Does left partisanship and high coordination moderate top executive compensation?

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Abstract:

In this paper I address political economic factors behind variations of top executive pay. I argue quite contrary to existing literature that post war social democratic corporate ownership policies led to resilient corporate institutions reluctant to changes facing ascending international shareholder ideology. Social democratic parties had an active corporate policy supporting, not opposing corporate elites and big businesses that was complementary to a strategy in keeping the work force. In contrast to what is presumed of the left parties, they did not oppose capital, but rather external capital. As a result, coordination problems evolved in investment strategies, which is inevitably linked to compensation of top executives. I use top executive pay data and multilevel OLS regression to test my arguments across 13 developed economies during 1999-2009. The regression results show support of the arguments above. Left partisanship and progressive taxation have a weak significant negative impact on the cash ratio. Trade union density and centralized wage bargaining have a positive effect on the cash ratio to total compensation. The impact is also the same for the equity ratio, though with a smaller coefficient. This suggests that high levels of coordination, paradoxically, have not translated into new innovation of top income regulations, and I argue that this has been sustained politically. This has led to a skewed wealth distribution of corporate resources towards the rich in coordinated market economies.

Key words: social democracy, corporate governance, top executive compensation, high income earners

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