3-1995

Review of the Book *The Cost of Talent: How Executives and Professionals are Paid and How it Affects America*

Ronald G. Ehrenberg
*Cornell University*, rge2@cornell.edu

Follow this and additional works at: https://digitalcommons.ilr.cornell.edu/articles

Part of the Higher Education Commons, Labor Economics Commons, and the Labor Relations Commons

Thank you for downloading an article from DigitalCommons@ILR.

Support this valuable resource today!

This Article is brought to you for free and open access by the ILR Collection at DigitalCommons@ILR. It has been accepted for inclusion in Articles and Chapters by an authorized administrator of DigitalCommons@ILR. For more information, please contact catherwood-dig@cornell.edu.
Review of the Book The Cost of Talent: How Executives and Professionals are Paid and How it Affects America

Abstract
[Excerpt] Why should the former President of Harvard University be concerned that during the 1970s and 1980s the earnings of doctors, lawyers in private practice, and top corporate executives grew substantially relative to the earnings of professors, teachers, and high level federal civil servants? Why should he care that physicians with specialized hospital-based practices, such as neurosurgeons, have seen their earnings rise substantially relative to physicians practicing family medicine during the same period?

In each case, the answer is that Bok believes that occupational choices are determined, at least at the margin, by the pecuniary and nonpecuniary benefits that the various professions offer. Thus, he fears that the growing earnings differentials have diverted America's "best and brightest" away from occupations that he considers vitally important for our society, the professoriate, teaching, the federal civil service, and primary care medicine. Given this belief, his goal is to put forth a menu of reforms that might induce an increased supply of talented individuals to these occupations.

Keywords
higher education, occupational choice, pay, compensation, reform

Disciplines
Higher Education | Labor Economics | Labor Relations

Comments
Suggested Citation

Required Publisher Statement
© American Economic Association. Reprinted with permission. All rights reserved.

This article is available at DigitalCommons@ILR: https://digitalcommons.ilr.cornell.edu/articles/858
kind—either theoretical or empirical—making it difficult to evaluate.

From a general discussion of personnel policies, Bloch then moves to an analysis of discrimination in recruitment. There is a cogent review of the theoretical and empirical work on hiring discrimination (including a discussion of recent studies using matched pairs of black and white auditors to test for discrimination). The key insight of this section is that “word-of-mouth recruitment in conjunction with racial and ethnic segregation . . . implies an advantage for those who are members of . . . groups with relatively many entrepreneurs” (p. 39). The main evidence offered for this proposition is a strong negative correlation between the unemployment rate for each of six ethnic groups and the proportion of each group who are “entrepreneurs” (employees of their own corporation).

This is an interesting fact, but I find it less compelling than the author does. For one thing, we simply do not know much, if anything, about the relative strength of job-finding networks in minority and white communities. Of the three studies Bloch cites, one concludes that blacks are more likely than whites to find their jobs through networks, while two find the opposite. Nor is it obvious why network linkages should depend on the race of a firm’s owner: after all, word of mouth could link the black employees of a white-owned firm as well as a black-owned one. Finally, the link between hiring discrimination and unemployment rates is theoretically complicated: lower job offer rates for a group do not translate into higher unemployment rates unless special conditions are met (Flinn and Heckman 1983). The book offers no sense of what these conditions are, or how likely they are to obtain in the real world.

One of the author’s main conclusions is that civil rights laws (including Title VII of the 1964 Civil Rights Act and various affirmative action programs) produced little relative gain for blacks after 1975, and outside of the South. Again, Bloch offers a nice survey of the literature on the effects of antidiscrimination laws, and lists several reasons why these laws would not be expected to reduce hiring discrimination or relative unemployment rates significantly. Some of these reasons seem convincing: for example, few lawsuits now allege discriminatory failure to hire; instead, most contest discriminatory discharge, which does not give employers a strong incentive to hire black applicants. Less persuasively, the author suggests that firms may relocate to areas of the country where minorities are scarce in order to avoid hiring them. The evidence for this proposition consists of a single employment discrimination case in which the plaintiff made this allegation.

In sum, the book contains some material that labor economists will find useful. (Ch. 4 gives a detailed analysis of a court case in which the author was an expert witness, and is particularly interesting for what it reveals about the use of economic analysis in a legal setting.) In the end, however, much of the book seems conclusory, and we are rarely given either the empirical evidence or the theoretical models that would justify many of the author’s conclusions.

Peter Siegelman
American Bar Foundation, Chicago

REFERENCES


Why should the former President of Harvard University be concerned that during the 1970s and 1980s the earnings of doctors, lawyers in private practice, and top corporate executives grew substantially relative to the earnings of professors, teachers, and high level federal civil servants? Why should he care that physicians with specialized hospital-based practices, such as neurosurgeons, have seen their earnings rise substantially relative
to physicians practicing family medicine during the same period?

In each case, the answer is that Bok believes that occupational choices are determined, at least at the margin, by the pecuniary and nonpecuniary benefits that the various professions offer. Thus, he fears that the growing earnings differentials have diverted America’s “best and brightest” away from occupations that he considers vitally important for our society, the professoriate, teaching, the federal civil service, and primary care medicine. Given this belief, his goal is to put forth a menu of reforms that might induce an increased supply of talented individuals to these occupations.

