THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

The Meritocracy Trap

#LSEMorishima

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The Meritocracy Trap

Daniel Markovits

STICERD Morishima Lecture
London School of Economics

Wednesday 8 May, 2019

Part I

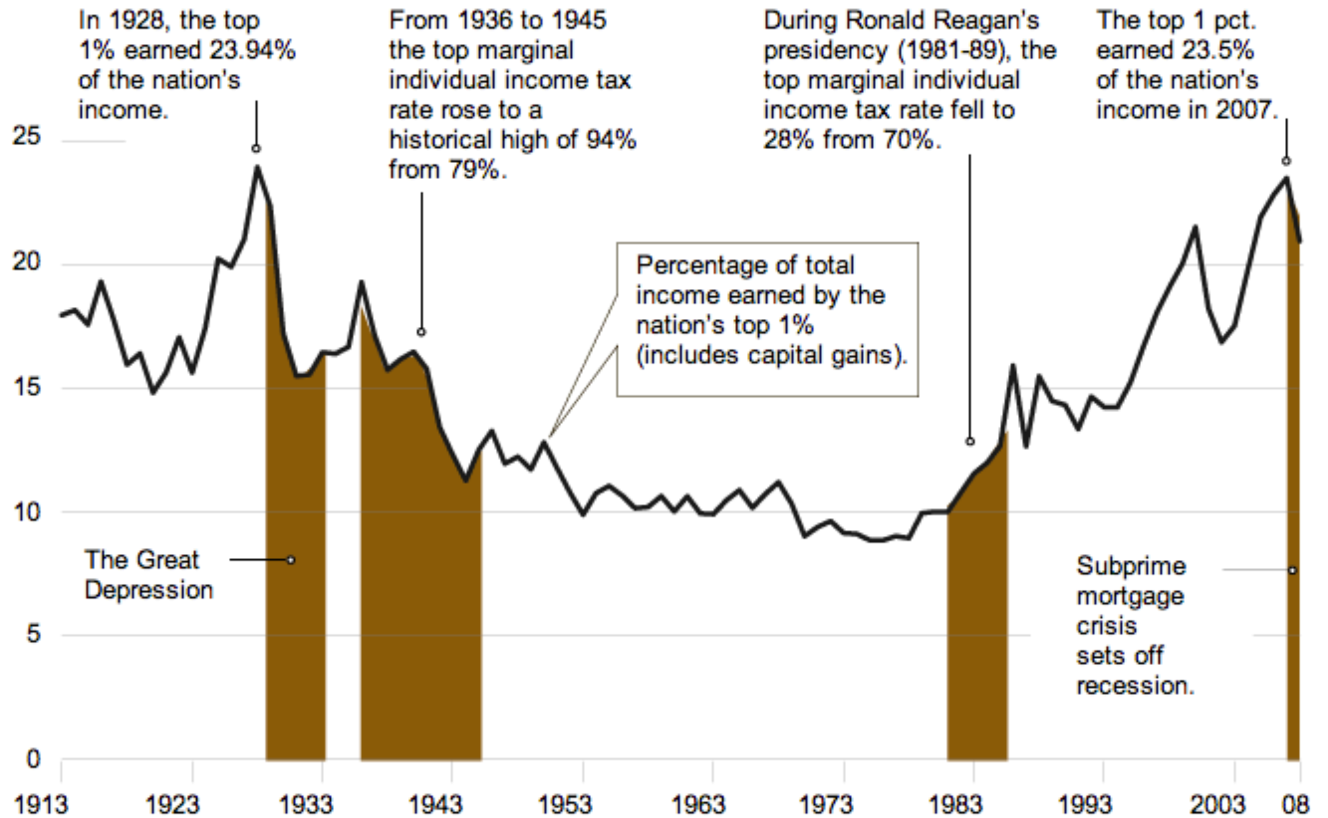
Facts

One

The Working Rich

A Familiar Tale of Rising Inequality

Top 1% Income Share in the United States



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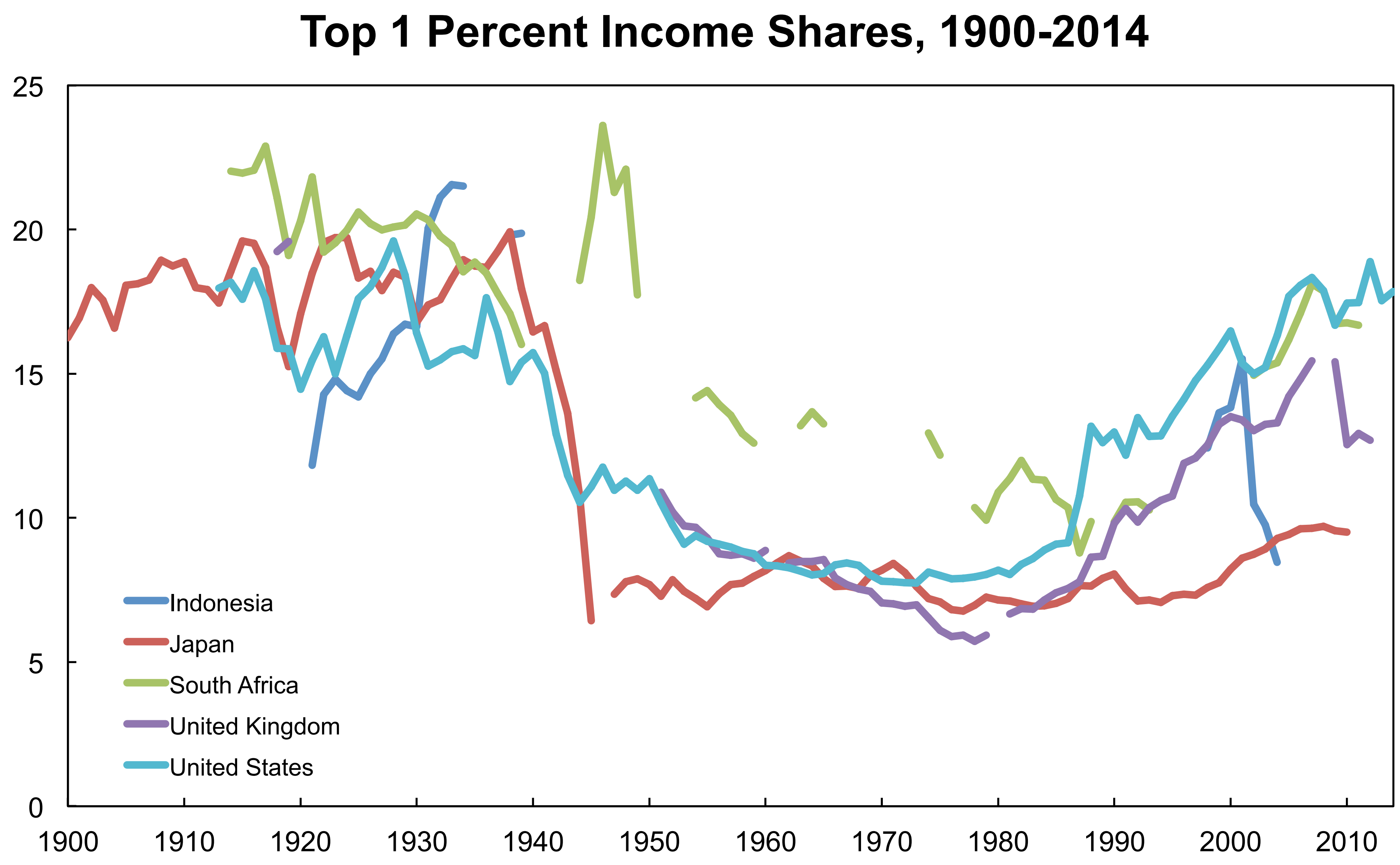
Sources: Thomas Piketty and Emmanuel Saez; Urban Institute, Brookings Institution

Source: The New York Times, 25 October 2011

Similar, although more muted, patterns appear in other countries.

