Merit, Talent, and Inequality

Introduction

The concept of meritocracy is a relatively new idea that coincides with the coming of the knowledge society and information age, as well as the growth of a professional middle class in the U.S. and Western Europe in the 1950s and 1960s. It is based on rewarding the deserving, as long as their abilities and talents are put to good use—to benefit the larger society and contribute to the good and prosperity of others. Differences in rewards are accepted so long as those people with special endowments serve the larger society and do not use them against society or an individual, say in robbing a bank or creating a Ponzi investment scheme. While there is an expectation that a variety of abilities and talents will be recognized and rewarded, it makes no sense to encourage or reward esoteric abilities and talents, such as standing on one’s head for an hour, or repeating the names and addresses of all the people under the letter A or B listed in the local telephone book (which few people use anymore) or walking on a tightrope between buildings.

Most people in a democracy accept there will be a difference in rewards for individuals who use their talents for the common good. There is a legitimate expectation that deserving people will share in power, honors and income, so long as agreed-upon rules are followed. There is also an expectation that society will establish appropriate institutions such as schools and colleges to nurture those differences in abilities and talents, but it must also provide opportunities for those people who are not as smart or talented. These experiences might include apprenticeships, vocational training, community colleges, military careers, lower-level government jobs, etc. Otherwise, the economic discrepancies between high-achievers and low-achievers will become too large and threaten the principles of democracy. At all costs we need to provide safety nets, second chances and multiple chances for those less able to reach their full potential.

We need to recognize different forms of excellence. If we remain blind sighted to different kinds of abilities and talent, then the principles of democratic equality will be lost under the guise of a restricted form of meritocracy. Not everyone can be a scientist or musician; not everyone can hit a golf ball 400 feet or entertain a capacity crowd at Madison Square Garden or Newport Beach; some of us will become teachers, plumbers and truck drivers. Not everyone will get “A”s in school; not everyone can run a 100-yard dash in less than ten seconds. We need to ensure that opportunity is provided for the least advantaged and average groups so that society doesn’t lose a critical mass of people because of background differences in class, status or talent. We need to recognize most of us have “average” abilities and will have “average” jobs.

We also need to recognize that gender is a critical factor in the world, especially in traditional, orthodox societies. The result is half the human capital never gets an equal chance to succeed or dream the “impossible dream,” to fully contribute to the growth and development of their society. When stratification and social hierarchy is based on gender and women are considered “unfit,” when their school and job opportunities are limited by custom, religion, race, and/or the norms of society, a great tragedy and loss of productivity occurs within that nation. Similarly, we should not overlook the issue of basic human rights and loss of human potential that can benefit the common purpose.

Inequalities Persist

Everyone cannot hit home runs, but everyone should get up to bat in a democratic society. What’s worse is when some people never get up to bat at all. What’s almost as bad is that throughout life someone has always batted last. Eventually, the sandlot ballplayer who always bats last gets the message and drops out. It’s no different in school and society. It comes down to what kind of society we want. Do we want one where there is a distinct cleavage, one group always hitting doubles, triples and home runs and another group striking out, or not even getting up to bat, living a half-life, passing time away and doing very little for themselves and society?
How wealth should be redistributed depends on the leaders in power and their moral fiber and values, their belief in equality and equity (or fairness). There will never be full agreement on this issue, and that is what makes liberals and conservatives debate across the aisles. Ideally, we can proclaim that laws and social institutions should be developed that do not lead to unfair advantages for some at the expense of others. In theory, everyone should be working for the common good, rather than their own interests. Some social and economic inequalities are acceptable as a by-product of capitalism and as an outcome of excellent performance. But the institutions and policies of society must correct major inequalities of opportunity and mobility if society is to work for the common good, and if working people are to have a decent life and contribute to the growth and productivity of society.

The problem is, benefits are rarely proportioned equally among advantaged and disadvantaged groups, so that the unequal distribution of the economic pie has dramatic effects on those who are disadvantaged or on the lower end of the totem pole. Similarly, it becomes a quandary to try to agree that someone’s success must be taxed or benefit the common good or the less fortunate. It might be easy to determine how a physician annually earning $500,000 or a judge earning $250,000 benefits society, but it would not be easy to show how baseball players or rock stars earning $25 to $50 million or more a year benefit society or less fortunate groups.

