

Of academics and professionals: The difference is in the pay

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Abstract: University professors, on the one hand, and professionals, such as doctors and lawyers on the other hand share many things in common, yet they are also different in key aspects. One of the most important differences lies the nature of the incentives and motivation to which they respond. This paper claims that turning academics into regular professionals would have far-reaching consequences from a wider social perspective. Emphasizing monetary rewards at the expense of intrinsic drivers would most likely change the nature and structure of the academic output.

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JEL Classification: H44, I23, L33, M52

1. Introduction

In 2012, Philip Altbach, director of the Center for International Higher Education at Boston College edited a book of readings called "Paying the Professoriate: A Global Comparison of Compensation and Contracts." The volume could not have come at a better moment. It provides an international comparison of salaries in twenty-eight countries, across a wide variety of universities. Some of the findings are enlightening, although not surprising. In lesser developed countries, such as Armenia, Russia, and China, academics earn a very low pay and are compelled to rely on moonlighting in order to significantly supplement their income. In some cases, salaries are so dismal that university professors need to more than double their pay just to make ends meet. Even in countries in which pay is relatively more substantial, academics hold a second job, such as consulting or even something totally unrelated to their academic credentials. Obviously there is a brain drain from countries such as India, China, Russia, and others to countries, such as Canada, the United States, Germany, Australia, and similar. But the most damning finding appears the fact that salaries in academia lag behind the pay received by other professionals, such as lawyers, medical doctors, counselors, psychologists, engineers, and architects. This appears true across the board, including developed countries. Even academics who teach and research in law, business, or engineering tend to be underpaid relative to those who actually practice law, business, or engineering.

The authors of the volume on academic pay consider that the viability of the education systems is contingent on the ability to recruit talented and capable academics. It

stands to reason that in order to produce high quality research and scholarly work, one has to rely on outstanding talent. In order to have competent and well-rounded graduates, able to function as engaged, productive, and responsible citizens, one has to ensure excellence in teaching. This obviously requires the best and the brightest of academics.

In Canada and the United States, business schools are already paying a market differential to attract professors to teach disciplines such as Finance, Accounting, Marketing, Management and Human Resources. Business professors are invariably paid more than they counterparts teaching English Literature, Philosophy, or History. In accounting, starting salaries for young and inexperienced assistant professors routinely edge above \$100,000/year; yet, it is increasingly difficult to find qualified accounting graduates holding a doctorate and willing to engage in a career of teaching and research. Accountants can easily double this amount by taking a job with an accounting firm, or any other successful corporation.

Philip Altbach seems to conclude that by underpaying university professors relative to other professionals, one is jeopardizing the health and viability of the higher education system as a whole. The entire analysis and discussion that leads towards this conclusion is predicated on the assumption that academia is yet another form of professional activity. This begs the question of whether academics are indeed professionals, and if their activity and pay should be compared to those of other professionals.

This paper claims that academics are quite different from most professional categories, although they are many common characteristics. The desire to compare

academic pay to those of other professionals is humanly understandable, yet trying to turn academics into regular professionals would have far-reaching consequences from a wider social perspective. Emphasizing monetary rewards at the expense of intrinsic drivers would most likely attract the “best and the brightest,” but it would also change the nature and structure of the academic output. The next section compares and contrasts the characteristics of universities and those of professional organizations. Section three discusses in more detail the implications of turning academics into professionals, and section four concludes.

2. Of academics and professionals

Professional organizations bear significant resemblance to universities, however, they are quite distinct from them in many key aspects (Table 1). Professionals are highly educated and skilled individuals who deliver a

specialized service at market prices. In a vast majority of cases their skills are transferable from one institution to another. The output, although intangible is generally a good destined for private consumption. An attorney representing a client in a divorce proceeding, a plastic surgeon performing a face lift, or an architect producing the blueprints of a new condo building represent classic examples.

Because the economic output of professional organizations is sold at a price, subject to supply and demand, it is relatively easy to perform a cost benefit analysis, and economic performance metrics are relatively straightforward to use and interpret. Professionals represent strategic assets for the organizations that employ them; this is why the governance structure of these organizations is rather flat. While social status and reputation probably represent important drivers for medical doctors, lawyers, engineers, and architects, monetary rewards are also very important in motivating their work.

