

# The Financial Benefits of Being Beautiful

By Derek Thompson



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"Love of beauty is taste," said Ralph Waldo Emerson, a co-founder of this magazine. His perspective would fit snugly in a modern corporate boardroom. A raft of new research suggests not only that good-looking CEOs are paid more handsomely, but also that they're actually better for their companies in surprising ways.

Attractive CEOs have "a positive and significant impact on stock returns" when they first appear on television, according to a working paper by Joseph T. Halford and Hung-Chia Hsu at the [University of Wisconsin](#). "Our findings suggest that more attractive CEOs have higher compensation because they create more value for shareholders through better negotiating prowess and visibility," they said. When better-looking execs appear on TV, their stock gets an exaggerated bump. Comely CEOs also snag better terms in mergers with other companies.

Blame the boards for shallowness if you like. But if economic partners, like traders and executives, are going to be suckered by good looks anyway, you might as well pay extra for it.

The problem is that the right look is often valued for the wrong reasons. "Mature-looking" CEOs are presumed to be more competent, according to another study by [John R. Graham, Campbell R. Harvey and Manju Puri](#). But while beautiful faces might actually be more valuable for their companies, there's nothing special about wizened heads or the brains inside them. "Psychology research shows that baby-faced-looking people often possess qualities opposite to those projected by their facial traits," the researchers write (and this author cheers the finding). Mature-looking CEOs aren't any better at their jobs. They're just better at *looking like they're better*.

Paying for pulchritude isn't limited to Wall Street. Research shows that attractive people are widely perceived to be more competent leaders, harder negotiators, and smarter workers. According to Daniel Hamermesh, an economist who spent two decades researching the financial effects of being a hottie, the top third of attractive men [earn 4 percent more than intellectually similar \(but average-looking\) men](#). The ugliest guys make 13 percent less. For the typical worker, that would add up to \$230,000 "beauty premium" over a career.

Hamermesh's work fleshes out something old and intuitive: Making decisions is hard, and we often rely on our first impressions. Some people look trust-worthy, and some people look like crooks. Some people look like they can be president, and some people are Dennis Kucinich. [Cute students are rated as smarter than uglier students](#), older-looking people seem more mature, and taller people seem more authoritative. The economics benefits of height (particularly for men) are so widely established that the Harvard economist Greg Mankiw once cheekily suggested a [Tallness Tax](#) to level the playing field.

First impressions are short-cuts, but sometimes our instincts are off. In [one study of hedge funds](#), Ankur Pareek and Roy Zuckerman found that managers that looked more trustworthy attracted more funds, but there was "no evidence that perceived trustworthiness predicts actual manager skill." In fact, the trusty-seeming managers generated worse returns. The same principle appears in the peer-to-peer lending market, where [Enrichetta Ravina](#) found that pretty women, in particular, get cheaper loans, despite being more likely to default.

There are at least two levels of bias baked into the "beauty premium," as Daniel Hamermesh calls it. The first level is personal: We are, like Ralph Waldo, drawn to beauty and want to trust in it. The second level is strategic: Understanding that most people are drawn to beautiful faces, companies in the business of making impressions will pay a bonus for them. It might not be rational to give an attractive couple a favorable interest rate or loan term. But boards are just trying to raise their market cap by betting on the wisdom, or foolishness, of the crowd—which is repeatedly biased toward giving good-looking people the benefit of the doubt. Of all the weird financial benefits of good looks, the bloated pay packages of beautiful CEOs might be one of the least irrational.

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