When all is said and done, most people act on self-interest. In opposition to the philosophy of Herbert Spencer (“law of the jungle”), and Ayn Rand (“greed is good”), the need is to curtail excessive materialism and to establish laws that restrain powerful and wealthy people. The need is to limit the rise of dominant and subordinate groups, where the powerful few enact laws to restrain or minimize the influence of the majority populace. Here some sort of balance or common sense is needed: Not to severely handicap or restrain our “best and brightest” so they check out and go to the aisles. Ideally, we can proclaim that laws and social institutions do not lead to unfair advantages for some at the expense of others. In theory, everyone should be working for the common good, rather than their own interests. Some social and economic inequalities are acceptable as a by-product of capitalism and as an outcome of excellent performance. But the institutions and policies of society must correct major inequalities of opportunity and mobility if society is to work for the common good, and if working people are to have a decent life and contribute to the growth and productivity of society.

We would like to believe in the image of a person who rose from nothing and who owed nothing to parentage. This part of the American dream and the notion of the self-made person (usually a man) is commonly accepted as part of the norm, and there is just enough truth in these stories to continue the message—sort of a testimonial to American democracy. But given the last 40 to 50 years in the U.S., the humblest and poorest rarely rise to the top. Statistically, the odds do not coincide with popular literature or folklore. For every poor or working-class person who becomes a captain of industry or a super athlete, tens of thousands are doomed to live out their life in the same quintile they started in, or slightly move an inch or two higher: Given a highly competitive society, life is not a bowl of cherries or a rose garden; sometimes there is more rain than sunshine.

**Merit and Achievement**

In education terms, what counts today is how the government spends money on intellectual capital—federal support of schools, college scholarships, retraining labor; etc. Actually, nurturing *intellectual capital* (educated and credentialled professionals and business people, skilled workers, etc.) is the key for creating *economic capital*. The irony is, however, inequality is exacerbated by the development of intellectual capital; that is, by an increase of knowledge-based and technical workers. Inequality is greater in cities such as New York, Boston and San Francisco because knowledge- and tech-based workers easily find work in these cities and earn considerably more than people who engage in routine tasks, or low-tech and low-end jobs. According to *Fortune* magazine, the typical tech worker in 2019 earned more than $200,000 per year. But the other side of the coin is that educated and professional people contribute more to society and therefore deserve to be paid more. In simple economic terms, how much more can we raise the salary of an expert janitor or bus driver—$1/hour, $2/hour, or $10/hour? Consider the janitor’s raise or bus driver’s raise vis-à-vis the raise for an expert physician, scientist or airplane pilot.

An achievement-oriented society based on academic credentials and standardized tests (which compare individuals in relation to a group score, say on IQ, achievement or aptitude) condemns many people who cannot compete on an intellectual or cognitive level to the low end of the stratification structure. It is a classic problem: The rich (who have more resources for better education) get richer and the poor get poorer; thus, gaps between the “haves” and “have nots” have dramatically increased in the last few decades. Put in more precise terms, since the Reagan presidency, one tenth of the population (on the income pyramid) has been improving its prospects while the remaining 90 percent has lagged behind.

The Gini index (or Gini ratio), a statistical measurement that represents the income and/or wealth distribution of a nation or a segment of its population the index is commonly used by economist to measure inequality. A coefficient of 0 reflects perfect equality, and a coefficient of 1 indicates maximum inequality whereas one
person or one group has all the income and/or wealth. The Gini index for the U.S was 48 in 2017, up from 40.8 in 2010. Among 32 industrialized countries, the U.S had the highest income inequality except for Singapore and Hong Kong. It is even higher than Russia, which is one of the most corrupt nations in the world. In general, the Gini index estimates to what extent a society permits its populace to achieve economic success based on a combination of talent, effort, personal choices, and luck.

