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The Distributional Effect of Trade on the CEO Market

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ABSTRACT

The post-1970 trade integration era was not only coincidental with a rise in the average CEO pay but also with an increase in the dispersion of CEO earnings. This paper studies the distributional effects of trade openness on the market for CEOs. Using US firm-level data, we show that trade raises CEO equilibrium pay in the most productive firms but reduces it in the least productive ones. A rise of 10% in the industry openness degree increases CEO compensation by about 30% and 20% in firms at the 99th and 95th percentiles of the productivity distribution, respectively. However, CEO compensation falls by 5% in firms at the 20th percentile. Our results show that trade openness impacts inequality within the very top of the income distribution, where skill differentials are less evident.

KEYWORDS CEO Compensation; Top Income Inequality; Globalization

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