

Unfortunately, it wasn't obvious whether the rule of law preceded or followed economic growth. Moreover, *The Economist* points out, the rule of law has different definitions, which the writers call "thick" and "thin." Some thick-minded economists believe that the rule of law is joined at the hip with liberty and democracy. True adherence to a rule of law constrains state power, and guarantees freedom of speech and association, they say. Thin-oriented economists take a narrower view, defining the rule of law as guaranteed property rights, predictable transaction costs, and the efficient administration of justice. But in either case, why have parts of Southeast Asia and Russia grown steadily richer under the sway not of the stately rule of law, but of crony capitalism and Kremlin banditry?

Although reforms in the rule of law, whether codified as a broad right to democratic institutions or simple access to a security of property, are linked to improved economic status, the tie is weak. Improving the rule of law is desirable, *The Economist* says, but not a prerequisite for growth.

ECONOMICS, LABOR &amp; BUSINESS

## Worth Every Penny

**THE SOURCE:** "Why Has CEO Pay Increased So Much?" by Xavier Gabaix and Augustin Landier, in *The Quarterly Journal of Economics*, Feb. 2008.

THE SIXFOLD RISE IN PAY FOR America's top executives over the past quarter-century has brought

an outcry from populists. But economists Xavier Gabaix and Augustin Landier of New York University argue that CEO pay merely rose in lockstep with the market value of large corporations during this period. The average value of the nation's top thousand firms grew by more than 500 percent from 1980 to 2003. Average chief executive pay went up by the same relative amount.

Gabaix and Landier say that the

Executive pay raises may seem astonishing, but they reflect a corresponding rise in the market value of major corporations.

difference in top talent is almost minuscule. The best CEO is statistically likely to increase earnings by .016 percent more than the 250th-best CEO. Even so, when that figure is applied to a \$500 billion company, it amounts to an extra \$80 million, hardly chump change. The astonishing pay raises for chief executives can turn out to be cost-effective.

Executive salaries have not risen at the same astronomical rate in other countries, the authors say, in part because foreign firms have not increased in value at the same rate as those in the United States. But in at least one other country, Japan, where the rate of market capitalization has soared, executive pay has not kept pace. Comparing giant companies in the two countries, Gabaix and

Landier found that the average compensation of Japanese CEOs was only one-third that of their American counterparts. Tokyo corporations, they say, are much more likely to groom their executives internally than to bid for CEO talent on the open market.

ECONOMICS, LABOR &amp; BUSINESS

## The Baby Penalty?

**THE SOURCE:** "Understanding the Returns to Delayed Childbearing for Working Women" by Kasey Buckles, and "Transitions: Career and Family Life Cycles of the Educational Elite" by Claudia Goldin and Lawrence F. Katz, in *The American Economic Review*, May 2008.

WHY HAVE WOMEN NOT RISEN further and faster in business since pouring into the work force in the 1970s? It remains a great conundrum of the 21st century, and now two studies present new evidence on the familiar tension between family and work.

The wages of highly skilled women flatten out when they have their first child and never regain the same trajectory, according to Kasey Buckles, an economist at Notre Dame University. Although female fertility declines dramatically between the ages of 25 and 35, the typical American woman is increasingly putting off having her first baby. The first-time mother was almost two years older in 1999 than in 1982 (and since Buckles conducted her research, the mean age at first birth has risen further, to 25.2 years in 2005, the latest year for which figures are available). Each additional year of delay