According to this author, in Wealth vs. Work, it is the top 10 percent, especially the top 1 percent, that has gloomed almost all of the economic growth—because of increased globalization, free-market policies and tax policies that favor investments and capital and discriminate against wages and labor. As of 2019, the top 10 percent in the U.S. earned about 50 percent of the nation’s income, while the top 1 percent earned about 25 percent. As for assets accumulated, the top 10 percent had a larger share of the nation’s overall wealth than the bottom 90 percent, and the top 1 percent owned slightly more than 40 percent of overall wealth. In 2019, the 1 percenters in the USA earned an average of $1.3 million, compared to the bottom 90 percent that earned $50,000. The top 1 percent had assets worth $11.4 million and the bottom 90 percent had assets worth $1.2 million.

Like it or not, this is how the socioeconomic pyramid is shaped in this country. So, the question arises: Should a fortune 500 CEO earn 300-500 times more than his employees. Should someone like Tom Cruise or Madonna earn $25-50 million for one movie or someone who hits a golf ball 400 feet down the fairway or hits a baseball 400 feet in the stands earn $50-100 million annually. Keep in mind 40-65 million Americans live in poverty, the exact number depending on how we define and measure it. Another 250-275 million just get by, what is now called the “shrinking middle class.”

Conservative economist welcomes this type of world, based on the doctrines of capitalism and individual achievement—and without apologies. Now, for some of us, that is a hard pill to swallow if we consider morality, fairness, and the common good.

According to a 2017 news item in Barrons, on a global basis the top 1 percent owned 50 percent of the world’s wealth. Nearly 40 percent of the wealthiest 1 percent of the global population are Americans, although inequality is gradually shifting to China and India. A new study authored by Jonathan Ostry and funded by the International Monetary Fund reveals that economic growth becomes stifled in countries like the U.S. with high levels of income inequality—slowing growth and job creation up to one third of potential. Economic inequality feeds into political and economic instability; the economy stalls or experiences major volatility, which in turn leads to fear and reduces business investments and productivity.

According to Joseph Stiglitz, in The Price of Inequality, excessive inequality reduces economic growth. Just as discrimination reduces opportunities for many citizens, inequality of income has a similar effect whereby it leads to inadequate housing and schooling, as well as limited job growth for the majority of the people. The Columbia University economist argues that today’s economic policies have weakened labor and strengthened capital—resulting in greater inequality. As inequality grows, society becomes more divisive—leaving those at the bottom marginalized, rejected and disenfranchised—even worse, dysfunctional and a major cost factor and burden for society. The outcome is, we live in a divided world in which the rich and super-rich live in gated communities and send their children to Ivy League schools while the majority of Americans live in a world marked by modest or second-rate housing and mediocre schools and colleges.

Harvard’s Michael Sandel, in his book What Money Can’t Buy, notes that “democracy does not require perfect equality” (That would be an extreme form of socialism.) But it does require that the citizens share in the production of goods and services and employ some ethical barometer, some moral limits and some legitimate way to share in the fruits of the nation’s economy. Extreme inequality, the path we are on, ultimately shrinks the middle class and destroys the common purpose and common good of society. In such societies, the playing field is too far tilted for education and hard work to overcome initial differences at the starting point.

While the potential for individuals to improve their status is essential in a democracy, it is now more limited in the U.S. than it appears to be in earlier periods. Contrary to popular opinion, Timothy Noah’s The Great Divergence maintains that incomes have been dramatically widened in the U.S. and mobility is more limited than in many other countries. “You’d have to be blind,” he writes (and I would add stupid or a complete idiot) “not to see that we are heading in the wrong direction.” The worst thing is for people to get used to or just accept it as a way of life. If we stop to pause, lack of mobility in the U.S. has created a new nobility class rooted in the Old World with greater disparities than we could have ever imagined.

Merit and Human Capital

People are human, complicated by a host of flaws including greed and arrogance. If those who advance come to believe they have achieved economic success on their own merits, they may come to believe they are entitled to what they get—and the hell with average and less than average or lazy people. According to Michael Young, the English scholar and sociologist, those who rise in a meritocratic society can become smug, just as smug, if I may add, as people who were born on the more fortunate side of the economic divide and used their parents’ economic resources and social connections to rise up the ladder of success. The newcomers to wealth, the business and professional elite, and especially the entertainers and sport heroes, may actually come to believe they have morality and justice on their side.

