rate for 2015 of $952.11 would have earned $49,510.

The gap is even bigger when you compare CEO pay to minimum wage earners' pay: the 100 highest paid CEOs would match the Canadian weighted average 2016 minimum wage — $11.18 per hour or $23,256 annually — by just after 2:00 p.m. January 2. The average CEO in this elite group makes as much as 410 minimum wage workers.

It's a pretty fortunate, exclusive group. Picking up on a device employed in an article in Canada's Corporate Knights magazine,[3] our list of 100 highest paid CEOs includes five people named Marc or Mark, five named Michael, four named Al, John, Paul and Steve, and three named Brian, Charles and Donald.

And just two women among those 100 corporate elites in 2015.[4]

Of that $9.545 million average CEO pay: $1.1 million was base pay; $1.8 million was bonus; $4.3 million was grants of shares; $1.5 million was the value of grants of stock options; $316,000 represented the value of increased

pension earned; and $530,000 was "other" sources of income such as benefits, perks, etc.

Forty-seven of the top 100 CEOs had a defined benefit pension plan, with an average pension payable at age 65 of just under $1.1 million.

Even that doesn't fully capture the income earned by these CEOs. Seventy-nine of the top 100 CEOs owned shares in their companies that paid dividends: those 79 received an average of $1.625 million in dividends.

Changes over time

Although the CCPA began compiling data on CEO earnings with the 2005 pay year, changes in the basis for compensation reporting required under accounting rules beginning in 2008 mean that consistent comparisons over time are possible only after that date.

Average top CEO compensation in Canada has grown over time.

Average top CEO pay in 2015 is the highest we have recorded since the new system for reporting CEO pay was adopted in 2008. The ratio to the average wage — the top 100 average 193 times more earnings than the average wage in Canada — is the second highest pay gap ratio in 10 years; second only to 194 times more in 2013.

If you think it's always been this way, think again. In 1998, the average of the top 100 CEOs in Canadian publicly listed companies was able to get by with an income only 103 times that of the average Canadian. The gap between the average top 100 CEO's pay and that of the average Canadian has increased by 179 per cent since 1998 — from 3,390,367 to 9,472,938.

Longer term, we have data for the top 50 going back to 1995. In 1995, the top 50 CEOs received 85 times the average Canadian income; in 2015, the average of the top 50 received 290 times the average Canadian income.

While hard data of this kind aren't available in Canada prior to 1993, it is generally accepted that in the United States, the ratio of CEO pay to average pay in the late-1980s was approximately 40:1 and that Canada's ratio would have been somewhat lower.

There have been modest changes in the composition of top CEO incomes over the time covered by the current consistent data. Base salary has been remarkably consistent, averaging $1 million a year, give or take $100,000. Cash bonuses have averaged about 1.5 times base pay in 2008-9 and again in 2015, and reached two times base pay and higher between 2010 and 2014.

TABLE 1 CEO vs. average wage pay ratio

Year	Average Wage	Average of top 100	Multiple
2008	42,134	7,352,895	175
2009	42,777	6,651,164	155
2010	44,328	8,401,322	190
2011	45,430	7,699,136	169
2012	46,572	7,960,300	171
2013	47,400	9,213,416	194
2014	48,648	8,959,425	184
2015	49,510	9,572,762	193

Source CCPA CEO pay reports for the years 2008 to 2015

Share-based pay has ranged from a low of 47 per cent of total compensation in 2014 to a high in 2015 of 60 per cent. The mix between shares and options has changed as well. Between 2008 and 2013, stock option grants made up between 43 per cent and 60 per cent of the reported value of share-based compensation. In 2014 and 2015, however, options appeared to fall relatively out of favour, dropping to only 26 per cent of share-based compensation.

Compensation in defiance of overall economic reality

The general path of CEO pay in Canada has been remarkably resistant to the state of the economy in general and to the major driver of Canada's short-term prosperity, the price of crude oil.

Figure 1 shows the relationship between CEO pay and the rate of economic growth.

Figure 2 shows the relationship between CEO pay and oil prices.

When you adjust 1998 income for inflation, an even more dramatic picture emerges of how wide the gap between the top 100 CEOs in Canada and the rest of us has become. As for inflation, the average income of the top 100 CEOs has increased by 99% since 1998 while the average Canadian income grew by 9%. We should keep in mind that this income boom continued through a deep recession from which Canada has yet to fully emerge.