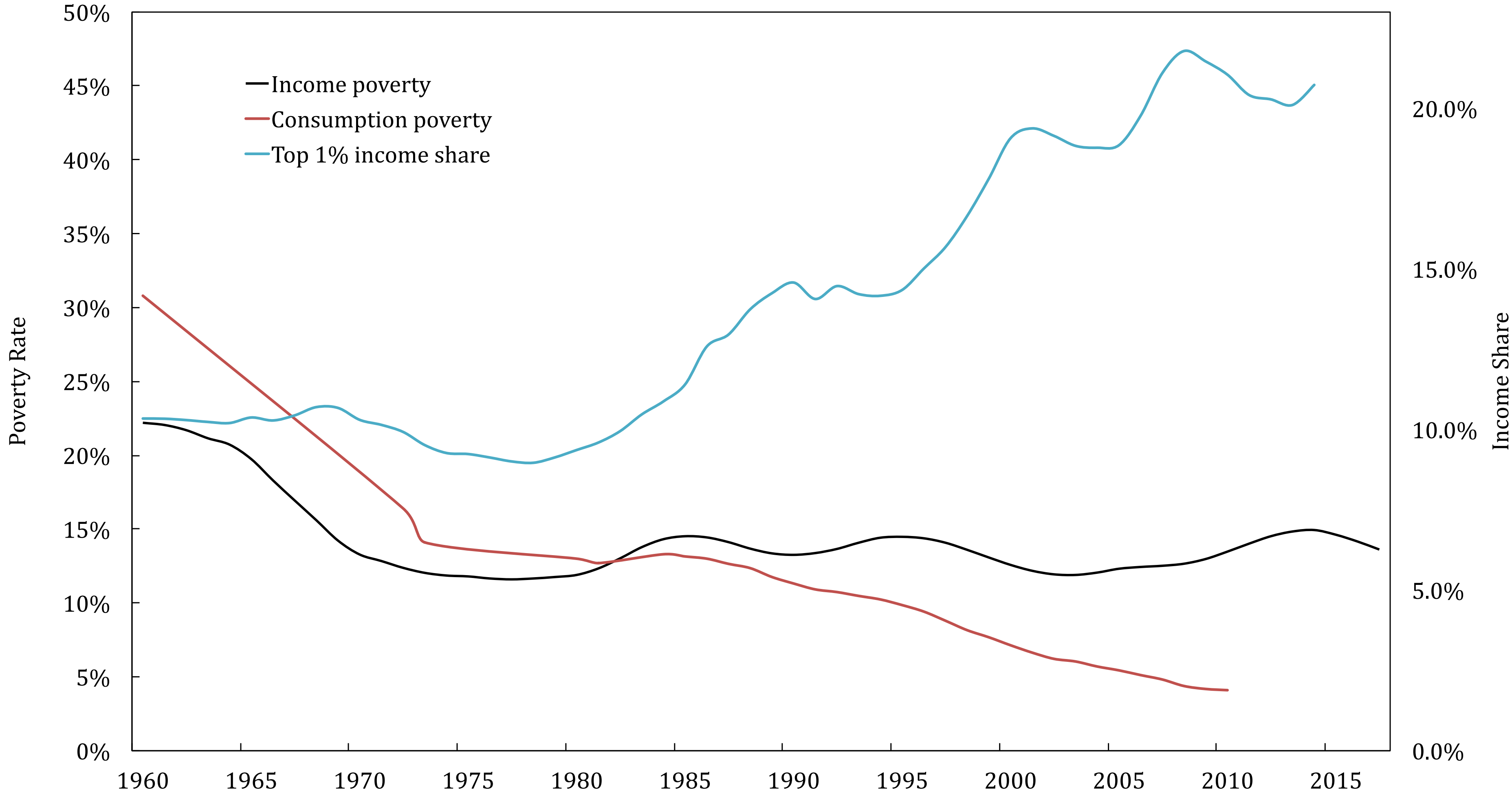


Top 1 Percent Income Shares, 1900-2014
25
20
15
10
5
0
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010
Indonesia
Japan
South Africa
United Kingdom
United States

But the details are less familiar.

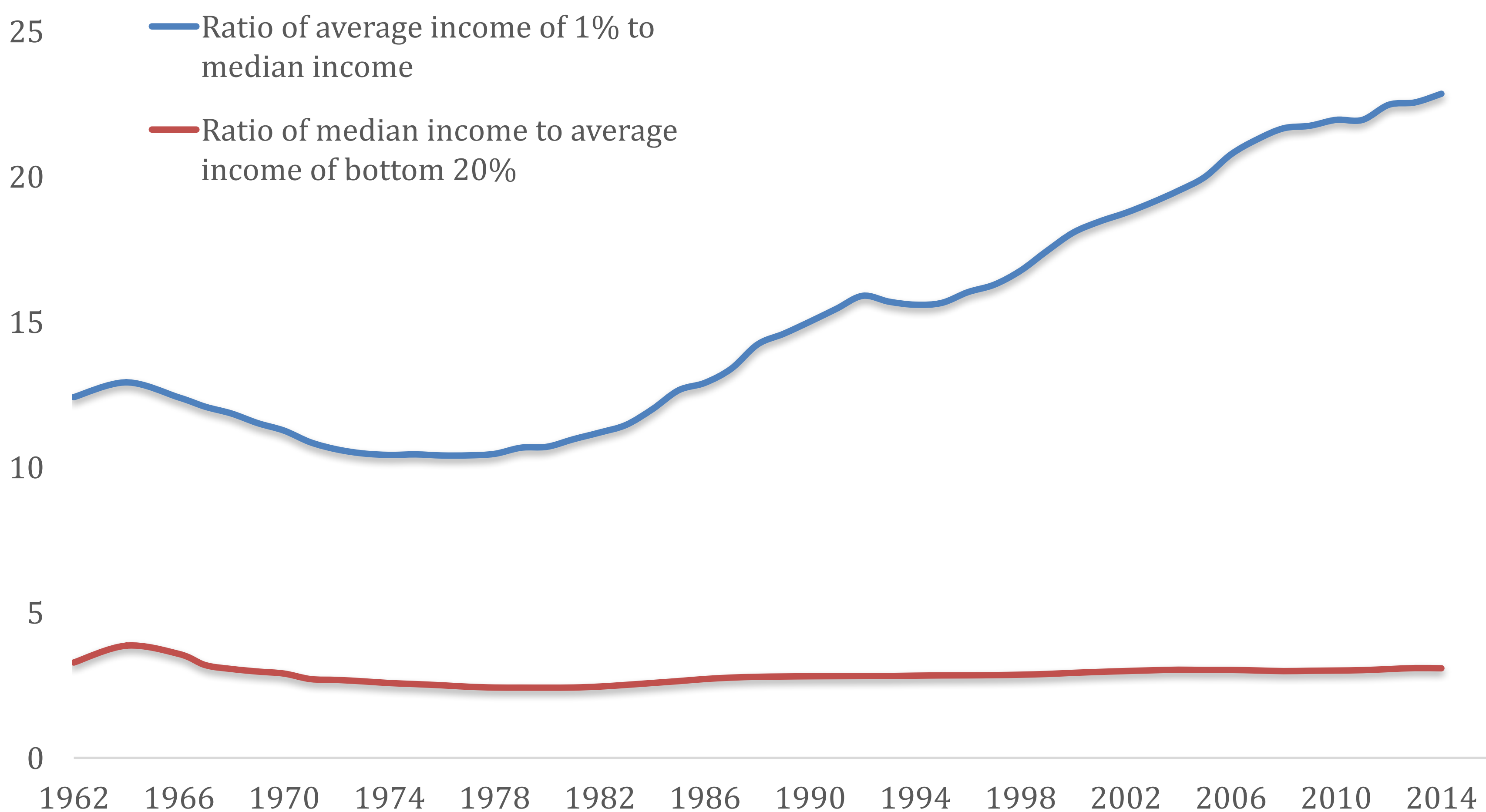
First:
A *wealth* problem, not a *poverty* problem

