ECONOMIC SCENE

At colleges, as elsewhere, employers' prosperity lifts workers' expectations.

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WHO says student activism on campus is dead? Students at Princeton, Harvard, Brown and other schools have staged protests this spring to rally support for better treatment of workers. But in contrast to years past, the workers they have in mind are not in South Africa or third-world sweatshops -- they are right on campus.

At most Ivy League campuses, organized groups of students have demanded better treatment of the workers who prepare their meals, tend their grounds and clean their dorms and classrooms. Their demands point to the importance of morale, fairness and profit-sharing -- in addition to market forces -- in setting wages.

When Lawrence H. Summers was named president of Harvard at a ceremony in Loeb House, for example, the Harvard Progressive Student Labor Movement held a protest outside, chanting, "Hey, hey, ho, ho, plutocracy has got to go." For the last week, Harvard students have staged a sit-in at Massachusetts Hall. Their demands? That Harvard pay its lowest-wage workers more than poverty-level wages and then index pay to inflation. "Workers can't eat prestige," they say.

The issues vary across colleges. At Harvard and Cornell, minimum pay is the main issue; at Princeton, cost-of-living adjustments, casual work and contracting out; at Brown, Columbia and Yale, a "living wage" and collective bargaining.

Still, there is a common thread. "The thing that has gotten students engaged," said Nicholas Guyatt, a student leader at Princeton, "is the massively engorged endowments." My informal survey of 27 private colleges is consistent with this view: student protests on behalf of workers are almost twice as likely at schools with endowments exceeding $500,000 per student than at schools with lesser endowments, although other factors may contribute.

As far as I can tell, this movement has sprung more or less spontaneously from students across elite colleges, with little or no instigation from unions. Except at Yale and Columbia, students are not trying to unionize workers or themselves. Instead, they are seeking what they consider a more equitable division of the riches universities amassed in recent years. "This is also an issue of lack of union power," said Richard Freeman, a Harvard economist. "Students are acting as the voice of people who should have their own voice through unions."

Are the students simply naive? Do they not realize that better pay would mean higher tuition or reduced services? Perhaps, but they recognize that the added costs of their demands are likely to be quite small relative to operating budgets. Regardless of who will bear the additional costs, many students question the ethics of universities raising room and board charges while the inflation-adjusted income of the workers involved is declining, especially in a period of record endowment growth.

Economists fall into two camps when it comes to worker pay. One believes that over the course of a worker's career, total compensation must equal the value of that worker's contribution to output. If one worker is paid more than another, then she must contribute more to the bottom line. Thus, Milton Friedman declared, "To each according to what he and the instruments he owns produces."

The other camp believes that pay does not exactly mirror productivity. In fact, determining a worker's unique contribution to output is often impossible. Managers also have a desire to share an organization's "rents," or excess profits, with workers. This is why large, profitable companies tend to pay higher salaries to seemingly identical workers than do those with less ability to pay. In addition, worker effort, retention and recruitment are enhanced if workers are treated better, so employers have an incentive to pay more than the bare minimum needed to increase productivity. These enhancements, known as efficiency wage effects, cut the cost of rent sharing.

Ironically, as an academic economist Mr. Summers clearly identified with the second camp. In an article we wrote together, for example, he emphasized: "Whether firms share rents because of managers' desire to help workers or because of the threat that workers will withhold effort is an open question. In all likelihood both elements are present in most settings."

The evidence suggests there is a "range of indeterminacy" in wages. And the range is large. Salary surveys routinely find that wages vary 20 percent or more in the same occupation and geographic area. Indeed, if there were a uniquely determined market wage, it would not be necessary to conduct a salary survey; one comparison wage would do.

Different companies choose to set pay at different parts of the range, depending on their financial health, willingness to make do with high turnover and vacancies, and desire for a loyal, self-motivated work force. Traditionally, universities "try at best to be in the middle of the pack" when it comes to staff pay, said Arnold Weber, an economist and former president of Northwestern.

Universities are now in an awkward position. It will be hard for them to keep paying wages toward the bottom of the range if workers, seeing a run-up in endowments, raise their expectations of what constitutes a fair wage.

Ability to pay already enters into the equation at universities. The pay of university presidents, for example, is higher at schools with larger endowments, according to a new study by Ronald Ehrenberg, John Cheslock and Julia Epifantseva of Cornell. The average pay of presidents at research universities increased 35 percent from 1993 to 1998, when endowments soared. The researchers find, however, that presidents' pay increases are unrelated to their job performance, at least as measured by improvement in a university's academic standing.

This much is clear: when an employer's ability to pay increases, workers and their allies expect pay to increase as well. Failure to anticipate and address this reaction could result in unionization, low morale, poor productivity and public relations problems.

Richard Freeman also sees a warning for the Bush administration in all this. Only recently did lower-paid workers start to experience wage gains from the remarkable prosperity of the 1990's, and these gains may be cut short by the economic slowdown. "If we go into deep recession, there will be much more protest than in previous recent downturns," he predicted.