FIGURE 1 CEO pay and GDP growth

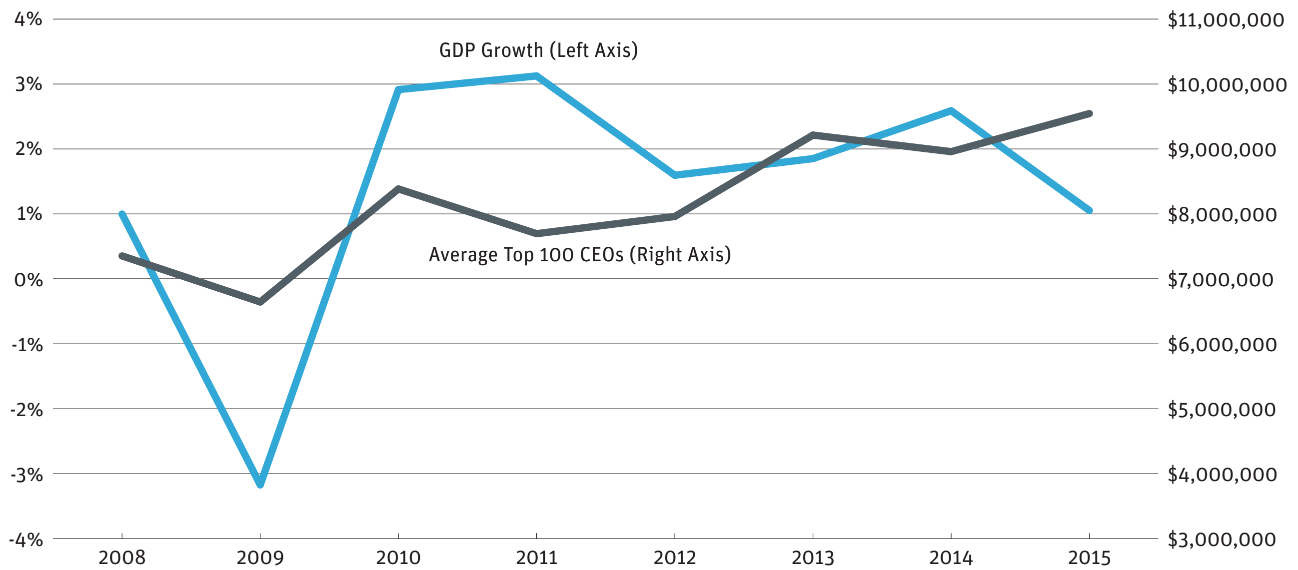


FIGURE 2 CEO pay and oil prices

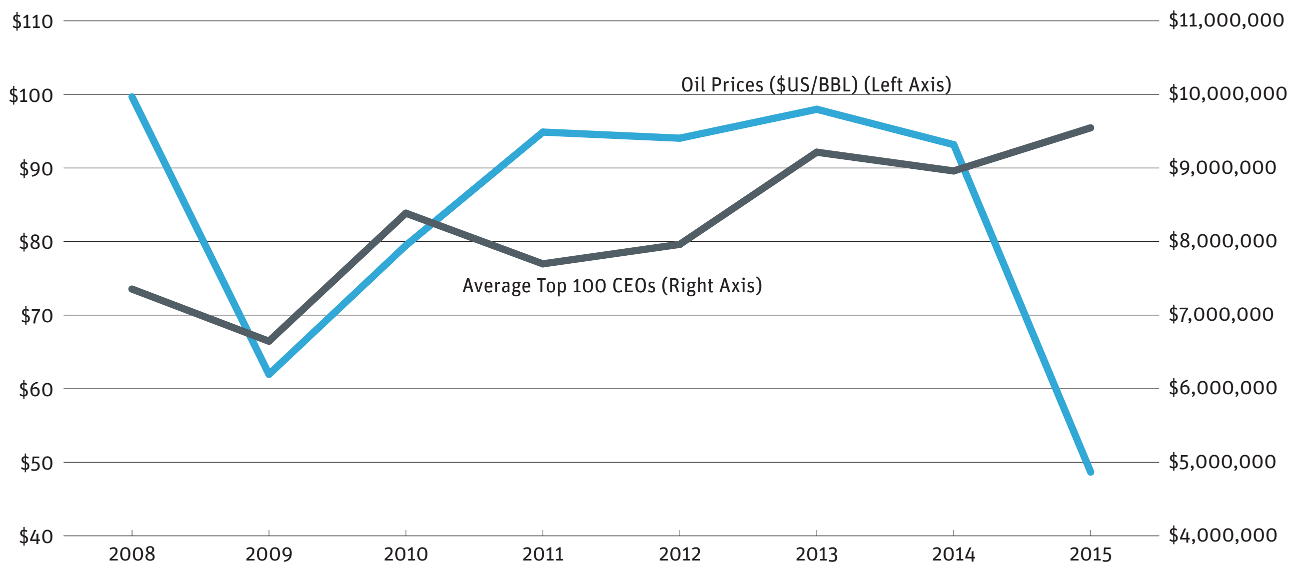


FIGURE 3 Canada's top paid CEOs and the rest of us

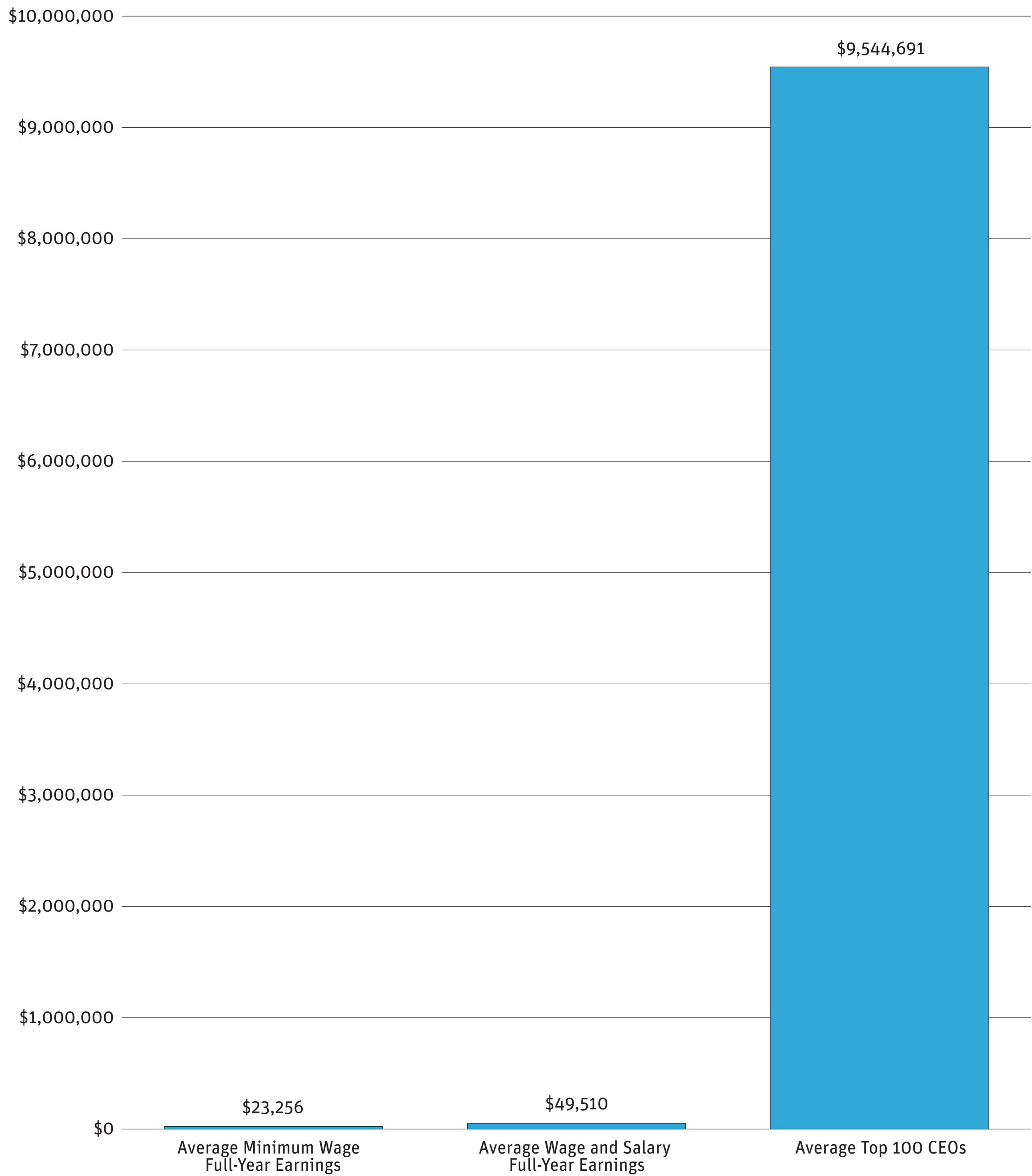
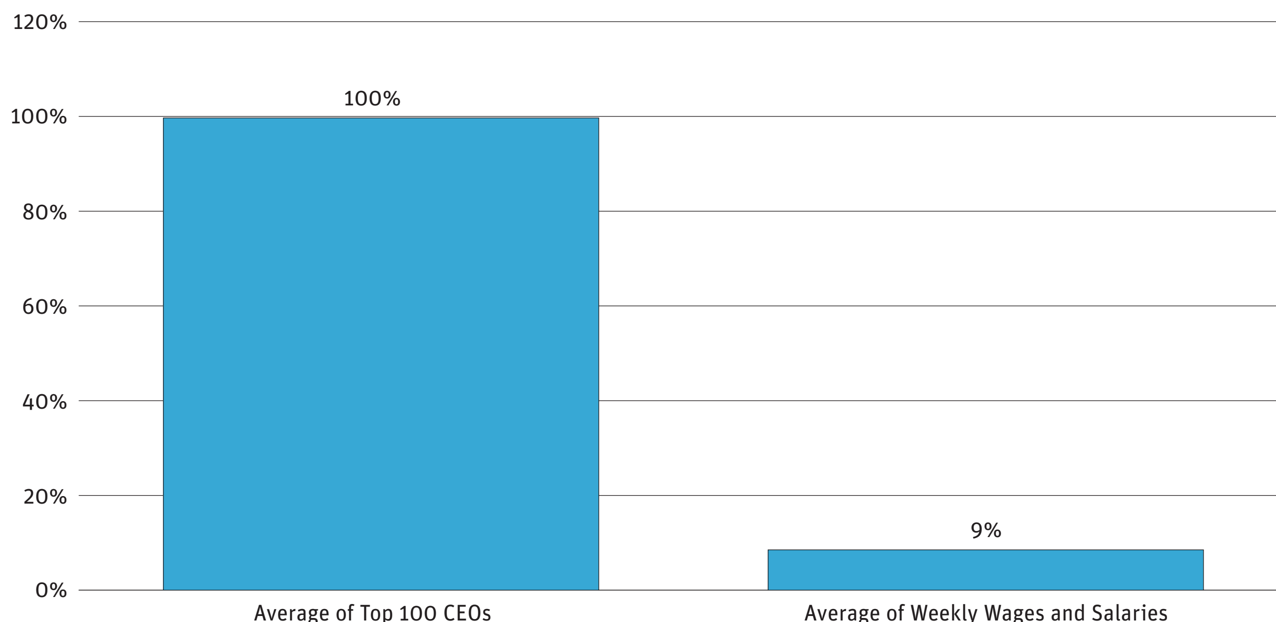