Top 1 Percent Income Share and Poverty Rates, 1960-2015



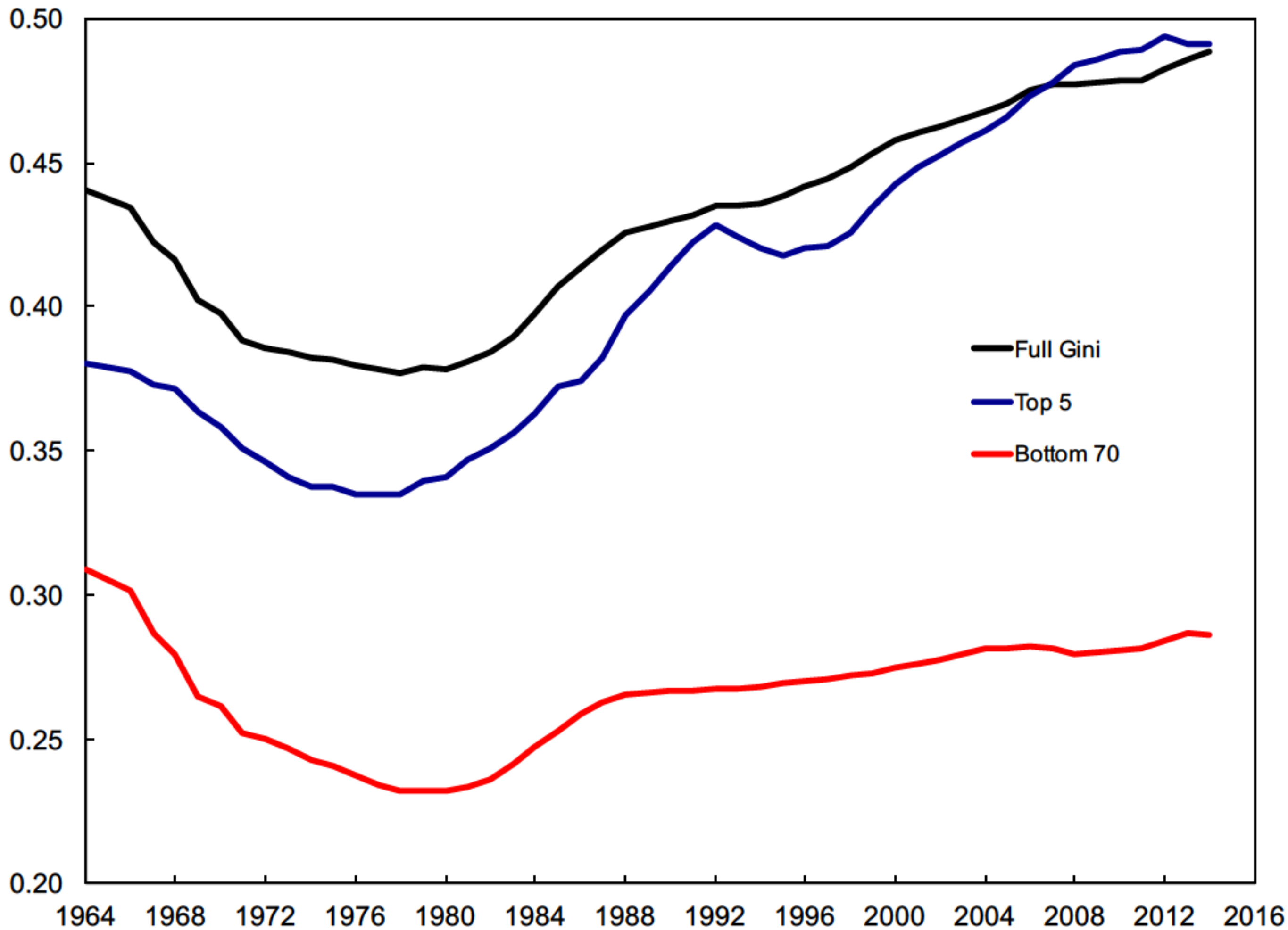
Sources: The World Top Incomes Database, Top 1% Income Share - Including Capital Gains; U.S. Census Bureau, Historical Poverty Tables - People, Table 2; Table 1 in Meyer, Bruce and Sullivan, James X. 2012. "Winning the War: Poverty from the Great Society to the Great Recession." *Brookings Papers on Economic Activity*, Fall 2012, pp. 133-200.

Ratios of High, Middle, and Low Incomes Over Time



Sources: Data from the World Top Incomes Database, Post- tax national income / equal- split adults / Average / Adults / constant 2015 local currency, https:// wid.world/ country/ usa/.

Top-End, Bottom-End, and Full Gini Coefficients over Time



Source: Data from the World Top Incomes Database, Post-tax national income / equal-split adults / Average / Adults / constant 2015 local currency, https:// wid.world/ country/ usa/.

