

How Much Should University Vice-Chancellors Be Paid?

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There has been recent discussion about the appropriate level of pay for UK university vice-chancellors. One or two commentators have claimed that VC salaries -- currently typically in the mid 200,000s to low 300,000s -- should be halved. I have not heard a logical argument made to support that strange claim, but nor have I seen a clear analysis that justifies current rates of remuneration.

What is the right level of pay for those who lead universities? Let's attempt to leave emotion aside. The answer is: it depends from where in the underlying talent distribution we want to draw our country's vice-chancellors. Do we want superb people at the top of universities, very good people, reasonable ones, down and down, through what we might call the underlying talent distribution within the UK population?

Here is the background. In the UK, the top 1% of earners have a salary of approximately 170,000 pounds and above. So that number is what we should pay if we expect VCs to be 1-out-of-a-100 within what we might think of as the deep talent distribution. In my own view, and others may disagree, that number is not a sensible bar to set. One in a hundred people are not born with the brains and extraordinary energy required to be a vice-chancellor.

Therefore, consider a higher bar. If you are in the top 0.5% of UK earners, you are paid slightly less than 300,000 pounds a year and above. If you are on the edge of the top 0.1% of the wage distribution, you earn roughly 600,000.

Society has to choose. If we expect vice-chancellors to be, say, 1-in-a-1000 people in the talent distribution within the population, then we need to raise VCs' current pay. If we think it is OK to have 1-in-a-100 kinds of individuals running the universities, we should reduce pay to about 170,000. And so on. The nation has to pick a point in the talent distribution.

You might object and argue that surely universities do not compete with banks, say, or FTSE 100 companies? Wrong.

In the long run, the universities are indeed competing with the banks for their leaders (and for their other employees). I had to make a choice -- I remember the exact day -- when I had to decide between a bank job in London and a PhD studentship. And this does not apply merely to those with Econ degrees. Banks are full of former undergraduates in history and classics and biology. Everywhere is.

In setting the pay of VCs, it seems time for this nation, and especially our politicians, to grow up. Commentators, perhaps understandably, are obsessed with the short term. But that is not appropriate if we are trying to calculate in a mature way how VCs should be remunerated. Rates of pay in a free society are determined by underlying long-run forces. In equilibrium, economics textbooks point out, and of course it is intuitively obvious, every sector competes for labour with

every other one. Workers pursue careers that offer good rewards -- and they spread themselves into whatever sector and job looks attractive. Talent votes with its feet.

There are caveats to note.

First, it would be fair to say that some sectors offer non-pecuniary benefits. Aid charities pay less than most organizations because employees there feel good about themselves. University professors have more freedom than some others. Doctors like saving lives. But these cases are fairly few, and of second order. They do not change the main argument about the talent distribution. Anyone who runs a UK university could, with a different career track, earn a high salary doing lots of other things. I would not want to be a VC; it is too difficult and the rewards are not high enough. Second, people vary in their preferences. A few individuals will do certain jobs for a small salary. But in designing the pay of a group or occupation, we cannot, and should not, rely on the outliers.

As a country, therefore, what we have to do is decide how talented, in a fundamental sense, we want our vice-chancellors to be. Then we must stare at the existing remuneration schedule for ability in the UK. Ought our institutions of higher education to be headed by extraordinarily talented individuals, fairly talented ones, moderately talented ones, or so-so ones? The choice is society's to make. Personally, one in a thousand sounds right to me.