FIGURE 4 Percentage change in employment earnings after adjusting for inflation, 1998–2015



The mechanics behind CEO pay

Stock options

As noted, 2014 and 2015 represented a sharp break from prior years regarding the extent to which corporations relied on stock options for the compensation of their chief executive officers. The estimated value of stock options granted to CEOs reached 27 per cent of total pay in 2013 — the highest percentage in the period since 2008, when the basis for reporting options was standardized, but it declined to 13 per cent in 2014, increasing only slightly to 16 per cent in 2015. At the same time, reliance on grants of shares jumped from 27 per cent to 39 per cent of pay in 2014 and further to 45 per cent in 2015.

It is too early to tell if this represents a trend. It may, however, be a response by corporate boards to criticism in business media and journals of the use of stock options in the compensation of CEOs of large corporations. It could also be a response to the implicit tax subsidy inherent in the way stock options are taxed. For example, the recently elected Liberal federal government promised in its 2015 election campaign platform to end the favourable tax treatment of stock options in the *Income Tax Act*, although more recent statements from the new Minister of Finance have indicated that the

change apply only to future stock option grants, giving corporations and their well-compensated executives ample time to come up with new ways to push up compensation and avoid tax.[5]

How options are valued

First of all, a stock option is not actual cash when it is granted. When a corporation grants stock options to an executive, it gives the executive the right to buy a given number of shares of the corporation at a pre-determined price, known as the strike price. The strike price is normally the market price of the stock on the day the option is granted. When the price of the stock goes above the strike price, the difference represents the value of the option, because the executive could exercise his or her option at the strike price and sell at the higher price.

The values for stock option grants reported in proxy circulars since 2008 are determined using a statistical methodology known as the Black-Scholes method, named after its creators. The method develops an estimated value for an option based on statistical descriptions of the stock's price history. That valuation methodology has tended to produce conservative estimates of the value of the stock options granted to corporate executives.

How options are taxed in Canada

The second reason why we have to look more carefully at stock options as a component of executive pay is because of the way they are taxed.

When a CEO actually exercises previously granted stock options (i.e. exercises his or her right to buy the stock at the pre-determined price) the income crystallized in the transaction is taxed at half the normal rate, as if it were a capital gain rather than ordinary income. So from an after-tax perspective, a dollar received from the exercise of a stock option is worth two dollars of salary income.

The difference in tax paid — half the top marginal rate of taxation or 26 per cent, on average, across Canada — amounts to a public subsidy paid to these already highly compensated executives. This is significant, given how common stock options are utilized as a form of executive pay.

Among the highest paid 100 CEOs in Canada in 2015, 75 received stock options as part of their pay package. A further eight had previously granted but unexercised "in the money" options. The average estimated option value, for those granted options in 2015, was $1.98 million. The total value

of the unexercised "in the money" options was $1.49 billion, an average of $23.6 million for each CEO with unexercised options.

Applying the average tax rate of 26 per cent on capital gains, we estimate the tax subsidy for the $149 million in options granted to the top 100 CEOs in 2015 at $39 million, and the anticipated tax subsidy related to their stockpile of unexercised "in the money" options is $387 million, for a total of more than $400 million.

Grants of shares

The other major form of compensation linked to stock market is grants of shares in the companies led by CEOs. Typically, these grants are subject to restrictions that impose a delay before the shares can be sold. On the surface, share grants would appear to be a reasonable way to reward longer-term performance that is not linked to short-term fluctuations in stock prices. In practice, however, CEOs whose earnings come in part through share grants benefit from stock price volatility just as do holders of stock options. Because share grant programs generally give CEOs stock of a pre-determined value, with fluctuating stock prices, larger numbers of shares will be granted when prices are low, thereby giving the CEO a stake in stock price volatility.

In 2015, the top 100 CEOs were granted a total of $428 million in shares of the companies they led — an overall average of $4.3 million; an average of $4.9 million for the 88 CEOs who received share grants.

The top 100 CEOs had a total of $805 million in unvested share awards. An overall average of $8.1 million; an average of $9.8 million for the 82 CEOs who had unvested share awards outstanding.

The incoming Liberal government promised to end the special tax treatment of stock options in the 2015 federal election. That promise unleashed a furious lobby from Canada's corporate elite — a lobby that appears to have been successful as the government has signaled its intentions to back away from its campaign promise. Not surprisingly, the corporate executives who derive most of the benefit from the tax break did not lead the lobby. Instead, the defenders of this ridiculous tax preference put high-tech start-up companies in the window for their campaign, arguing that taxing stock options would put Canadian start-ups at a disadvantage.

