Aug. 5 Reality Check

The Faculty Salary Game

By John V. Lombardi

Nothing generates academic interest like a conversation about pay. Much faculty salary discussion focuses on why someone else makes more money. Often the contemplation of salary differences takes as its premise that the disparity must come from favoritism or some other illegitimate source rather than being a reflection of merit or that surrogate for merit, the market.

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These conversations tend to be one-sided since the initiative comes primarily from the colleagues who feel underpaid. “Overpaid” colleagues rarely participate in this discussion. Thus, it is always good to see a systematic, data driven discussion of the subject of faculty salary differentials such as the recent much-quoted item from Ehrenberg, et al. at Cornell University.

Their study shows not only significant salary differences between disciplines on average (economists being paid more than English professors) but significant variation in that difference among institutions. This, they say, is because high quality departments pay more than low quality departments in the same discipline. If English is a weak department and economics is a strong department in one university, the difference in average salaries will be greater than if, in another university, both departments have the same quality.

These results validate in a systematic, statistical and aggregate way what individual participants in the academic market place have known and practiced for years. We who hire faculty or seek employment know that desirable scarcity drives up the market price of faculty. High quality, defined almost entirely by research success, is scarce, so the university has to pay for it. Medium quality is common so salary levels are less. The “outside offer” that comes to the faculty member whose local salary is significantly below the market resets that individual’s salary to meet the national market, whether through a counteroffer or a change in institution.

This process, however, has many complexities not easily reflected in the aggregate data. Faculty have a local salary, the amount paid by their current institution. At the time of first hire, the local salary and the market salary are the same, because the hiring university must pay the market rate for the faculty member. This market rate reflects the faculty member’s current and expected value and includes any special premiums that might apply. However, the local salary diverges from the market the day after the faculty member begins work.

Changes in the local salary depend not on the market, but on local circumstances. Across-the-board and merit increases negotiated by unions or established by administrations adjust the local salary to local concerns. Faculty who publish and get grants, and therefore are connected to the external market, tend to increase their local salaries faster than faculty who teach and perform a variety of service roles for the institution. Even so, the rate at which the local salary rises is somewhat to significantly independent of the national salary market place, although most institutions attempt to keep local salaries above the level of initial hires in the same field at the same rank.

Promotion increases, which reward achievement as defined locally, also increase local salaries, but again at rates relatively independent of the market. In these local markets, politics and personality can intervene to slow or increase the rate of salary improvement. Other circumstances such as major budget crises in public institutions for example can hold back salary increases. On unionized campuses, the union's principal effect is to raise the floor for all faculty, and in some places regulate the rates of increase.

The market salary for a faculty member is not always higher than the local salary. The market may not pay more than the faculty member currently earns. This is often the case for faculty who have been in rank for a number of years, who do good work, but who have no particular distinction that the external marketplace cares to reward. This is the case for a majority of the faculty at most institutions. Simply put, the marketplace is not much interested in hiring midlevel faculty with good if not distinguished capabilities because an institution gains little by doing so.

The hiring institution will have its own cadre of embedded faculty who are also good and experienced, but not spectacular. They rarely need to buy more of this kind of talent. The marketplace is available for those relatively few faculty members whose value is substantially above their local salary. These people can enter the market and receive an offer from a competing institution. This will set a new salary level for them because either their current institution will match the offer or they will leave and take the new, higher salary offer at the competing institution.

Special circumstances complicate this marketplace. For example, senior minority or women faculty of significant scholarly distinction often carry a premium over equivalent individuals without the special characteristics. Faculty with the potential for leadership at a new institution but no leadership opportunities at their current institution can often command a premium because the new institution needs that leadership more than the current institution. Faculty with expertise of value in external commercial marketplaces command a premium over faculty of equivalent quality who have no commercial market value.

Staying Put

Many other circumstances discourage faculty entry into the national marketplace to attempt to improve their salaries. Faculty with a marketplace value may not enter the market because they do not want to pay the relocation costs, because they have an employed spouse in their current location, or because they have a life style that would require substantial change. Other faculty have retirement plans and options that they would lose if they enter the market and take another position elsewhere.

These conditions help explain faculty behavior in their local environments. Because only a few actually access the external marketplace in any one year, and for most faculty the opportunity to take advantage of the external marketplace will happen only once or at most twice in their 30 year careers, most faculty salary effort is locally focused. This increases the politics around local salary policies. It also encourages faculty to develop strategies that manipulate and usually reduce their workload as an alternative to increasing direct compensation.

The inaccessibility of the national market for most faculty encourages the local proliferation of quasi-administrative roles such as program chairs, faculty governance leadership, micro departmental organizations, and other structures that provide a rationale for a salary supplement for administrative service. Faculty pursue major administrative appointments that offer salary increases unavailable to them in the academic marketplace. They take on consulting, publish textbooks, create start-up companies, and supplement their salaries with summer grant funding. Unions and tenure ensure that the institution cannot force faculty members into the marketplace where they might have to accept a lower, market-determined salary. Unions also usually ensure that whatever happens in the marketplace, the salary levels of continuing employees will keep rising.

Faculty salaries also capture the value of security. Compared to many outside professionals of equivalent education and sophistication, faculty salaries appear low. When we account for the fact that faculty, once tenured, have a lifetime employment with compensation and benefits guaranteed, we recognize that part of the lower dollar payment reflects the much lower employment risk for tenured faculty compared to their professional counterparts in the commercial marketplace. College coaching salaries offer a clear demonstration of this. They often appear very high to many observers but actually capture two high-risk circumstances: coaches must win or be fired, and their compensation frequently depends on the amount of revenue their teams earn.

Universities in search of high quality research faculty, defined in the national competition for grants, awards, publications, and the like, will always pay a premium for the individuals who fit their expectations. As the Cornell study shows, if an institution has a particular disciplinary focus for its quality aspirations, it will pay more for the faculty in that field than it will for faculty in fields where its aspirations are less.

At the top rank of public and private universities, almost every field is expected to be at the top level of quality, and in those universities, the salaries of all faculty will most closely reflect the national marketplace for their subdisciplines, including the built-in differentials between English and economics. The farther from the top rank a university is, the more its salaries will diverge from the marketplace level set by the top performers and the more its salary system and interests will focus on local concerns.

To understand the faculty salary game, it helps to know the whole system.

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