



# You Get What You Pay For

Comparing Public and Private Sector Salaries

Brett Gartner  
Economist

March 2007

Canada West Foundation Occasional Paper 2007-2



## Abstract

---

You get what you pay for. This saying is often true in the consumer world—to get quality, you must pay for it. It is also true for employers. Top quality personnel come at a price. If Canadians want good public policy and public institutions that operate in the best interest of society, we need professional, well trained and highly motivated public servants and elected officials.

For the public service to attract and retain high quality people, pay packages must be at least somewhat competitive with the private sector. Currently, however, public sector pay is nowhere near competitive. The *lowest* paid CEO of Canada's five major banks earned 24 times more than the federal Deputy Minister of Finance, one of Canada's top civil servants. The highest paid bank CEO made 86 times more.

Canada has always been well served by its public service but an aging workforce and large numbers of retirements are posing significant challenges. This paper argues that we must reconsider how senior level public officials are compensated. Otherwise we will not be able to attract and retain the best and brightest to the lead public sector and effectively protect the public interest of Canadians.

This paper was prepared by Canada West Foundation Economist Brett Gartner. Funding for this paper was provided by Ronald Mathison. The Canada West Foundation expresses its sincere thanks for this generous support. The opinions expressed in this document are those of the author and are not necessarily those of the Canada West Foundation's Board of Directors, advisors, or funders. Permission to use or reproduce this report is granted for personal or classroom use without fee and without formal request provided that it is properly cited. Copies may not be made or distributed for profit or commercial advantage. This report is available for download from the Canada West Foundation website ([www.cwf.ca](http://www.cwf.ca)) at no charge.

© 2007 Canada West Foundation  
ISBN 1-894825-51-9  
[www.cwf.ca](http://www.cwf.ca)

Graphic Design and Layout by Jason Azmier

### 1. Introduction

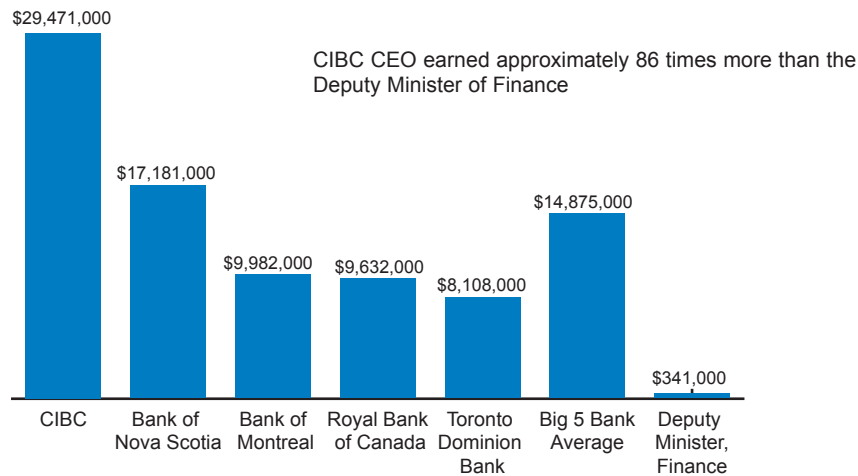
**At one time** or another, most of us have heard someone complain bitterly about lazy, overpaid bureaucrats in their cushy government jobs. But have you ever heard an impassioned argument for professional, well trained and highly motivated public servants and elected officials? Not likely. However, if Canadians want good public policy and public institutions that operate in the best interest of society, we need exactly that. Regardless of whether you favour a significant role for the state in society or you agree with the statement “the government that governs least, governs best,” we are all affected by the actions and decisions of civil servants and public officials. This is especially true for senior level public servants and elected officials—individuals in leadership positions with significant levels of responsibility. Therefore, if we want public officials to effectively protect and advance the public interest, we would be wise to attract bright, talented and motivated people to the public sector.

Considerable research has been done comparing salaries in the public sector to the private sector. In general, workers in the public sector have been found to earn more, with government employees earning somewhere between 5% to 10% more than non-government employees (Gunderson 1998). However, these results do not pertain to senior level positions, which are paid well below comparable positions in the private sector. For the public service to attract and retain high quality people as the labour market tightens due to the aging of the population, pay packages must be at least somewhat competitive with the private sector. Currently, however, they are no where near competitive. The following examples help illustrate the degree to which we currently undervalue public officials.