Pensions: cash for life; no lottery ticket required

In the current debate over the expansion of the Canada Pension Plan, business leaders have been the most prominent opponents, arguing on occasion that Canada's retirees are already well taken care of.

Canadian business is also voting with its feet on the question of providing secure retirement income for its employees. Only about 11 per cent of employees in the private sector in Canada belong to a defined benefit pension plan — either sponsored by their employer or provided through their employer's participation in a multi-employer pension plan.

It would appear, however, that senior business leaders' distaste for defined benefit pension plans — either private sector corporate plans or the CPP — stops at the C-suite door.

Among our highest paid 100 CEOs of publicly traded companies, 47 have defined benefit pension plans. According to their employers' proxy circular disclosures, their pensions will provide, on average, an annual pension starting at age 65 of $1.11 million — 90 per cent of their current base salaries.

Shares: The pride (and benefits) of ownership

Between the shares accumulated through grants of stock in annual compensation and the equity ownership of founders and/or controlling shareholders who also serve as CEOs, Canada's 100 highest paid CEOs have accumulated substantial wealth in the form of shares in the companies they manage.

As a group, they report ownership of shares in their companies amounting to $8.1 billion — an average of $81 million each. As shareowners, the same 100 CEOs would have received dividends in 2015 amounting to an estimated $126 million ($1.26 million each).

Extraordinary executive pay: Does it make sense?

Governments and citizens around the world continue to focus attention on the astronomical salaries pocketed by CEOs. Especially in the U.S., there has been particularly strong public and political outrage at the payment of enormous bonuses to the executives (and their high-flying employees) who have overseen the wiping out of billions of dollars in shareholder value since the crash of 2007-08.

For years, apologists for highly paid CEOs have peddled the line that their pay is a reward for good performance. Indeed, a virtual industry of compen-

sation and communication consultants has emerged to rationalize executive compensation and justify its exorbitant levels to shareholders and the public. The notion that modern executive compensation systems are tied to corporate performance is as resilient in the face of evidence to the contrary as the compensation itself is to everything from economic recession to political pressure to shareholder activism.

A 2014 study by academics from Cambridge University, Purdue University and the University of Utah published by the Social Science Research Network[6] reported by Forbes in 2014 analyzed 20 years of data on executive compensation and corporate performance, reaching the conclusion that "the more CEOs got paid, the worse their companies did."[7]

A provocative analytical tool created by the *Globe and Mail* in 2012 consisted of charts comparing five different categories of pay with seven different measures of corporate performance. The results, presented in scatter grams, are sobering. Rather than the coherent relationship linking these measures the apologists' claims would have us expect, the scatter plots of the results of these comparisons look more like fly paper specks.[8]

One of the problems at the root of soaring and uncontrolled CEO pay packages is the role played by stock market-based forms of compensation, such as stock options and grants of shares. Apologists for CEO pay claim that linking CEO pay to share performance is a simple and straightforward way to link pay to performance and to align executives' interests to the long-term interests of shareholders.

A growing and influential chorus of independent experts begs to differ.

Two leading Canadian business thinkers, Roger Martin and Henry Mintzberg, have been weighing in heavily on the issue for years.

An analysis by Martin, former dean of the University of Toronto's Rotman School of Management, proposes that compensating CEOs based on stock prices (e.g. through share grants or stock options) rewards them for something they cannot influence or control.[9] This is all the more strange, he reasons, because stock markets are "expectations markets," in that the price of a company's shares is based not on the performance of the company in the past but on what investors expect the performance of the company to be in the future.

Using a football analogy, Martins likens paying a CEO based on share prices to paying a football quarterback based on whether or not his team beats the betting points spread. Not only does the points spread (the expectations market) have nothing to do with the quarterback's performance on the field, in football it is illegal for a quarterback to participate in that

market. Using the same logic, Martin argues that CEOs should receive bonuses based on how their companies perform, the business plans they set and profits they generate, rather than on how the bets placed by investors influence the value of their shares.

Martin concludes:

> If we are to emerge from this mess, executives must switch their focus entirely to the real market and completely ignore the expectations market. This entails building skills and experience in building real products, developing real consumers and earning real profits…While these proposals might seem draconian, they are absolutely necessary to save corporations from themselves. Customers and employees will only accept the legitimacy of a business if its executives put customers and employees ahead of shareholders who buy shares from existing shareholders; companies will only become skilled at creating real value if they don't spend their time on the expectations market; and the negative impact of hedge funds will only diminish if executives stop spending their time jerking-around expectations.

Mintzberg, the renowned Canadian business thinker, starts from the same premise as Martin — that compensation should match performance — but goes much further in a November 2009 *Wall Street Journal* article arguing that corporate leaders should not be paid bonuses at all.[10] He explains:

> This may sound extreme. But when you look at the way the compensation game is played — and the assumptions that are made by those who want to reform it — you can come to no other conclusion. The system simply can't be fixed. Executive bonuses — especially in the form of stock and option grants — represent the most prominent form of legal corruption that has been undermining our large corporations and bringing down the global economy. Get rid of them and we will all be better off for it.

Despite the recession, the public outrage, the criticism of political leaders and the devastating analyses of key business thinkers, the practice of compensating Canadian CEOs has not changed perceptibly since the global economic meltdown.

The standard response to concerns about excessive executive compensation is that it is a discussion best left to corporate boards whose directors should see the benefit of reigning in salaries. But the evidence to 2014 suggests this approach isn't working. Even the advent of advisory votes ("Say on Pay") by shareholders has had little if any noticeable impact on compensation decisions by corporate boards, leaving us to conclude the will

for reform simply isn't there, despite the public utterances of several high-profile investors.

That negative view of the potential for board-driven reform of the system is echoed in the 2015 reporting from the *Globe and Mail*'s annual review of Canadian corporate boards, *Board Games*.[11] Citing the issues for corporate performance noted above, the *Globe* report points to a similarly pessimistic conclusion, citing a wide range of experts on corporate performance and governance.

This leaves those who believe that the corporate sector can manage its own compensation with two options. The first is voluntary restraint on the part of North American CEOs. The second would be regulatory changes to corporate governance that would have the effect of taking executive compensation decisions away from corporate boards and their self-reinforcing advisors. Failure to act in one of these directions could spark a hard political response, according to Martin in a more recent article for the *Harvard Business Review*:

> The trend [towards higher compensation] cannot proceed unabated in the United States without provoking a political reaction. Top executives, private equity managers, and pension funds can avoid such a reaction by showing the leadership of which they are fully capable and modifying their behavior to create a better mix of rewards for capital, labour, and talent.[12]

While Martin is correct to point to the significance of the growing gap between CEO and average compensation, there is very little evidence of the leadership, restraint, or self-discipline he says are necessary to avoid political intervention. The public reaction to soaring executive bonuses in the lead-up to the financial crisis, coupled with the emergence of executive greed as a common theme in popular culture, has had no identifiable impact on compensation trends. While there has been the odd example of self-restraint (e.g. Canadian bank CEOs who voluntarily gave up stock options or other bonus payments in 2008), they have been the exception rather than the rule.