Second:
Not the *leisure class* but the *working rich*

The rich work harder than they used to and increasingly harder than the rest

Table 1
Fraction of Men Usually Working Long (≥ 50) Hours

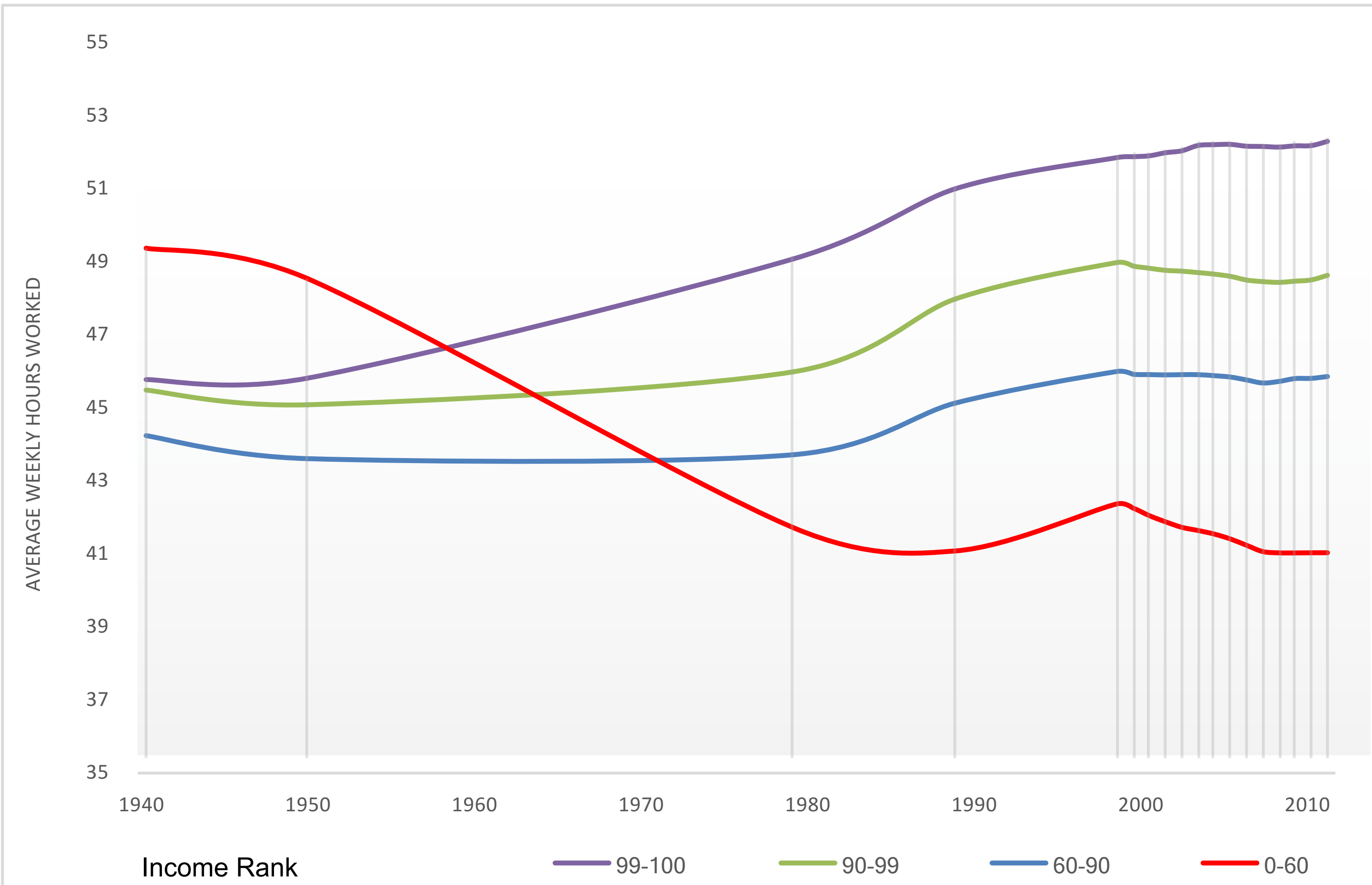
	1979	1989	2000	2006
All men	.161	.193	.190	.178
Full-time men (≥ 30 hours)	.164	.199	.207	.195
Salaried	.244	.312	.320	.301
Hourly	.086	.094	.105	.096
Ages 25–34	.171	.197	.196	.167
Ages 35–44	.185	.221	.222	.208
Ages 45–54	.154	.193	.216	.213
Ages 55–64	.128	.154	.178	.191
Less than high school	.124	.121	.116	.099
High school graduates	.137	.155	.149	.153
Some college	.166	.190	.194	.182
College graduate	.240	.303	.312	.278
Average hourly earnings quintile:				
1 (highest wage)	.151	.243	.297	.268
2	.137	.193	.214	.219
3	.132	.176	.199	.189
4	.176	.202	.184	.172
5 (lowest wage)	.217	.186	.151	.133

Note.—Sample is employed men who are not self-employed, ages 25–64.

Source: Kuhn and Lozano, The Expanding Work Week? Understanding Trends in Long Work Hours among US Men, 1979-2006, Journal of Labor Economics vo. 26 no. 2 311-343, 318 (2008)