### 2. Federal Deputy Minister of Finance

The federal Deputy Minister of Finance holds one of the highest level positions in the federal public service. As the bureaucratic head of Finance Canada, this person leads a large and complex department responsible for things such as the federal budget (\$224 billion), preparing tax and tariff legislation, and administering major federal transfers to the provinces and territories. Given the nature of this position, it may be fair to compare it to CEOs of large corporations. An interesting illustration is to compare the Deputy Minister of Finance to CEOs of Canada’s major banks. According to the 2005 pay structure for federal deputy ministers, the Deputy Minister of Finance could have earned a maximum of about \$341,000 (the Privy Council Office does not disclose actual earnings). While this is nothing to sneeze at, it pales in comparison to the amount made by bank CEOs in 2005 (see Figure 1).

**Figure 1:** Salaries of the Federal Deputy Minister of Finance and the CEOs of Canada’s Largest Banks, 2005



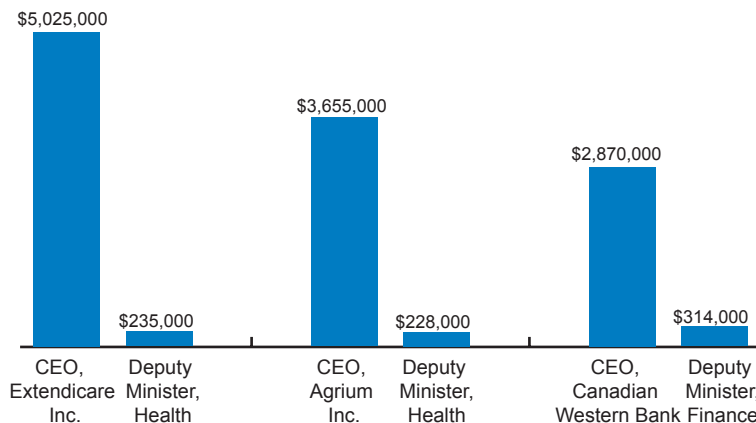
Source: Globe and Mail, *Executive Compensation Report 2005* ([www.globeandmail.com](http://www.globeandmail.com)) and Public Service Human Resources Agency of Canada, *Advisory Committee on Senior Level Retention and Compensation, Eighth Report: September 2005* ([www.hrma-agrh.gc.ca](http://www.hrma-agrh.gc.ca)). Note: According to the Government of Canada Privy Council Office, the actual salary of the Deputy Minister of Finance is confidential. Therefore, the salary used here is an estimate based on the job rate (maximum) salary plus the maximum possible “at-risk” pay for level DM-4 effective September 2005.

You may think that bank CEOs should make less, but they don’t. And maybe the best and brightest will take lower paying public sector jobs for other reasons, but they may not. The point is that the gap is there and it is huge.

### 3. Deputy Ministers in the Government of Alberta

At the provincial level, the gap in salaries between deputy ministers and corporate CEOs is similarly astonishing.

**Figure 2:**  
Salaries of Selected Alberta Deputy Ministers and CEOs, 2005



Source: Globe and Mail, *Executive Compensation Report 2005* ([www.globeandmail.com](http://www.globeandmail.com)) and Mark Lisac's *Insight into Government*, Volume 21, Number 7, October 6, 2006.

Figure 2 compares salaries of selected CEOs in the health care, agriculture and financial sectors compared to deputy ministers in the Government of Alberta Departments of Health, Agriculture and Finance.

Although this example uses positions from the Alberta Government, the basic principle would remain the same if other provinces were used. For context, it is interesting to note that a private sector committee formed in 2005 to review compensation for senior public officials determined that deputy ministers in Alberta earned 14% less than those in British Columbia, Ontario and Quebec (Senior Officials Compensation Ad Hoc Committee 2005).

### 4. Top Elected Officials

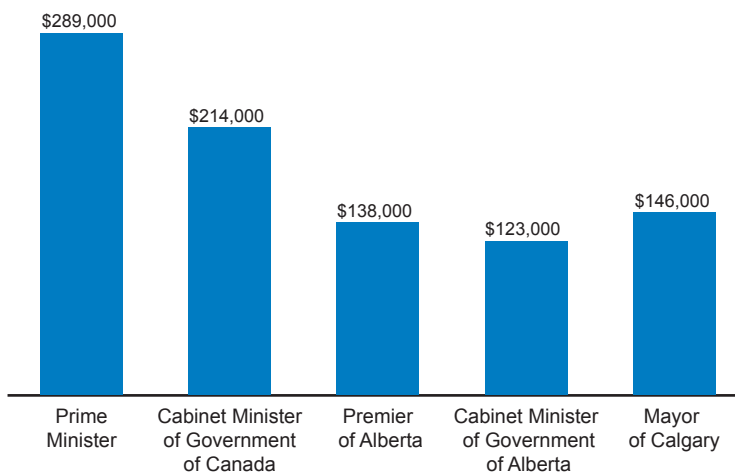
Regardless of how we view politicians, we cannot escape the fact that their decisions have a profound impact on our lives. Salaries of Canada's elected officials are no secret—as