*The Cost of Talent* is divided into three parts. Part I summarizes the competitive theory of occupational choice, focusing on the role played by pecuniary and nonpecuniary compensation in the allocation of labor. While Bok acknowledges the substantial empirical evidence in support of this model, he stresses the role that market imperfections and institutions also play. In particular, in an extraordinarily useful historical survey that goes back to colonial times, he shows that the professionalization of law and medicine and their initial shift to becoming high paying occupations occurred only after these fields established licensing and accreditation requirements that were administered by professional associations.

This section also documents the rapid growth in earnings of high level corporate executives, private lawyers, and doctors that took place between 1970 and 1990. These relative earnings changes are shown to have been accompanied by an increase in the aptitude test scores of people entering these fields and a decrease in scores of those entering teaching.

Having established the basic facts, Part II of *The Cost of Talent* presents an in-depth examination of the markets for corporate executives, doctors, lawyers, university professors, and teachers in the United States. In chapters devoted to each, Bok stresses the market forces and institutional arrangements that influence compensation, and hence the flow of talented individuals to the profession. He then proposes reforms/institutional changes that might serve to limit compensation in the fields that he believes currently get too many talented people and to increase compensation or improve working conditions in the fields that he believes have too few.

The discussion in these chapters is wide-ranging. As part of it, a number of labor market theories are nontechnically summarized and evaluated. For example, the chapter on corporate executives discusses tournament models, efficiency wage theory, the principal agent problem, and evidence on the effectiveness of individual and group pay-for-performance arrangements. Would that academic economists had as an impressive command of the legal literature as this academic lawyer/university president has of this economics literature!

The reforms Bok discusses and evaluates often involve considerable restructuring of institutional arrangements. They include reducing the control top corporate executives have over the election of corporate board of directors: shifting to a single payer form of national health insurance; increasing the use of no fault insurance; and increasing compensation and improving working conditions for teachers. In each case, Bok notes the difficulties involved in implementing the reform and thus the small likelihood that it will actually “provide” the solution to the problem he perceives. Indeed, given these difficulties, at points his focus shifts to a consideration of how to improve the quality of services produced by the educational and governmental sectors, given the number and quality of employees in the sectors.

The final part of *The Cost of Talent* sums up the arguments, discusses in detail the importance of the values that society holds, and proposes the remedies that Bok perceives will be the most effective. Given the serious limitations that most of the latter have, he argues for an expansion of educational opportunities for the disadvantaged, so at least they will have a chance to compete for the large earnings that exist in the high paying professions. He argues that providing such opportunities is essential to the stability of American society. I suspect that this type of reasoning goes a long way toward explaining the policies to
diversify student bodies that developed at elite American universities and colleges, such as the one that Bok headed, over the last two decades.

What does one ultimately conclude about *The Cost of Talent*? On the one hand, it is a very readable, well documented, and fascinating treatment of the labor markets for a variety of professions. Bok clearly illustrates how institutional reforms can affect the demand for and/or supply of talented individuals to professional occupations. This alone makes the book well worth reading.

On the other hand, Bok's concern that there is an undersupply of talented people to academia, elementary and secondary education, and the federal civil service is itself a value judgment. While I personally agree with his judgment (for at least two of the fields), society as a whole probably does not. For example, cutbacks in the funding of public higher education in the early 1990s may reflect not only cyclical factors, but also the declining relative importance that Americans place on higher education, as concern over health, welfare, and criminal justice issues grows. Viewed in this light, Bok's book can be seen as an attempt to reorient the public's perceptions about the importance of the sectors he so clearly feels are undervalued. Unfortunately, many readers of his book will already be among the converted.

RONALD G. EHRENBERG
Cornell University


When asked what unions wanted, Samuel Gompers answered simply: "More!" The precise and elegant nature of this answer has proven unattractive to students of trade unionism and various attempts have been made to provide a deeper understanding of the determinates of union goals. Fifty years ago John Dunlop stimulated the debate by changing the question. Instead of being concerned about how preferences were aggregated or what determined the union membership function he inquired "What do unions maximize?" If the union objective function could be agreed upon, testable predictions were easy to generate, and the study of union wage policy could be relegated to a well-understood case of derived demand subject to a (possibly nonlinear) constraint.

Of course not all social scientists viewed Dunlop's efforts favorably. Arthur Ross's famous *Trade Union Wage Policy* (Berkeley: University of California Press), written in 1948, voiced the objection that unions were not *economic* institutions, interested only in maximizing, say, the wage bill, but *political* institutions as well, designed to express and consolidate the diversity of views represented in the union. Undoubtedly, Ross's conception of trade unions possessed more descriptive accuracy than Dunlop's, but it proved useless for generating testable predictions and has fallen by the wayside.

Our understanding of trade union wage policy is still quite limited, so the Swedish Trade Union Institute for Economic Research organized a conference, at which extended papers by Flanagan and by Moene, Wallerstein, and Hoel were presented. These papers are contained in this volume along with remarks by the discussants, Alistair Ulph for the Flanagan paper, Lars Calmfors for the Moene et al. paper, and Assar Lindbeck on both. The common theme of both papers is that wage policy depends upon more than maximizing a utility function subject to the constraint of a demand curve but the authors pursue this point in very different ways.

Flanagan's approach, described in seven short chapters (38 pages), is to examine whether collective choice models developed for the study of American legislative institutions by political scientists can deepen our understanding of union choices. He starts from the fundamental preference aggregation-majority rule problem: anything is possible including endless cycles. Yet union policy hardly seems to cycle; if anything, unions, like most political bodies, seem too persistent, stubbornly, sometimes heroically, hold-