A new form of arrogance can develop by the creation of meritocracy, especially by recognizing and paying millions for special talent, by the same people who once believed in and exemplified the political theories of Jeffersonian democracy and the stories of Horatio Alger. If true merit becomes associated with heredity or innate ability, as it is often construed, as opposed to the notion of opportunity, than meritocracy becomes less of a virtue and more of
a propaganda tool for the patricians and new rich to wave and use against the populace who have fewer opportunities because of their social and economic status.

In a society that prizes merit and achievement, the reward structure is linked to a person’s natural ability. In The Rise of Meritocracy, Young warned that such a society would put most of its resources in effective programs and schools that favored the academic elite, thus pushing the gifted and talented to the top and the less gifted and talented behind. Even worse, the process would continue over generations because of the assertive and class-based mating patterns and the component of heredity, which people in a democracy prefer not to discuss because of its racial implications. Both bright and slow students (and adults) will continue to compete in school and society, partially fortified by class distinctions (environment) and heredity. Barring drastic government policies, the search for merit and achievement will move capable people to the top and less capable people to the bottom. Although some say this is the most ideal society, as it gives everyone the chance to rise to the top, it has serious implications for people with average skills and less than average skills, and with people who have fewer opportunities because of class. If meritocracy is left unchecked or unregulated, it leads to increasing inequality, and ultimately where one group feels they belong to another species—very high or very low.

The discussion of meritocracy can also be turned upside down by dumb people, socially inept and smug people who for some reason rise to the top. We know that these people sometimes rise to the top of the corporate ladder or government bureaucracy because of heredity privilege, politics and/or dumb luck. Unquestionably, there is a host of reasons why unqualified people advance over smart and talented people. Similarly, some people can be over their head on the job and be saved by rank and privilege of class. CEOs, generals and politicians are good examples, especially if their rise to the top had something to do with family connections or family fortune. Some of us refer to this process as part of the “Peter Principle.” We might also call it the “Idiot’s Principle,” after John Hoover’s book, How to Work for An Idiot.

The Cost of Talent

As capitalist doctrine has evolved, people are by nature unequal. Those who take risks, prove their ability and take responsibility, compete and excel, overcome obstacles and get ahead—are thus entitled to the rewards that may come from their efforts. Two classes of workers emerge within the capitalist system: Performers and executives who entertain the public and/or generate profits or revenues for a business or corporation and salaried employees such as professionals (teachers, engineers, and accountants) and laborers (plumbers, hotel workers, and janitors) who are considered a cost factor or expense item in determining annual budgets. The goal of an organization is to keep costs down and maximize profits. For those workers who increase costs, the idea is to trim their salaries by considering supply-demand trends, eliminating jobs and curbing union growth. Those who can bolster revenues or increase the bottom line, or the asset column are paid handsomely for their efforts; they are profit units as opposed to cost units.

The problem of the often overpaid, incompetent executive is especially upsetting when the rewards are subsidized by the U.S. taxpayer, including the single mother or typical laborer who works multiple jobs to make ends meet. It doesn’t only occur when the feds bailout Wall Street. It occurs every day, every week, every year because capital is favored over labor in the U.S. and around the world; money derived from investments and capital gains is taxed at a lower rate than money derived from wages. In the U.S. the difference is nearly twice the tax for labor than capital.

If executives, entertainers, and athletes are making millions of dollars, it has to come from someone’s pocket; this is reflected in inflated prices for rock concerts and baseball tickets and depressed salaries for the average worker in the organization which pays top executive’s top salaries. If we start adding up the ramifications of all those overpaid executives, there is more than a whisper of public frustration, not yet a shout, to put a lid on executive compensation and to improve the relationship between pay and performance. Surprisingly, there is almost no outcry to cap an entertainer’s or athlete’s income.

What these kinds of disparities create is a new group of “haves” and “have nots,” based on a flawed capitalist model that rewards those who make profits for an organization and penalizes those who cost money for an organization. There is little reason to promote or defend this system of rewards other than some illogical reasoning based on “the law of the jungle” and greed or some quaint notion that capitalists (now including brand name performers) are “job creators” and receive their fair proportion from corporate profits while wage earners should be thankful for their job and enjoy a day at the beach on Sunday for free or a fishing vacation in some remote part of the country.

