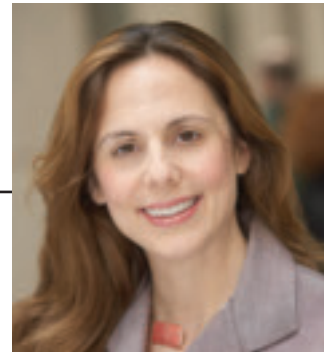


Services Rendered

Are CEO salaries killing productivity?



EDITORIAL

Tan Dew-Becker and Robert Gordon of Northwestern University have studied wage and salary increases in the U.S. between 1966-2001. Their study, "Where Did the Productivity Go? Inflation Dynamics and the Distribution of Income," shows that during that time, only the top 10% of American workers enjoyed a growth rate of real wage and salary income equal to or above the average rate of economy-wide productivity and growth. While 90% of workers saw their wage or salary grow 11% during that time, those in the 90th percentile took advantage of a whopping 121% increase. Moreover, those in the upper 99.99th percentile are now pocketing 617% more.

As well as film and sport stars, Dew-Becker and Gordon point to the escalating compensation premium of CEOs and other top corporate officers. It's not just that the rich are getting richer—they are doing so at the expense of the overall economy.

When it comes to attracting top talent, the old adage, you get what you pay for, certainly applies. But shouldn't there be a limit? According to Dew-Becker and Gordon, those massive top percentile salaries represent corporate productivity gains that aren't being passed on to consumers in the form of lower prices—and they're definitely not being passed on to

investors in the form of dividends or to grow the company and build new business.

Here in Canada, I haven't come across the same kind of study. But in this issue of *Canadian Investment Review*, authors Vijay Jog, PengCheng Zhu and Shantanu Dutta take a close look at governance at Canadian restricted voting share firms. The paper, which won this year's Barclays Global Investors Canada Research Award (it starts on page 9), asks some tough questions, including whether or not there is any evidence of agency costs as proxied by excess CEO pay. Turns out, that it's significantly higher at restricted voting share firms than at firms with different governance structures. Excess CEO pay takes a bite out of shareholder profit.

That's definitely food for thought. Here's hoping that Canadian companies will choose to spread the wealth a bit and to reward staff, shareholders and build their businesses. ■ —Caroline Cakebread

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