In a telling comment quoted in the *Globe and Mail*'s report, Martin himself admits that he has all but given up on corporate boards as vehicles for change.

> "Mr. Martin argues that equity-based pay rewards those executives who foster the most volatility in their share price, allowing them to load up with options or share units when prices are low and cash out as they rise, even if share prices stay below the level when the CEO was hired. … His solution

> involves paying executives in straight cash. … He also wants to tie the metrics that trigger cash bonuses to more concrete corporate results, such as profits or return on capital — not share price performance."[13]

Tellingly, Martin characterized CEO compensation practices as "criminally stupid," but has given up on boards of directors as vehicles for change.

> "Two years ago, Mr. Martin attended his last corporate board meeting and now says he is done with being a director, save for non-profits. 'I'm never going on another board as long as I live," he says, arguing it is too hard to have an impact, including on compensation issues. 'I hate it. I hate it with a burning passion. I hated pretty much every minute.'"[14]

Responding to CEO pay

The standard response from CEO pay apologists to exorbitant pay levels is that this is the result of the workings of the market, and that boards of directors can and should be relied upon to bring salaries under control. That doesn't seem to be working. Even where boards of directors are concerned about pay practices, they seem powerless to do anything about them.

Spectacular case in point. Warren Buffett — on various days either the richest or second-richest man in the world — joined a chorus of public criticism about pay practices at Coca-Cola, on whose board he sits. But when it came to voting on the package, the best he felt he could do was abstain from voting, because he didn't want to "go to war" with Coke.

"Say on pay" votes were supposed to deliver cautionary messages about pay, but those votes are simply advisory and boards are free to ignore them, and usually do.

It is not hard to see how this happens, given the process through which CEO pay is established. It is controlled, incestuous, and circular. Controlled because, in practice, CEOs have a lot of influence on who gets nominated to or kicked off a board. That's a powerful incentive for board members not to rock the boat. Incestuous because the typical board includes at least a couple of people who themselves are CEOs of other companies. It's not hard to see why they might not be able to work up much enthusiasm for an attack on executive compensation. Conflicted because CEO compensation is supported by, and often driven by, an executive compensation industry that largely depends on corporate management for their business and has a powerful in-

centive to keep management happy with them. Circular because the engine behind CEO compensation is comparisons with other CEO compensation.

Like the town of Lake Woebegone, Minnesota, of the *Prairie Home Companion*, in the world of executive compensation, every CEO is above average.

It is a very comfortable process — for CEOs.

It is clear that the claim that boards of directors can take care of this problem has run out of gas. And that means it's time to package up some skunks to send to the CEO pay garden party.

Recommendations

One line of attack would be to take compensation decisions out of the hands of the board of directors entirely, by making shareholder votes on pay mandatory rather than advisory. That would certainly be disruptive. But it also raises questions about the delegated model of corporate governance itself.

A second, less dramatic, change would be to change the accountability of compensation advisors to make them accountable to shareholders rather than to the board, like auditors. We could also prevent compensation consultants to boards from earning any other income from the corporation or an entity related to the corporation.

While that might change the process a bit, it is not clear that shareholders are any better able to rein in corporate salaries than the boards of directors they technically appoint.

And that means that uncontrolled CEO pay cries out for action by government.

Direct intervention is a possibility, but the track record is not that great. When the Clinton administration moved to limit the corporate tax deduction for salaries to $1 million, corporate North America responded by establishing $1 million as a salary norm and pouring the rest into bonuses, stock grants and stock options, which weren't affected by the limit. When the government in the UK decided to put a limit on financial services industry bonuses, the industry responded by abandoning its mantra of pay for performance and hiking base pay.

The key is to make changes in the system that change the incentives that are driving pay up so high.

An easy starting point is to end the special tax treatment for proceeds of stock options in the personal income tax system. Right now, income earned

through stock options is taxed at half the rate of ordinary income—a tax break that is worth billions to Canadian executives.

Higher top marginal tax rates on all earners would serve to dampen down the incentive to demand increasingly higher levels of compensation, regardless of the form in which it is provided.

Another area of potential interest is the tax treatment of grants of stock, which have become a significant engine of compensation growth, both in Canada and the United States. Grants of stock are appealing to executives because the value that accrues after the grant is taxed as a capital gain, at half rates and to corporations because they simply issue new shares rather than dipping into the company's cash flow. A broader reform of capital gains taxation to even the tax playing field for all forms of income would serve to dampen down enthusiasm for stock grants as a form of compensation. And from the corporate end of the scale, requiring public corporations paying executives using stock to pay them with stock purchased in the market rather than through new issuance would change the way these compensation practices look to investors.

A further measure could lean against the pressure to pay more by introducing a tax penalty into the income tax act so that pay in excess of a given ratio to average pay would be subject to a tax penalty.

These are not easy issues to deal with, in an economy that is as internationally exposed as Canada's, but at the very least, we should expect our governments, and those who claim to be responsible corporate leaders, to be leaning in the right direction.

Appendix 1

TABLE 1 Top 100: Composition of total compensation

	Base	Bonus	Shares	Options	Pension accrual	Other	Total
2008	14%	22%	26%	22%	8%	9%	100%
2009	14%	22%	21%	31%	6%	7%	100%
2010	11%	29%	22%	28%	5%	4%	100%
2011	13%	27%	26%	21%	6%	7%	100%
2012	13%	22%	28%	21%	7%	9%	100%
2013	12%	25%	27%	26%	4%	6%	100%
2014	13%	27%	39%	13%	4%	5%	100%
2015	12%	19%	45%	16%	4%	6%	100%

TABLE 2 Top 100: Composition of total compensation

	Base	Bonus	Shares	Options	Pension accrual	Other	Total
2008	1,021,638	1,581,503	1,888,328	1,612,278	600,666	648,482	7,352,895
2009	929,938	1,439,817	1,381,994	2,031,688	397,506	470,221	6,651,164
2010	950,575	2,421,405	1,846,725	2,350,974	460,662	370,981	8,401,322
2011	987,239	2,073,317	1,984,670	1,612,175	470,319	571,416	7,699,136
2012	1,008,280	1,732,621	2,240,133	1,692,912	532,660	753,693	7,960,300
2013	1,061,505	2,345,120	2,501,594	2,370,268	408,997	525,932	9,213,416
2014	1,128,625	2,376,061	3,493,992	1,197,751	358,842	404,155	8,959,425
2015	1,112,972	1,814,174	4,283,593	1,485,452	343,959	532,613	9,572,762

