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How a Male CEO's Kids Affect His Workers' Pay

Economists gathered in San Diego over the weekend for the American Economic Association's annual meeting. At the session, economists honored the most-recent winners of the Nobel prize in economics and presented new research for discussion and analysis. Among the findings:

SAN DIEGO—If you work for a company run by a male chief executive whose wife is about to give birth to a child—particularly his firstborn—you might want to cross your fingers they have a daughter. And if you're a male worker, you might get the short end of the stick no matter the gender or birth order.

The gender of a male CEO's children is significantly linked to the salary of his employees, according to new research from Aalborg University economics professor Michael Dahl, University of Maryland Smith School of Business professor Cristian Dezso and Columbia Business School professor David Gaddis Ross. Presented Friday at the annual American Economic Association meeting here, the analysis suggests some explanations for the linkage, but doesn't draw absolute conclusions.

First, the bad news. In general, when a male chief executive has a baby, his workers' salaries shrink by 0.2%, or about $100, per year. That decline is driven by a 0.4% drop if the child is a son, according to the study of almost 1,600 births to more than 18,000 male CEOs at 10,655 private companies in Denmark between 1996 and 2006.

But there is good news for workers: The dynamics change if the CEO and his wife have a daughter, particularly if she is their first child. Employees' wages actually go up after the delivery of a first-born daughter. And in that scenario, female employees get the larger boost, with their salary tending to grow by 1.1%, compared with a 0.6% gain for male employees.

In general, female workers benefit more when a male CEO has kids, regardless of the child's gender or birth order. When a male executive has a son, female employees' salaries shrink 0.2%, compared with a 0.5% drop for male workers. And when the son is the executive's first child, female employees' salaries actually go up 0.8%.

The seemingly beneficial treatment of female workers could be because becoming a father alters a male executive's view, particularly toward women, the paper suggests.

Previous research shows men's esteem for their wives often rises when they become mothers and this shift may nudge male executives to also view their female employees as more competent, the authors note. Other studies have also shown that men sometimes care more about other people's well-being after having a daughter.

"I have two daughters," Mr. Ross said. "Do I think having kids has influenced me? Heck yes."

—Kristina Peterson

Banks Still Too Big, Risky

What a difference a few years makes—or not, in the case of banking regulation.

Anat Admati, a Stanford University economist who studies banks and finance, said in an interview on the sidelines of the AEA meeting that despite the financial crisis and recession the world's big banks remain too large, too fragile, too indebted and too interconnected in hard-to-predict ways.

Rather than building big capital cushions to protect themselves from potential losses, for example, some banks have returned cash to shareholders, she says. Banks still finance themselves heavily with debt, not equity, even though massive indebtedness, especially short-term debt, got them in trouble in the first place.

This underlying fragility of the banking system augurs more crises, Ms. Admati argues. "It's a system of booms and busts," she said. "Banks lend either too much or too little. ... That's bad for the economy."

In March, she and co-author Martin Hellwig will publish "The Bankers' New Clothes," in which they offer recommendations for making banks and the financial system safer.

Granted, the U.S. banking system is in a better place than it was in the depths of the financial crisis.

But Ms. Admati says U.S. banks are still lacking in their ability to absorb losses. One reason, she says: They know that if they fail, the government will save them to safeguard the economy.

And yet, their need for profit guides them to shun the low-margin business of making loans to small businesses in favor of riskier, but higher, returns elsewhere, such as in commercial property, Ms. Admati says.

Things like structured investment vehicles–which allowed banks to invest in markets without seeming to, since the funds were off-balance sheet–aren't around anymore. But the basic incentives in the banking business remain as distorted as ever, Ms. Admati says.

Her suggestion? For starters, make banks less fragile by stopping payouts to shareholders and limiting debt financing, so banks have more equity and bigger capital

cushions.

—Neil Shah

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