Table 1. A comparative analysis of academics and professionals.

	Academics	Professionals
Skills	Specialized and general	Specialized & transferable
Education	Graduate and post-graduate	Undergraduate and graduate
Human capital	Strategic asset	Strategic asset
Output	Intangible, mostly public goods	Intangible, mostly private goods
Incentives	Social status & intrinsic rewards	Social status & monetary rewards
Economic paradigm	Peer-production, outside the market	Supply and demand, within the market

Unlike most professional organizations, academia is to a great extent a peer-production network delivering mainly intangible public goods. Universities have been the pioneers of the knowledge economy. The economic output of universities is manifested in several discernible ways [Valsan and Sproule (2008)]:

(i) Creation of knowledge. Without a doubt, knowledge is largely responsible for bringing about significant social and economic change [Romer (1986) and (1990)]. While knowledge has always been the main catalyst of economic and social endeavors, it has increasingly become the main ingredient and output of the socio-economic process.

(ii) Investment in social capital. The creation of objective knowledge and its dissemination play a paramount role in maintaining the coherence of our system of social and cultural organization. The open society needs engaged citizens, sharing common values, who are aware of their socio-economic environment, and are able to make responsible choices [Veblen (1918), Popper (1945), Hayek (1960), Kamens (1988), Milligan et al. (2004)]

(iii) Investment in human capital. The output of higher education has a private component, in the form of increased earning power of graduates; and a wider social component, in the form of increased productivity and economic growth for society at large [Romer (1986) and (1990)]. Ashenfelter and Rouse (2000) contend that the relationship between (higher) education and earning power is arguably one of the best-documented in economics.

(iv) Signal of quality: The degree granted by universities signal that graduates have undergone a systematic process of evaluation consistent with widely accepted quality assurance standards. The ultimate beneficiaries are the graduates themselves who can claim credible quality; potential employers who can differentiate among potential candidates; and society at large who benefits from a better allocation of human capital.

The bulk of the academic output cannot be traded in the market at prices that reflect supply and demand. The main private good component of university output is the enhanced earning power of graduates. Knowledge and social capital are public goods by excellence.

Universities operate to a great degree outside financial and product markets. They raise financial capital from taxpayers, donors, and students, and human/academic capital from academics and other scholars. The constituencies who benefit from their output include, but are not limited to: students, graduates, the academic community, businesses, not-for-profit organizations, taxpayers, and others. Students and academics engage in both public and private consumption.

Universities deal with easy to quantify immediate financial costs but with economic results that are vague and distant into the future. Because economic results are so hard to ascertain, measuring economic performance is very problematic. There are very few objective metrics of operating and economic performance, if any. Human capital represents the main strategic asset of academia. Unlike in the case of a majority of

for-profit corporations, strategic assets cannot exist on their own, independently from the providers of capital. The technological core of the university cannot be divested and sold piecemeal on the market.

Since an overwhelming portion of the academic economic output is made of intangible, public goods, and the main strategic resource is human capital, the more efficient form of activity is peer production – that is, self-organized collaboration outside the market.

3. Should academics be treated and paid like other professionals?

Academics have always complained about relatively low pay. The aforementioned book lends more credibility to their claims. In many countries, university professors actively lobby for higher pay. In professional schools, such as business, medicine, engineering, and law, the lure of high paying professional jobs have forced many universities to pay market differentials, as already indicated above.

Moreover, universities have increasingly moved to embrace academic capitalism – a concept centered on market transactions, performance metrics, and competitive pay.

The ascension of performance metrics and quality assurance standards in higher education is hailed not only by professors, but by administrators as well, for it legitimizes control over university resources and more generous compensation packages.

Nowadays, top university managers increasingly require the perks and lifestyle traditionally reserved for top corporate executives [Valsan and Sproule (2008) and (2010)]. Both in Canada and the United States, some

university presidents earn like Fortune 500 CEOs. By the early 2000, five university presidents in the United States already earned over \$1 million, with a median compensation for the job \$360,000. In Canada's public university sector, administrator's pay is lagging somewhat behind that of their American counterparts; yet, faculty unions wield formidable strength and push academic salaries up year after year. However, academics are chasing a moving target, because doctors', engineers', and lawyers' pay is edging even higher.