Appendix 2

TABLE 1 Top Paid CEO Listing

Rank	Name	Company	Base Salary	Bonus	Shares	Options	Pension	Other	Total
1	**Michael Pearson**	VALEANT PHARMACEUTICALS INTE	-	2,556,688	179,357,648	-	-	987,853	182,902,189
2	**Donald Walker**	MAGNA INTERNATIONAL INC	415,462	13,351,025	8,899,831	3,675,239	-	198,143	26,539,700
3	**Hunter Harrison**	CANADIAN PACIFIC RAILWAY LTD	2,803,522	6,002,537	4,749,089	5,163,279	-	1,184,026	19,902,453
4	**Steven Hudson**	ELEMENT FINANCIAL CORP	1,200,000	5,240,000	8,502,008	4,155,377	-	180,000	19,277,385
5	**Mark Barrenechea**	OPEN TEXT CORP	981,787	1,292,550	5,307,519	10,343,731	-	44,455	17,970,042
6	**Donald Guloien**	MANULIFE FINANCIAL CORP	1,723,671	2,884,682	6,104,719	4,069,812	727,500	103,135	15,613,519
7	**Brian Hannasch**	ALIMENTATION COUCHE-TARD	1,356,260	2,612,207	2,388,756	6,437,480	2,020,013	-	14,814,716
8	**Linda Hasenfratz**	LINAMAR CORP	605,839	8,975,677	3,727,072	-	3,500	902,746	14,214,834
9	**James Smith**	THOMSON REUTERS CORP	1,981,433	4,168,143	3,715,392	3,715,210	39,629	92,335	13,712,142
10	**Bradley Shaw**	SHAW COMMUNICATIONS INC	2,500,000	5,913,875	-	-	4,273,370	453,990	13,141,235
11	**Robert Card**	SNC-LAVALIN GROUP INC	931,041	777,880	2,705,075	-	-	8,633,452	13,047,448
12	**Darren Entwistle**	TELUS CORP	1,375,000	683,349	10,043,729	-	341,000	89,218	12,532,296
13	**Steven Williams (1)**	SUNCOR ENERGY INC	1,375,000	2,760,000	4,668,000	4,008,000	-	160,795	12,200,495
14	**Jeffrey Orr**	POWER FINANCIAL CORP	4,341,000	-	2,302,179	2,164,623	2,400,000	466,500	11,674,302
15	**David McKay**	ROYAL BANK OF CANADA	1,300,000	2,325,000	5,800,000	1,450,000	742,000	38,893	11,655,893
16	**George Cope**	BCE INC	1,400,000	3,389,400	4,406,250	1,468,750	710,525	170,074	11,544,999
17	**Doug Suttles**	ENCANA CORP	1,088,886	1,752,538	5,998,018	1,999,331	200,384	186,833	11,225,990
18	**Guy Laurence**	ROGERS COMMUNICATIONS INC	1,267,308	1,734,628	4,318,150	2,878,758	740,900	258,991	11,198,735
19	**Brian Porter**	BANK OF NOVA SCOTIA	1,000,000	1,780,000	5,200,000	1,300,000	1,626,000	1,196	10,907,196
20	**Bharat Masrani**	TORONTO-DOMINION BANK	1,000,000	1,700,000	4,221,000	2,079,030	1,314,500	383,692	10,698,222
21	**Charles Magro**	AGRIUM INC	1,400,846	2,227,344	3,262,225	2,940,501	558,262	46,341	10,435,519
22	**Robert A Gannitcott, Former CEO**	DOMINION DIAMOND CORP	397,338	-	1,192,013	1,192,013	-	7,481,957	10,263,321
23	**Donald Lindsay**	TECK RESOURCES LTD-CLS	1,493,500	2,113,650	2,977,800	2,975,200	388,000	294,600	10,242,750
24	**William Downe**	BANK OF MONTREAL	1,882,050	1,361,700	6,038,250	873,000	-	16,625	10,171,625
25	**Claude Mongeau**	CANADIAN NATL RAILWAY CO	1,374,603	1,657,885	4,108,718	2,705,600	132,000	98,298	10,077,104
26	**Rejean Robitaille**	LAURENTIAN BANK OF CANADA	598,361	600,000	1,800,000	-	207,000	6,532,718	9,738,079
27	**Charles Jeannes**	GOLDCORP INC	1,499,498	1,243,439	4,619,870	1,539,957	435,139	120,434	9,458,337
28	**Gerald Schwartz**	ONEX CORPORATION	1,661,847	7,670,064	-	-	-	-	9,331,911
29	**Glenn Chamandy**	GILDAN ACTIVEWEAR INC	1,277,692	647,446	3,558,328	3,558,779	64,846	165,084	9,272,175
30	**Daniel Schwartz**	RESTAURANT BRANDS INTERN	1,052,176	2,492,771	-	5,436,904	-	179,482	9,161,333
31	**Michael Roach**	CGI GROUP INC - CLASS	1,333,000	-	7,520,700	-	-	180,013	9,033,713
32	**Rich Kruger**	IMPERIAL OIL LTD	1,062,600	1,055,567	4,224,365	-	-	3,022,231	9,010,906
33	**Patrick Carlson**	SEVEN GENERATIONS ENERGY	500,000	833,350	483,250	1,113,890	-	6,008,106	8,938,596
34	**Mark Thompson, Chairman & CEO**	CONCORDIA INTERNATIONAL CORP	691,000	2,020,000	4,430,894	1,775,031	-	11,038	8,927,963
35	**Al Monaco**	ENBRIDGE INC	1,246,750	1,750,000	2,849,500	1,301,440	1,643,000	108,512	8,899,202
36	**Scott Saxberg**	CRESCENT POINT ENERGY CORP	1,122,378	950,000	6,714,976	-	-	22,941	8,810,295
37	**Russell Girling**	TRANSCANADA CORP	1,300,008	1,560,000	2,800,000	2,800,000	326,000	13,000	8,799,008
38	**Sean Boyd**	AGNICO EAGLE MINES LTD	1,500,000	3,850,000	2,791,000	-	440,170	51,250	8,632,420
39	**Marc Poulin**	EMPIRE CO LTD	1,000,000	2,993,816	3,500,000	1,000,000	79,000	3,139	8,575,955
40	**Victor Dodig**	CAN IMPERIAL BK OF COMMERCE	1,000,000	2,502,376	3,717,819	929,455	387,000	2,250	8,538,900
41	**Galen Weston**	LOBLAW COMPANIES LTD	1,100,000	2,788,335	2,933,364	1,466,663	-	196,835	8,485,197
42	**Brian Ferguson**	CENOVUS ENERGY INC	1,350,000	1,188,920	2,799,986	2,141,896	339,294	134,429	7,954,525
43	**Dean Connor**	SUN LIFE FINANCIAL INC	1,000,000	1,562,500	3,750,005	1,250,006	319,457	2,911	7,884,879
44	**Alain Bedard, President & CEO**	TRANSFORCE INC	1,315,000	2,630,000	1,294,465	1,295,866	1,170,900	114,371	7,820,602
45	**Paul Desmarais, Jr.**	POWER CORP OF CANADA	1,150,000	2,000,000	187,500	3,905,630	-25,000	479,014	7,697,144
46	**Bruce Flatt**	BROOKFIELD ASSET MANAGEMENT	767,006	-	6,839,129	-	-	24,960	7,631,095

