


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## Abstract

Income gains in the top 1% of earners have increased sharply since the late 1970s. Many studies have shown that the growth in income of these top earners is faster than the growth in firm size. This paper shows that the increase in CEO compensation resulted from a process of diffusion within localized networks, propagating higher pay among corporate executives. We compare three possible explanations for diffusion: director board interlocks, peer groups, and educational networks. The statistical results indicate that corporate director networks facilitate social comparisons that generate the observed pay patterns. Peer and education network effects do not survive a novel endogeneity test that we execute. A key implication is that local diffusion through executive network structures partially explains the changes in macro patterns of income distribution found in the inequality data.



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