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

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## 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**

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*The cost of talent: How executives and professionals are paid and how it affects America.* By DEREK BOK. New York: Macmillan, Free Press; Toronto: Maxwell Macmillan Canada, 1993. Pp. vii, 342. \$22.95. ISBN 0-02-903755-7. *JEL 94-1197*

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*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.

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