TABLE 1 Top Paid CEO Listing (Continued)

Rank	Name	Company	Base Salary	Bonus	Shares	Options	Pension	Other	Total
47	**André Desmarais**	POWER CORP OF CANADA	1,150,000	2,000,000	187,500	3,905,630	-	668,250	7,601,380
48	**Calin Rovinescu, CEO**	AIR CANADA	1,400,000	2,970,006	1,560,045	740,813	517,000	-	7,187,864
49	**Paul Mahon**	GREAT-WEST LIFECO INC	1,064,231	1,750,000	1,049,995	1,088,982	1,987,735	212,106	7,153,049
50	**Paul Wright**	ELDORADO GOLD CORP	1,144,548	2,014,404	740,404	1,480,808	1,206,023	-	6,586,187
51	**Francois Olivier**	TRANSCONTINENTAL INC	1,012,948	3,120,026	2,116,371	-	253,471	75,813	6,578,629
52	**Louis Vachon**	NATIONAL BANK OF CANADA	1,125,015	1,636,875	3,375,000	1,687,502	-	3,761	6,555,153
53	**Alain Bellemare, Pres & CEO**	BOMBARDIER INC	864,300	1,210,000	655,200	3,082,500	19,900	594,100	6,426,000
54	**Ravi Saligram**	RITCHIE BROS AUCTIONEERS	1,278,344	2,070,917	1,490,876	1,360,327	-	174,844	6,375,308
55	**Michael McCain**	MAPLE LEAF FOODS INC	1,050,125	-	2,930,062	1,869,641	243,268	-	6,093,096
56	**Charles Brindamour**	INTACT FINANCIAL CORP	934,250	1,772,117	2,805,000	-	543,580	-	6,054,947
57	**Barry Perry**	FORTIS INC	1,025,000	1,387,440	2,267,813	755,938	245,990	340,138	6,022,319
58	**J. Paul Rollinson**	KINROSS GOLD CORP	939,250	1,465,230	2,242,929	560,732	514,781	229,212	5,952,134
59	**Tim Gitzel**	CAMECO CORP	1,035,282	1,084,000	1,949,300	1,300,165	548,600	-	5,917,347
60	**Edward Sonshine**	RIOCAN REAL ESTATE INVST TR	1,300,000	1,820,000	1,300,000	1,300,000	-	-	5,720,000
61	**John Floren**	METHANEX CORP	932,000	751,000	1,806,220	1,749,810	205,040	253,952	5,698,022
62	**John M. Cassaday, Former Pres & CEO**	CORUS ENTERTAINMENT INC	579,861	-	-	-	206,000	4,551,378	5,337,239
63	**Gerald Storch**	HUDSON'S BAY CO	1,555,080	-	3,652,294	-	124,406	-	5,331,780
64	**Scott Thomson**	FINNING INTERNATIONAL INC	909,833	569,646	1,758,798	1,758,798	218,954	64,789	5,280,818
65	**Gregory Lang**	NOVAGOLD RESOURCES INC	714,363	887,964	1,955,386	1,602,084	-	47,462	5,207,259
66	**Larry Rossy**	DOLLARAMA INC	813,540	2,979,997	-	1,393,000	-	-	5,186,537
67	**Geoffrey Martin**	CCL INDUSTRIES INC	1,201,978	2,429,530	-	1,207,350	312,010	-	5,150,868
68	**Steve Laut**	CANADIAN NATURAL RESOURCES	660,961	2,291,436	-	2,100,000	-	95,110	5,147,507
69	**Asim Ghosh**	HUSKY ENERGY INC	1,721,000	-	2,281,988	810,160	154,890	152,678	5,120,716
70	**Gregg Saretsky, CEO**	WESTJET AIRLINES LTD	698,632	1,411,241	2,068,200	612,800	-	139,726	4,930,599
71	**Richard D. McBee**	MITEL NETWORKS CORP	762,019	654,900	2,262,525	1,122,500	7,950	18,000	4,827,894
72	**Marc Parent**	CAE INC	860,000	913,750	1,806,112	691,600	293,000	148,392	4,712,854
73	**Randy Smallwood**	SILVER WHEATON CORP	872,806	1,417,732	1,176,671	1,110,555	-	-	4,577,764
76	**Ellis Jacob, CEO**	CINEPLEX INC	1,000,000	1,019,959	1,500,000	500,000	374,930	101,917	4,496,806
74	**Dawn L. Farrell**	TRANSALTA CORP	950,000	762,660	2,090,000	-	488,800	225,700	4,517,160
75	**Stephen MacPhail**	CI FINANCIAL CORP	750,000	3,750,000	-	-	-	-	4,500,000
77	**Jose Boisjoli**	BRP INC	981,309	631,767	-	2,050,509	702,000	65,583	4,431,168
78	**Mark Davis, CEO**	CHEMTRADE LOGISTICS	756,417	1,970,000	1,302,500	-	350,000	26,930	4,405,847
79	**Murray Taylor**	IGM FINANCIAL INC	953,333	1,244,393	947,500	640,764	522,600	76,553	4,385,143
80	**Kevin A. Neveu**	PRECISION DRILLING CORP	752,885	482,524	1,756,068	1,170,439	12,865	141,490	4,316,271
81	**Christopher Huskilson**	EMERA INC	875,000	1,135,418	1,050,018	1,049,987	179,000	25,472	4,314,895
82	**Jerry Fowden, CEO**	COTT CORPORATION	837,500	954,750	1,500,000	900,000	-	16,938	4,209,188
83	**Rod N. Baker**	GREAT CANADIAN GAMING CORP	525,000	51,975	-	3,548,500	12,685	1,855	4,140,015
84	**Alexander Fernandes, CEO**	AVIGILON CORP	469,227	596,837	1,016,658	1,983,851	-	-	4,066,573
85	**Michael Medline**	CANADIAN TIRE CORP	950,000	896,325	1,139,875	759,992	-	242,049	3,988,241
86	**Pierre Shoiry**	WSP GLOBAL INC	973,750	714,400	1,282,801	855,032	-	149,347	3,975,330
87	**Myron Stadnyk**	ARC RESOURCES LTD	570,000	325,000	2,300,024	700,004	-	76,400	3,971,428
88	**John Thornton**	BARRICK GOLD CORP	3,195,860	-	-	-	479,379	260,897	3,936,136
89	**Thomas Heslip, Former CEO**	GRANITE REAL ESTATE INVESTME	409,231	-	-	-	-	3,500,000	3,909,231
90	**Phillip Pascall**	FIRST QUANTUM MINERALS LTD	1,329,478	1,278,344	1,247,664	-	-	31,415	3,886,901
91	**John Chen**	BLACKBERRY LTD	1,125,400	1,350,480	1,350,469	-	-	23,287	3,849,636
92	**Pierre Beaudoin, Exec. Chairman, President and CEO**	BOMBARDIER INC	820,700	987,200	340,700	1,772,200	-	-	3,846,900
93	**Michael Dilger**	PEMBINA PIPELINE CORP	657,500	830,790	1,214,966	810,013	264,754	51,925	3,829,948
94	**Rupert Duchesne**	AIMIA INC	938,077	616,879	1,139,996	758,241	132,077	241,566	3,826,836
95	**Jeffrey Carney**	IGM FINANCIAL INC	916,667	1,641,250	887,500	99,814	195,470	67,972	3,808,673
96	**Thomas Schwartz**	CAN APARTMENT PROP REAL ESTA	787,590	787,590	925,590	1,100,150	-	129,338	3,730,258
97	**Jochen Tilk**	POTASH CORP OF SASKATCHEWAN	1,050,933	413,442	1,911,008	-	204,347	138,153	3,717,883
98	**Anthony Caputo, CEO**	ATS AUTOMATION TOOLING SYS	809,100	754,000	474,000	588,500	1,046,000	45,400	3,717,000
99	**Geoffrey A. Burns**	PAN AMERICAN SILVER CORP	735,000	744,188	2,221,417	-	-	-	3,700,605
100	**Eric La Flèche**	METRO INC	849,993	1,269,675	513,248	855,039	199,000	4,487	3,691,442

