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Trade-Offs in the Labor Union-CEO Compensation Relationship

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Abstract

We examine the relationship between union presence and CEO compensation. Based on the notion that the union taxes the firm's returns, we test whether unions successfully capture a larger share of the firm's returns with respect to the share captured by the CEO. On average CEOs in union firms are paid 19 percent less than those in nonunion firms, after controlling for several determinants of CEO pay. CEO compensation risk is lower in union firms because the reduced compensation risk is a trade-off for the lower level of CEO compensation.

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