a quick internet search reveals—and the media does not hesitate to report on the general public's disapproval of pay increases, especially when politicians vote for the increase themselves. But how much do politicians earn compared to the leaders of Canada's business community?

From the perspective of the average working Canadian, the current salaries of major politicians are more than enough to provide a very comfortable life. Figure 3 shows salaries for selected positions at the municipal, provincial and federal level. While the Mayor

of Calgary earns more than the Premier of Alberta, top level federal politicians earn the most.

**Figure 3:**  
Salaries of Selected Political Offices, 2005

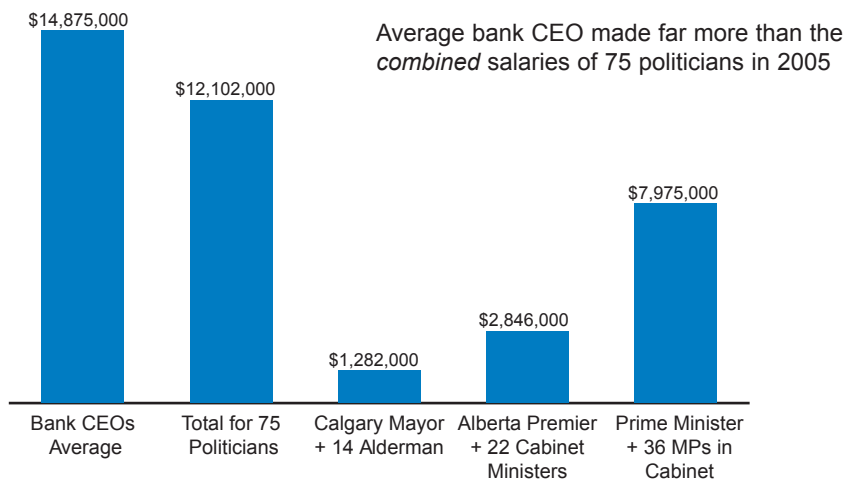


Source: City of Calgary, *Annual Report 2005* ([www.calgary.ca](http://www.calgary.ca)), Legislative Assembly of Alberta, *MLA Remuneration* ([www.assembly.ab.ca](http://www.assembly.ab.ca)) and Parliament of Canada, *Indemnities, Salaries and Allowances: Members of the House of Commons 1867 to Date* ([www.parl.gc.ca](http://www.parl.gc.ca)).

However, if we go back to the example of bank CEOs, we really do not pay elected officials all that much in relative terms. While the Prime Minister earns far more than the average Canadian, the highest paid bank CEO made over 100 times more in 2005 than the Prime Minister. Looking at this another way, the average salary of bank CEOs was higher than the *combined* salaries of the 75 elected officials comprising Calgary City Council, the Alberta government Cabinet and the federal government Cabinet (see Figure 4).

continued success. Of course, there are huge differences between a publicly traded corporation and a municipal government. However, one has to at least wonder if the differences warrant such a huge gap in earnings at the executive level. In 2005, the City of Calgary paid the Mayor \$146,000 and the City Manager—its top employee—\$332,000. In contrast, EnCana’s CEO was the ninth highest earning Canadian CEO in 2005, bringing home \$18 million.

**Figure 4:**  
Combined Salaries, 2005



Source: Derived from City of Calgary, *Annual Report 2005* ([www.calgary.ca](http://www.calgary.ca)), Legislative Assembly of Alberta, *MLA Remuneration* ([www.assembly.ab.ca](http://www.assembly.ab.ca)) and Parliament of Canada, *Indemnities, Salaries and Allowances: Members of the House of Commons 1867 to Date* ([www.parl.gc.ca](http://www.parl.gc.ca)) and Globe and Mail, *Executive Compensation Report 2005* ([www.globeandmail.com](http://www.globeandmail.com)).  
Note: As part of their remuneration, elected officials may receive tax exempt allowances or other benefits. However, these do not change the basic point that politicians earn far less than many CEOs.

### 5. City of Calgary and EnCana

With a booming economy and a population that recently broke the million barrier, Calgary is one of Canada’s leading cities. To meet the needs of its rapidly growing population, the City of Calgary employs over 12,000 staff and has an annual operating budget of nearly \$2 billion. EnCana is one of the many major companies with head offices in Calgary. EnCana employs approximately 6,500 people and is among the largest producers of natural gas in North America.

The City of Calgary and EnCana are similar in some respects. They are large employers, their actions have widespread impact and they require top notch people to ensure

### 6. Why is this issue important?

While far from a comprehensive survey and analysis of public and private sector compensation, the above illustrations demonstrate that private sector executives earn far more than their counterparts in the public sector. Income inequality is a fact of life whether we like it or not. And there are scores of other examples of giant pay gaps. Many people ask why a guy who can throw a baseball can earn far more than a brain surgeon or why a 20 year old hockey player can earn far more than an experienced police officer. As important as these may be,

this discussion will not address this broader array of salary gaps. Rather, the focus will remain on the bigger issue of attracting the best and brightest to manage and protect the public good.

So, why is this particular issue worth talking about? In short, it is important because a high-quality public service is beneficial to us all. From an economist’s perspective, the country’s economic strength would be jeopardized if our government was characterized by second rate public institutions and mediocre public policy. For example, with Canada operating in a competitive global economy, success in trade and international commerce is vital to our standard of living. Therefore, it is only prudent to staff the Department

of Foreign Affairs and International Trade with the best possible people, ensuring that those working on trade policy or negotiating and administering trade agreements are able to protect the interests of Canada.

The Department of Finance is another salient example—its policies and actions have widespread impact on the Canadian economy. Consider the government's recent decision to change the tax rules governing income trusts. This dramatic public policy change came as a shock to many, generating much debate in the aftermath of the decision. The change in tax rules was sudden, a reaction to the relatively recent emergence of income trusts as a popular choice for investors. Many people are surprised to learn that income trusts have been around for decades and that the issue had been on the Department of Finance's radar for quite some time. While the debate over the income trust decision is well beyond the scope of this discussion, one has to wonder whether this particular action may have been avoided had better tax policy decisions been made in the past.

Of course, the importance of public institutions goes well beyond economics. There are countless public institutions at all levels of government that are tasked with defending the public interest. Airline safety, food safety, education, public transportation, law enforcement—the list goes on and on. Many people do not see a link between income trust tax policy and their daily lives. But the vast majority of us can appreciate the impact of local government. From the water we use to brew our first pot of coffee to the roads and public transportation we use to get to work, we see the impact on a daily basis. One of the illustrations of the wage gap between the public and private sector made direct reference to the City of Calgary. Running a large urban centre like Calgary is an immense responsibility. In a place teeming with opportunities for talented people, it will become increasingly difficult for the City to attract top notch people with the salaries it presently offers. Unfortunately, the current level of public discourse is more likely to involve criticism of the Mayor's \$40,000 in annual travel expenses than how we can attract the best and brightest into the public service.

Now, none of this is to suggest that those currently employed in the senior ranks of the public sector are doing a poor job. In fact, quite the opposite is true. With

the exception of a few bad apples, the majority are highly competent, dedicated and deserving of a pat on the back. Changing demographics, however, are posing significant challenges. The public sector is currently facing a large number of retirements. A 2005 report on compensation for senior officials in the Alberta public service revealed some shocking figures. At the time of the report, the average age of deputy ministers was 54 and less than 15% of assistant deputy ministers and other executive level staff were under the age of 45 (Senior Officials Compensation Ad Hoc Committee 2005). When senior level people leave, there is a loss of expertise and institutional memory. Before all this expertise is gone, new leaders must be recruited. This new generation, especially the best young minds, must not only be convinced to join the civil service, but encouraged to stay. Companies and other organizations put in place succession plans to ensure a smooth transition when key people retire. Seriously reconsidering how we compensate senior level public officials must be part of any such strategy in the public sector.

Besides pay, several other factors make it difficult to lure people into the public sector. In the 1950s and 1960s, employment in the public sector was viewed much more favourably than it is today. People were often attracted to the public sector by the notion that they could make a difference by serving their country. By and large, this is no longer the case. According to a 2006 public opinion poll, only 50% of Canadians trust senior public servants (Leger Marketing 2006). Attitudes like this contribute to a pervasive negative perception of the public sector which in turn discourages people from considering it as a career choice. Likewise, a negative perception of the trades discouraged young people from considering, for example, a career as a plumber or electrician. For many years, high school students were told that they should set their sights on university and a career as a lawyer or doctor. A change in mindset was required for parents and educators to encourage young people to go into the trades. Only recently have the trades been promoted as a desirable career choice, one that can provide meaningful work along with a hefty paycheque. A similar change in mindset would likewise help the public service.

In addition, people no longer expect to work for one employer for 30-35 years; career-oriented young people expect to have a number of varied work experiences and place less



value on rock-solid job security. Traditionally viewed as an important benefit of working in the public sector, job security is no longer the strong selling feature it once was.

While people are attracted to the public sector for many reasons, we would be naïve to think that money is not an important factor. However, it should be noted that public life can provide some significant benefits. For example, high profile positions, especially in elected office, can provide national and international connections which can lead to lucrative opportunities after public life. In addition, senior level and elected officials typically receive sizeable pensions upon retirement.

Unfortunately, the general public does not often hear the issue discussed in this way and is not convinced that public institutions add a great deal of value to their lives. Many Canadians have a low opinion of the public sector and that this opinion has worsened over time (Kernaghan 2000). Even a few Members of Parliament have contributed to this public sentiment, publicly criticizing compensation of senior level public servants as excessive. Combine this with widespread misconceptions about the role of the public sector, and it is not surprising that it is difficult to get people to agree that the government may have to pay more to attract top people.

Currently, the level of debate is such that public opinion would support lower pay rather than higher pay. Voices from both sides of the political spectrum have raised concerns over pay increases for senior level public officials. On one side, public sector union leaders have been critical of large pay hikes for senior public officials and have argued that all public sector employees should be entitled to larger pay increases. On the other side, some groups that routinely call for tax cuts and lower government spending are often suspicious of any increase to government spending. Some have opposed the increased use of performance pay or bonuses on the grounds that systems in place to track performance are inadequate and, as a result, this additional compensation may not actually reward top performers.

Although the illustrations presented earlier point to large gaps in earnings, governments in Canada have identified public sector compensation as a challenge and have taken

steps to address it. Some attempts have been made to make salaries more competitive and the importance of performance pay is well recognized. At the federal level, the Advisory Committee on Senior Level Retention and Compensation was formed in 1997 to provide advice to government on pay and human resources issues pertaining to senior level public servants. It is comprised of leaders from the private and academic sectors. Early in its mandate the Committee identified uncompetitive compensation as a risk to retention of executives within the federal civil service. Since then, the Committee has released annual reports with recommendations on changes to compensation, including appropriate use of performance based pay, and advice on other relevant human resource matters.

At the provincial level, the government of Alberta formed a private sector committee to investigate the issue of compensation for senior government officials. In its May 2005 report, the committee made it very clear that changes to compensation packages were necessary to attract and retain people for senior positions, including deputy ministers, assistant deputy ministers and other senior executives. However, the committee was not specifically tasked with addressing the gap between the public sector and private sector. The committee instead focused on the competitiveness of pay in Alberta vis-à-vis senior public sector positions in other provinces and the federal government. In its final report, the committee recommended fairly significant pay increases, including changes to the administration of performance pay. But since these changes were designed to make senior official compensation more competitive with other public sector positions, they did relatively little to close the distance from the private sector.

Similarly, the Saskatchewan government's Crown Investments Corporation recently introduced a new compensation plan for senior executives in the province's Crown corporations. The primary purpose of the plan was to aid in the recruitment and retention of top level people. Again, attention was paid to the importance of performance pay in making compensation packages more competitive.

Looking outside Canada, Singapore, whose civil service has been identified by the United Nations as one of the most efficient in the world, has pursued some interesting

policies as part of its commitment to attract and retain the best and brightest to the public service. For example, scholarships are awarded to top high school students to attend the best universities in the world. In exchange, scholarship recipients are required to work for the Singapore government for eight years. With respect to compensation, Singapore's public service is among the highest paid in the world. Salaries are pegged to the private sector with performance based incentives playing an important part of overall compensation. Singapore puts considerable emphasis on measuring and tracking performance, both at the departmental and individual level. Promoting economic growth is seen to be an important part of the job of the civil service. As a result, performance pay is also linked to the performance of the country's economy.