The trend runs all the way up the income scale

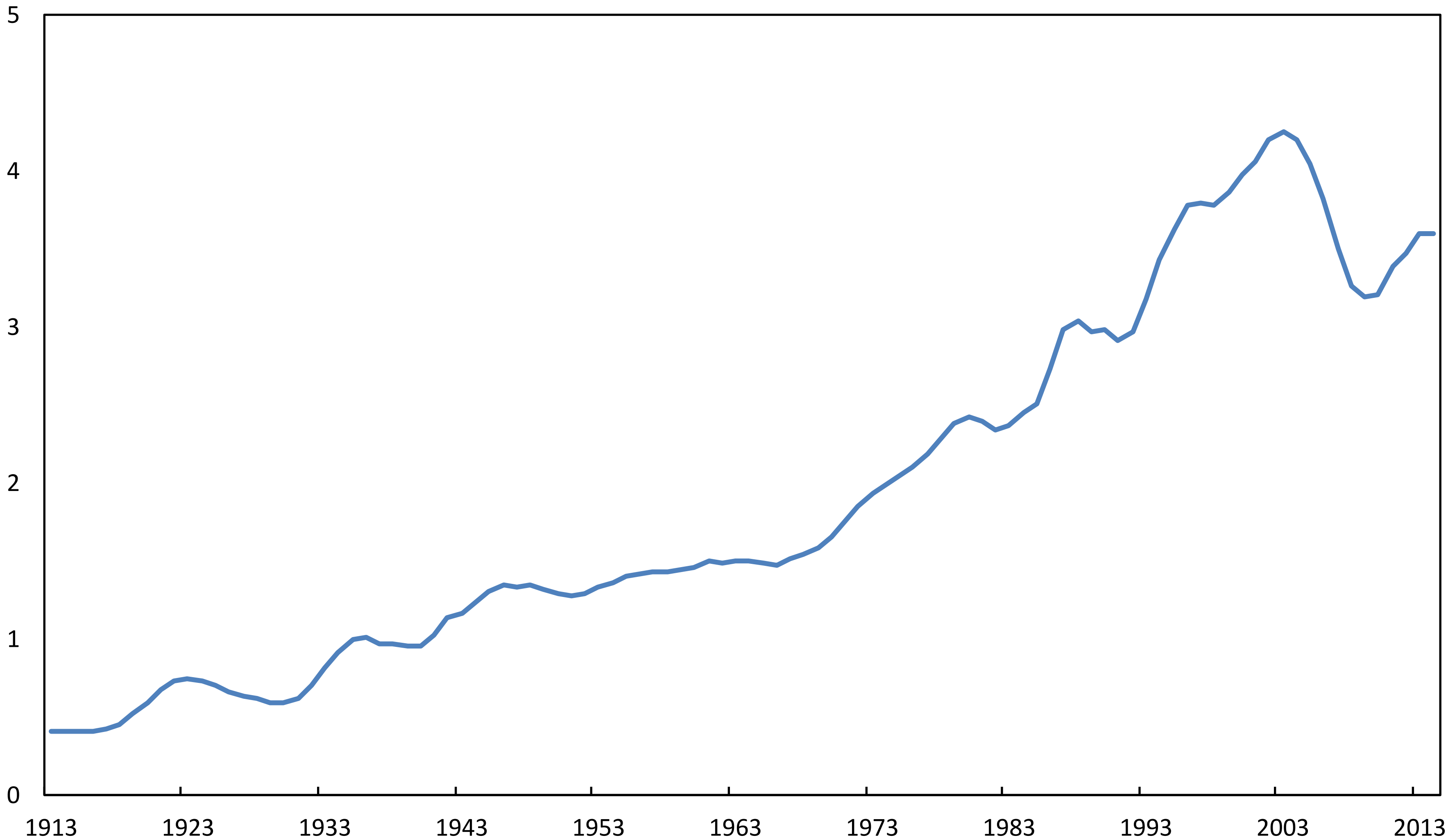
Average Weekly Hours Worked by Income Rank



Sources: The data in the figure come from the Integrated Public Use Microdata Series, which includes information about incomes and usual hours worked from the Federal Census and the American Community Survey. Data for 1940, 1950, 1960, 1970, 1980, 1990, and 2000 come from