Note Accounting pension values originally reported as negative despite positive accrual: SUNCOR: 771,300, IMPERIAL OIL: 353,857, POWER/Paul Desmarais: 25,000, POWER/Andre Desmarais: 310,000, NATIONAL BANK: 1,273,000, BOMBARDIER: 73,900

Notes

1 Pen's parade appeared in his 1971 book, "Income Distribution". The image is described in a September 2005 article in The Atlantic (Clive Cook, "The Height of Inequality, America's productivity gains have gone to giant salaries for just a few", The Atlantic, September 2005). "Suppose that every person in the economy walks by, as if in a parade. Imagine that the parade takes exactly an hour to pass, and that the marchers are arranged in order of income, with the lowest incomes at the front and the highest at the back. Also imagine that the heights of the people in the parade are proportional to what they make: those earning the average income will be of average height, those earning twice the average income will be twice the average height, and so on. We spectators, let us imagine, are also of average height.

Pen then described what the observers would see. Not a series of people of steadily increasing height—that's far too bland a picture. The observers would see something much stranger. They would see, mostly, a parade of dwarves, and then some unbelievable giants at the very end.

As the parade begins, Pen explained, the marchers cannot be seen at all. They are walking upside down, with their heads underground—owners of loss-making businesses, most likely. Very soon, upright marchers begin to pass by, but they are tiny. For five minutes or so, the observers are peering down at people just inches high—old people and youngsters, mainly; people without regular work, who make a little from odd jobs. Ten minutes in, the full-time labor force has arrived: to begin with, mainly unskilled manual and clerical workers, burger flippers, shop assistants, and the like, standing about waist-high to the observers. And at this point things start to get dull, because there are so very many of these very small people. The minutes pass, and pass, and they keep on coming.

By about halfway through the parade, Pen wrote, the observers might expect to be looking people in the eye—people of average height ought to be in the middle. But no, the marchers are still quite small, these experienced tradespeople, skilled industrial workers, trained office staff, and so on—not yet five feet tall, many of them. On and on they come.

It takes about forty-five minutes—the parade is drawing to a close—before the marchers are as tall as the observers. Heights are visibly rising by this point, but even now not very fast. In the final six minutes, however, when people with earnings in the top 10 percent begin to arrive, things get

weird again. Heights begin to surge upward at a madly accelerating rate. Doctors, lawyers, and senior civil servants twenty feet tall speed by. Moments later, successful corporate executives, bankers, stockbrokers—peering down from fifty feet, 100 feet, 500 feet. In the last few seconds you glimpse pop stars, movie stars, the most successful entrepreneurs. You can see only up to their knees (this is Britain: it's cloudy). And if you blink, you'll miss them altogether. At the very end of the parade (it's 1971, recall) is John Paul Getty, heir to the Getty Oil fortune. The sole of his shoe is hundreds of feet thick.

2 The list was developed from the proxy circulars filed for annual meetings in 2016 by the 249 corporations whose shares made up the TSX index as of June 30, 2016. It includes individuals identified as CEO or Executive Chair. Where the filing included either co-CEOs or a current and past CEO, both individuals were eligible to be included in the top-100 list.

3 Mark Brownlie, "It's hard to climb the ladder in high heels", Corporate Knights, November 6 2015.

4 A second woman, CEO of ATCO and Canadian Utilities, Nancy Southern, appeared on the top-100 list for 2014 and ranked 101 on the list for 2015.

5 "Tax Changes Won't Apply to Existing Stock Options, Morneau Says", Globe and Mail, 20 November 2015.

6 Michael J. Cooper, Huseyin Gulen and P. Raghavendra Rau, "Performance for Pay? The Relation Between CEO Incentive Compensation and Future Stock Price Performance", Social Science Research Network, 1 October 2014; http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1572085

7 Susan Adams "The Highest-Paid CEOs Are The Worst Performers, New Study Says", Forbes 16 June 2014, http://www.forbes.com/sites/susanadams/2014/06/16/the-highest-paid-ceos-are-the-worst-performers-new-study-says/

8 The analytical tool based on 2010 and 2011 corporate data is still accessible through the Globe and Mail's website at http://www.theglobeandmail.com/report-on-business/careers/management/executive-compensation/bang-for-their-buck-compare-executive-pay-days-with-company-performance/article4232218/

9 Roger Martin, "Undermining Staying Power: The Role of Unhelpful Management Theories", Rotman Magazine, Spring 2009.

10 Henry Mintzberg, "No More Executive Bonuses!", Wall Street Journal, November 30, 2009.

11 Tim Kiladze and Janet McFarland, "The trouble with equity-based pay and the elusive quest for a remedy", Globe and Mail Report on Business, December 5, 2015 pp.8–9

12 Roger L. Martin, "The Rise (and Likely Fall) of the Talent Economy", Harvard Business Review, October 2014, quotation at page 9 of the article in reprint.

13 Kiladze and McFarland, op cit p.9

14 Kiladze and McFarland, op cit p.9

CCPA

CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES