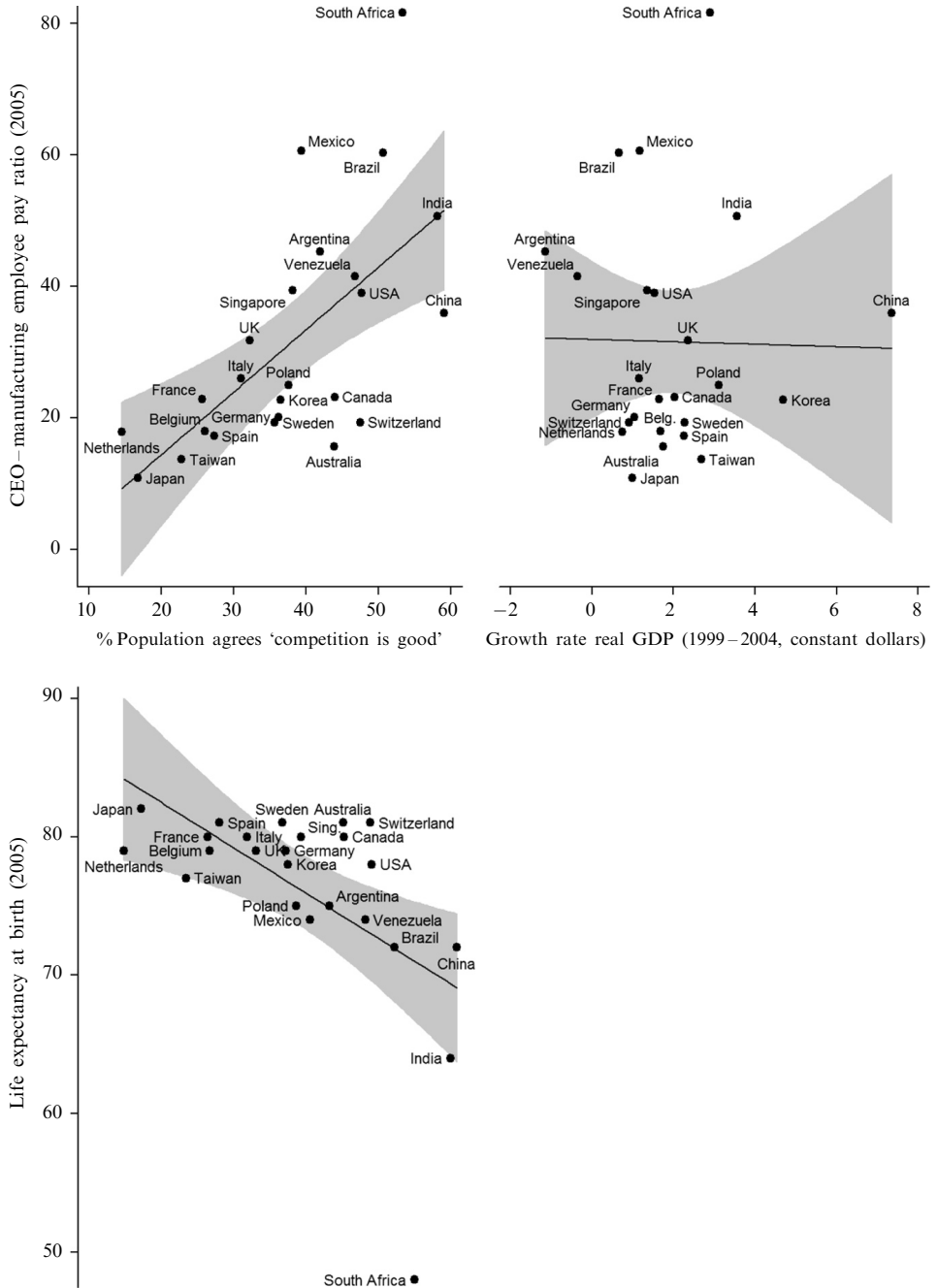


Featured graphic: Worldwide differences in executive pay, culture, well-being, and economic growth



Over recent years a debate has raged in Europe and the United States on the level of executive pay. The recent financial crisis has increased the fierceness of this debate, especially in those European countries, such as the Netherlands, Belgium and France, which are generally characterised by a relatively strong sense of economic solidarity and egalitarianism.

The figure includes four dimensions. The first dimension is executive pay, which is measured by the level of CEO compensation relative to the pay of an average employee working in manufacturing. The other three dimensions can be related to culture ('competition is good'), well-being (life expectancy), and economic growth (GDP growth). The figure shows some interesting results. First, there is a strong association between the level of executive pay and culture. This can be explained by the fact that in countries in which the vox populi is that 'competition is good', usually fewer rules and regulations are imposed by government authorities, which makes it easier to justify excessive payments to CEOs. Second, relatively high levels of competition may not only increase income inequality; it may also lead to social and health related problems, as illustrated by the clear negative association between a positive attitude towards competition and life expectancy. Wilkinson and Pickett (2009) show that, in countries with a high level of income inequality, the pressure to improve and safeguard one's position on the social ladder is much higher, which may lead to depression, addiction, violence, and school dropouts. Finally, there is no association between the level of executive pay and national economic growth. This is in line with findings in the management literature, in which it is shown that there is hardly any relationship between CEO remuneration and firm performance (Tosi et al, 2000).

This outcome provides people in the more egalitarian European countries with evidence to complain: why do these CEOs get paid that much when it results in higher income inequality, health problems, and not even a contribution to economic growth? However, the population in countries like South Africa, Brazil, and the United States should be even more worried. Do the relatively well-paid CEOs in these countries add value to the marketplace at all?

References

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Sources of data: World Value Survey, Towers Perrin Executive Compensation Survey 2006, World Development Indicators, all accessed online, March 2009.

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