the census. Annual data from 2001 onward come from the American Community Survey. All observations in the sample used to construct this figure are (1) full-time employed, (2) not self- employed, (3) male, and (4) age 25–64.

The rich also work remuneratively;
they owe increasing shares of their incomes to labor.

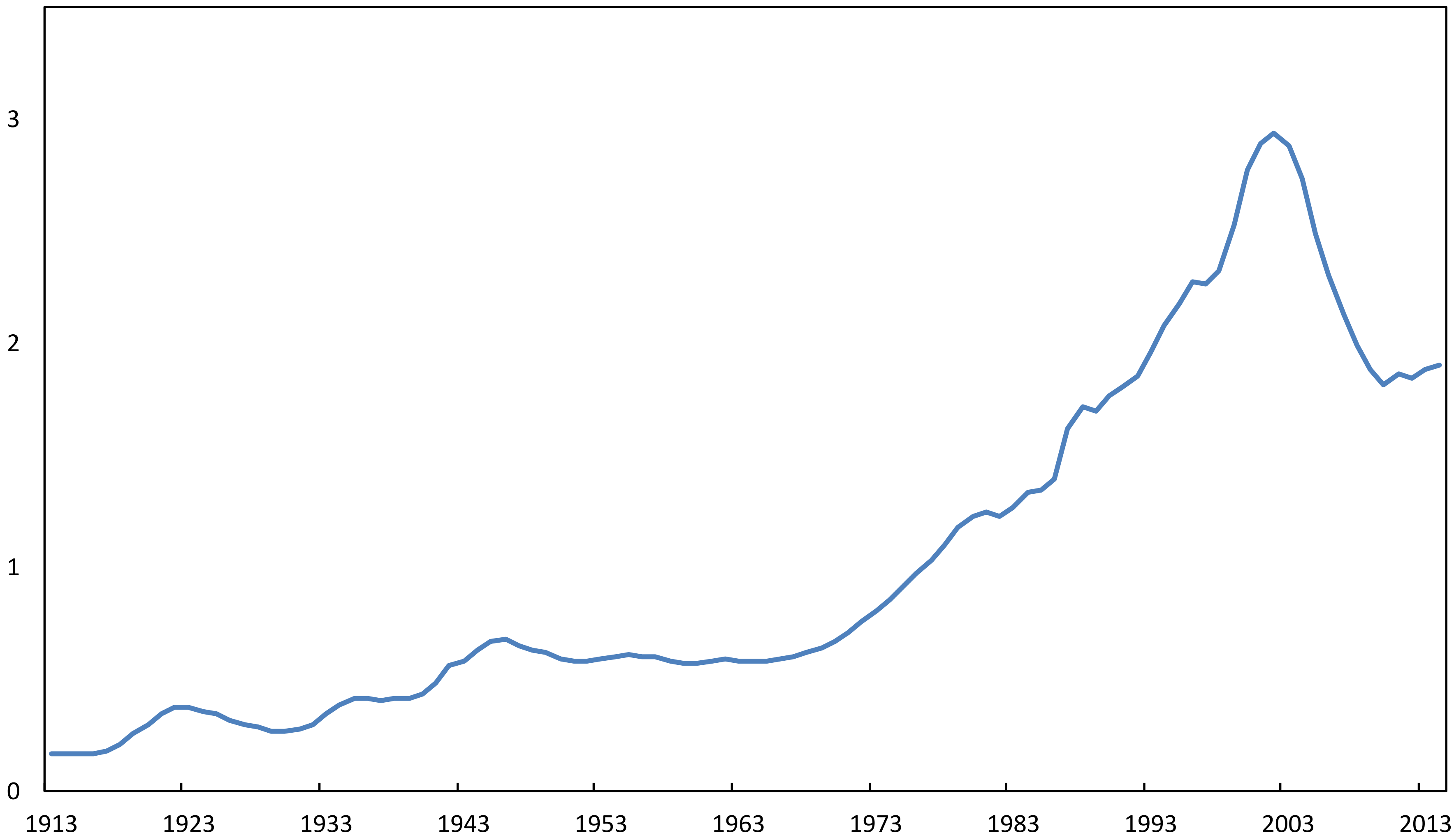
Top 1%: Core Labor to Core Capital Income Ratio