Because it is a fairly controversial issue, it is worthwhile to note some caveats to this discussion. In recent times, private sector CEO pay has skyrocketed. As a result, it could be argued that comparing senior public official pay to top CEO salaries is an apples to oranges comparison. Whether or not this is the case, no sensible person should argue that public sector salaries match multi-million dollar private sector pay packages. Further, there is no room in this discussion for concrete recommendations on public sector salary increases. Such recommendations must be based on substantial research by human resource professionals and other experts.

It is also important to reiterate that public officials, especially politicians, can benefit from other "perks" of public life. For example, successful politicians make valuable national and international connections which often lead to lucrative opportunities after public life. As a result, it is arguable that relatively low salary levels do not actually deter people from seeking high profile positions such as premier or prime minister.

Finally, it can be argued that there are good reasons to restrict pay of senior government officials. For many years, budget deficits landed the federal government—and most provinces—in dire financial circumstances. Now that public finances have been improved, there is no appetite on the part of the public to revert back to government budget deficits. Therefore, it can be argued that public sector salaries be constrained to avoid over spending. Further, pay


increases at the top may lead to higher demands from all public sector workers, putting even greater upward pressure on government expenditures.

Although worth noting, these caveats do not undermine the basic argument that it is in society's best interest that the public sector attracts the best and brightest to manage and protect the public good.

## 7. Conclusion

All Canadians are affected by the actions and decisions of senior level public servants and public officials. Effective leadership, sound public policy and well run public institutions are important to us all. Therefore, we should demand only the best and brightest in positions of leadership within the public sector. In order to attract and retain high quality people, public sector pay packages must be at least somewhat competitive with the private sector. But when offered the chance to earn many, many times more in the private sector, our best and brightest can be excused for not giving the public sector a second thought.

Canada has always been well served by its public service but changing demographics are posing significant challenges. The first of the baby boomers are turning 60 and large numbers of retirements will have a lasting impact on the public sector. If we hope to attract and retain bright, talented and motivated people to the public sector we must seriously reconsider how we compensate senior level public officials. Otherwise, it may become impossible to compete for top talent.

When it comes to protecting the public interest—our interest—Canadians should accept nothing short of the best. And, whether we like it or not, we're going to have to pay for it. 

### References

- Gunderson, Morley. 1998. "Government Compensation: Issues and Options." Ottawa: Canadian Policy Research Network.
- Kernaghan, Kenneth. 2000. "Rediscovering Public Service: Recognizing the Value of an Essential Institution." Toronto: Institute of Public Administration of Canada.
- Leger Marketing. 2006. "Profession Barometer." [www.legermarketing.com/documents/spclm/060320ENG.pdf](http://www.legermarketing.com/documents/spclm/060320ENG.pdf).
- Senior Officials Compensation Ad Hoc Committee. 2005. "Compensation for Alberta Government Senior Officials." [www.gov.ab.ca/acn/images/2005/505/18099.pdf](http://www.gov.ab.ca/acn/images/2005/505/18099.pdf)



## About the Canada West Foundation

### Our Vision

A dynamic and prosperous West in a strong Canada.

### Our Mission

A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces, the territories, and all Canadians.

Canada West Foundation is a registered Canadian charitable organization incorporated under federal charter (#11882 8698 RR 0001).

In 1970, the One Prairie Province Conference was held in Lethbridge, Alberta. Sponsored by the University of Lethbridge and the Lethbridge Herald, the conference received considerable attention from concerned citizens and community leaders. The consensus at the time was that research on the West (including BC and the Canadian North) should be expanded by a new organization. To fill this need, the Canada West Foundation was created under letters patent on December 31, 1970. Since that time, the Canada West Foundation has established itself as one of Canada's premier research institutes. Non-partisan, accessible research and active citizen engagement are hallmarks of the Foundation's past, present and future endeavours. These efforts are rooted in the belief that a strong West makes for a strong Canada.

More information can be found at [www.cwf.ca](http://www.cwf.ca).



---

British Columbia Office:  
#810, 1050 W. Pender Street  
Vancouver, BC, Canada V6E 3S7  
Telephone: 604.646.4625

Head Office:  
#900, 1202 Centre Street SE  
Calgary, Alberta, Canada T2G 5A5  
Telephone: 403.264.9535

[www.cwf.ca](http://www.cwf.ca)