There is no denying that academia is already undergoing a transformation process destined to make it more like a professional organization. This is done by (i) moving from peer evaluation of performance based on trust to "objective" performance metrics; and (ii) increasing emphasis on monetary compensation at the expense of intrinsic motivation. The important question here is whether this metamorphosis is warranted. The current paper argues that moving to a profession-like paradigm represents a fundamental change with profound implications for the social and economic nature of the modern university. This in turn has far-reaching consequences for society at large.

To the extent to which measuring teaching performance relies on teaching questionnaires and satisfaction surveys, the quality of the economic signal represented by the degree granted by the university might become diluted. There is a perverse incentive for both professors and students to collude and reward each other in the classroom at the expense of the education process [Valsan and Sproule (2008) and (2010)]. However, teaching performance based on "objective" metrics and research measured in funding,

grants, and industry profits allow administrators to gain more control over how academics are compensated. A gradual switch towards monetary compensation would impact the motivation of academics already in the system and attract a different profile of university professors, that is, those who are more interested in monetary rewards.

Yerkes and Dodson (1908), and Ariely, Gneezy, Loewenstein, and Mazar, (2005) argue that "excessive incentives could undermine task performance," although the motivation might remain unchanged. Vohs, Mead, and Goode (2006) show that significant monetary rewards bring about "a self-sufficient orientation," and make people less willing to cooperate. It is obviously hard to preserve the motivation for collective action when the monetary incentive cancels the intrinsic willingness to participate in creating the public good. Moreover, mentioning monetary payment is often sufficient to switch the perceived relationship from a social-market relationship (in which intrinsic motivation is the core) to a money-market relationship [Heyman and Ariely (2004)]. Once a social relationship converted into a market relationship, there is no room for coming back [Gneezy and Rustichini, (2000)].

The most significant results of this re-orientation towards top-talent sensitive to top-pay is to emphasize the private component of the academic output. Universities would no longer invest in social capital and create objective knowledge, freely available to all; they would rather focus on enhancing the earning power of a select social strata, thus creating proprietary knowledge to be used by corporations in delivering private goods to an increasingly monopolistic market.

Intangible public goods are hard to measure and ascertain. Delivering them relies on trust, and the good will of economic agents (i.e., academics in this case), which in turn rest on a strong intrinsic motivation that extends well beyond monetary rewards or administrative penalties. A more professional-like university would turn away those motivated by intrinsic rewards – precisely the profile willing and able to deliver public goods.

4. Concluding remarks

University professors on the one hand, and professionals, such as doctors and lawyers on the other hand, share many things in common, yet they are also different in key aspects. One of the most important differences are the economic paradigm and the nature of the motivation.

Traditionally, academics are part of a vast peer-production network, operating outside the market; academics are driven by intrinsic motives to deliver mostly public goods. Turning them into regular professionals requires, among other things, emphasizing "objective" performance metrics to legitimize a significant monetary compensation package. While this might attract "the best and the brightest," it might also change the whole economic paradigm. Switching from individuals primarily motivated by intrinsic rewards to individuals primarily motivated by money might decrease the total economic output of the university and modify its structure.

Appealing to extrinsic rewards would motivate those seeking higher pay, and hence would likely boost the private component of the output. Turning away those motivated

by intrinsic rewards, that is, those willing to produce outside the market and share with others, would reduce the public good component. Since the latter traditionally represents the bulk of what universities do, it is conceivable that the total economic output might eventually decrease. The re-orientation of academic output from public to private goods is not inherently better or worse; it would only require that universities be treated like

profit centers from a fiscal perspective; and that tenure – one of the pillars of the current academic establishment, destined to nurture and protect academic freedom and intrinsic motivation – be called into question, for it would appear it no longer serves any useful purpose. The only question to be asked here is whether such a re-orientation is merely desirable from a wider social perspective.

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