Source: Piketty, Saez, & Zucman, "Distributional National Accounts: Methods and Estimates for the United States," Appendix II, "Detailed distributional series," Tables D2b, D2c, "Composition of Fiscal Income Shares" (last updated Dec. 15, 2016).

Note: Core labor income is wages and pensions; core capital income is dividends plus interest plus rents.

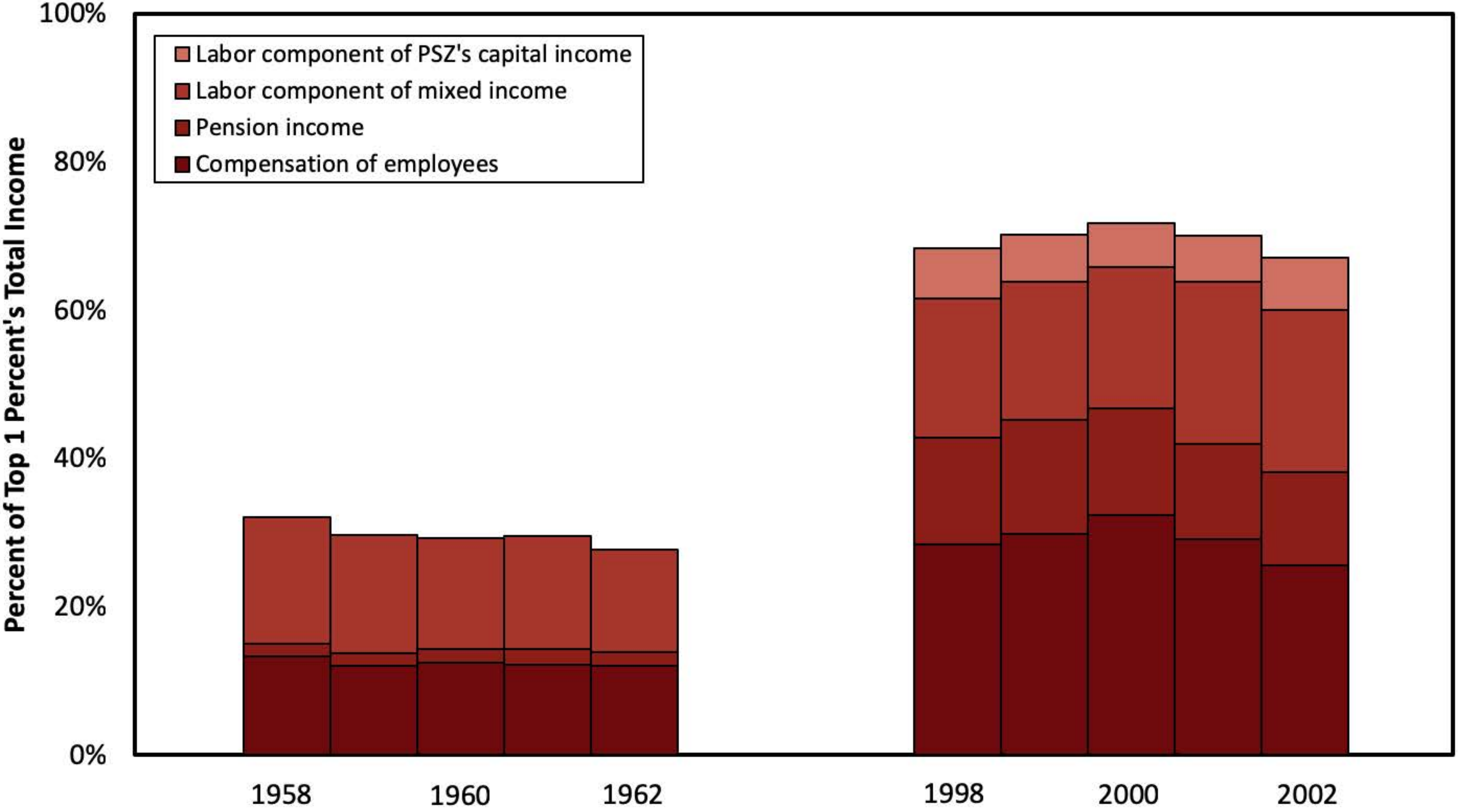
Top 0.1%: Core Labor to Core Capital Income Ratio