Profits vs. Costs

We need to wrestle with the issues of “profit” vs “cost” and the subsequent problem of inequality – and not pooh-pooh them away as part of the capitalist system, or simply that’s how the “cookie crumbles.” It is our teachers, nurses, scientists and engineers, and other knowledge and high-tech workers that will save this country, not the hip hoppers or rappers, not our athletes or entertainers, not our hedge-fund managers. In a fair or good society, if inequality of income persists, it should be based on how much value a person’s work is valued by and for the common good. The question then arises whether a teacher’s or engineer’s service is more valuable than someone who can sing songs. How can we motivate an MIT engineer student to pursue a job in engineering, where the starting salary is about $60,000 to $75,000, and not be seduced by Goldman Sachs or another Wall Street firm, where the starting salary is $200,000 to 250,000? Who is more likely to serve the common good: The engineer or the Wall Street trader?

What we need to do is find ways to reduce existing inequality. There is a lot we can do that is easy to implement regarding education, housing and health care. Canada, Australia, and many Western European nations spend up to twice as much per person as the U.S. does on social programs and safety nets. Why should entertainers,
sports figures or CEOs in the U.S. earn annually $50 to 100 million? Why should hedge fund managers annually earn hundreds of millions or more? Why do the American people allow it? To be sure, there comes a point where financial rewards become irrational, based solely on profit or greed, or on trickle-down theories of economics that rarely work, as opposed to the value for society and the planet we all share.

Despite the true believers of "trickle-down" economics, the test of restraint, balance and fairness are needed to protect all the slow and average runners of society. Here we are talking about welfare recipients, mentally challenged people, sick people, disabled people, unemployed people, retired people, elderly people, the working poor and middle class – what was once called the "forgotten Americans," "disposable Americans," "silent majority" and now "moochers." We are talking about millions of individuals and families in America living on the threshold of lost dreams. Charles Dickens in *Hard Times* used darker tones to describe this low-paid, industrialized work force. Indeed, today, we have the largest percent of low-paid workers within the industrialized world, about 25 percent, according to the International Labor Organization. In this connection, the rate of unionization in private industry continues to fall, from a high of 35 percent prior to 1980, when President Reagan crippled the air controllers union, to fewer than 7 percent in 2017.

Proponents of the system defend this dark side of the economic system while rewarding "job creators," "innovators," "risk-takers," and now "entertainers" and sports figures. Critics would interpret it as a rigged system—extending thousands of years into history—a divide between 1 percent (originally called the monarchy and nobility class, now called the rich and super rich) and 99 percent (originally called slaves, serfs, peasants, and indentured servants), now called, miners, factory workers, service workers and government bureaucrats)—in a nutshell who we refer to as working people, ordinary people, common people, etc.

Proponents of the system would also argue that people who are "profit" units are worth what they can earn; the sky is the limit; this is how the free market system is supposed to work. Well, there is nothing wrong with a profit; it is what encourages risk-taking and innovation. But there should be a limit on profit, simply for moral reasons, and it should bear some relationship to wages and how it effects the overall common good. Profits without limitations do not grow the economy. If fiscally responsible measures are not taken, extreme profits (1) result in growing inequality, (2) lead to producing stuff that people don’t often need, (3) shrink the middle class—and (4) together cause economic stagnation.

**Conclusion**

We need to wrestle with the issues of "profit" vs "cost" and the subsequent problem of inequality. It is our teachers, nurses, scientists and engineers, and other knowledge and high-tech workers that will save this country, not our athletes or entertainers, not our hedge-fund managers. In a fair or just society, if inequality of income persists, it should be based on how much value a person’s work is valued by and for the common good. The question then arises whether a teacher’s or engineer’s service is more valuable than someone who can sing songs or hit a golf ball or baseball 400 feet. How can we motivate an MIT engineer student to pursue a job in engineering, where the starting salary is about $60,000 to $75,000, and not be seduced by Goldman Sachs or another Wall Street firm, where the starting salary is $200,000- $250,000? Who is more likely to serve the common good: The engineer or the Wall Street trader?

What we need to do is find ways to reduce existing inequality. Why should entertainers, sports figures or CEOs in the U.S. annually earn $50 to 100 million? Why should hedge fund managers annually earn hundreds of millions or more? Why do the American people allow it? To be sure, there comes a point where financial rewards become irrational, based solely on profit or greed.