Source: Piketty, Saez, & Zucman, "Distributional National Accounts: Methods and Estimates for the United States," Appendix II, "Detailed distributional series," Tables D2b, D2c, "Composition of Fiscal Income Shares" (last updated Dec. 15, 2016).

Note: Core labor income is wages and pensions; core capital income is dividends plus interest plus rents.

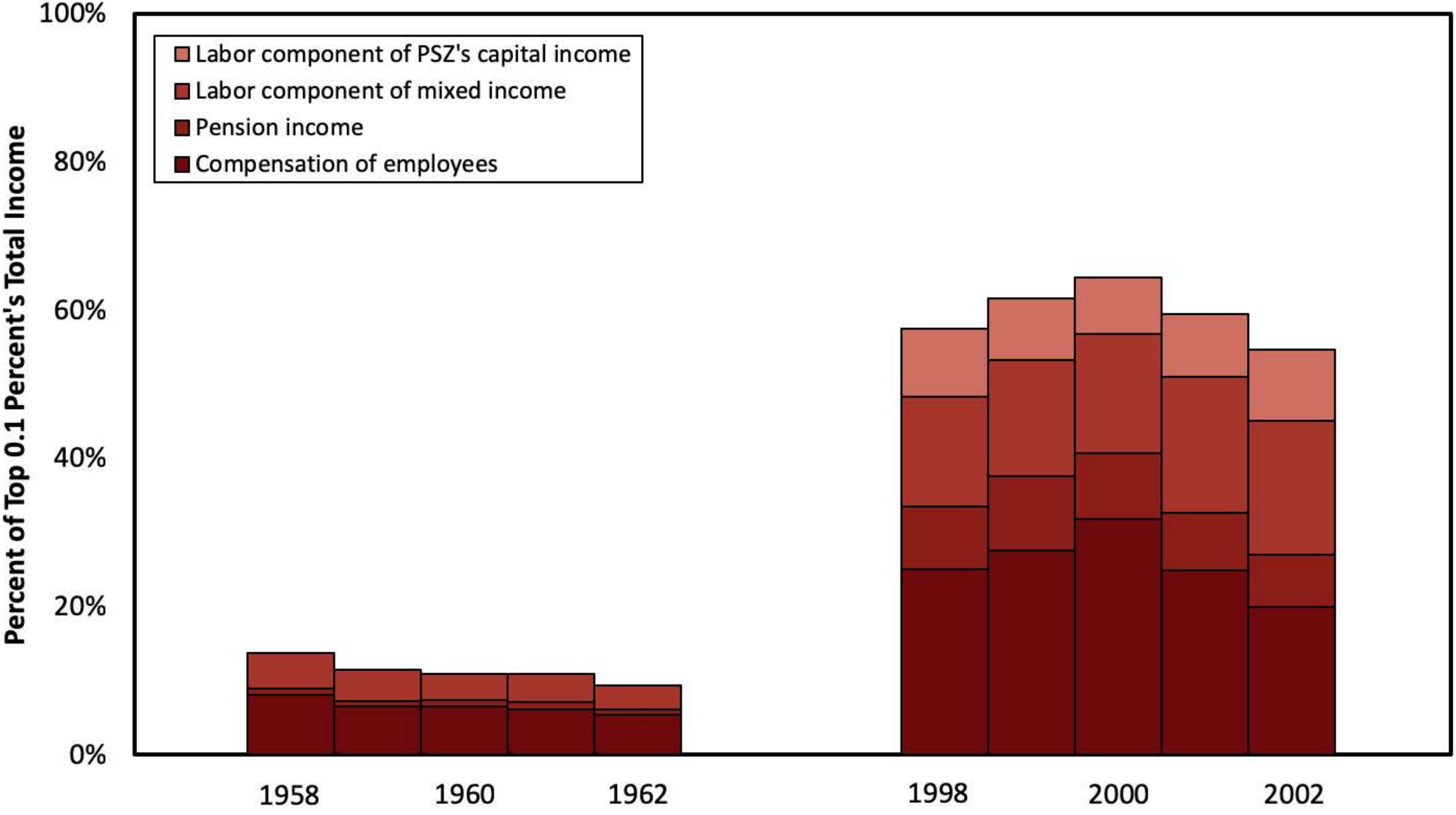
Top 1 Percent Labor Income Shares, 1958–1962 and 1998–2002



Source: Piketty, Saez, & Zucman, "Distributional National Accounts: Methods and Estimates for the United States," Appendix II, "Detailed distributional series," Tables B2b, B2c, "Composition of National Income Shares" (last updated Dec. 15, 2016).

Note: Labor share of mixed income set according to core income ratio from prior slide. Labor share of capital income (equity plus interest plus rents) set at 0% for 1958–1962 and at 20% for 1998–2002, following author's judgment based on capital gains.

Top 0.1 Percent Labor Income Shares, 1958–1962 and 1998–2002

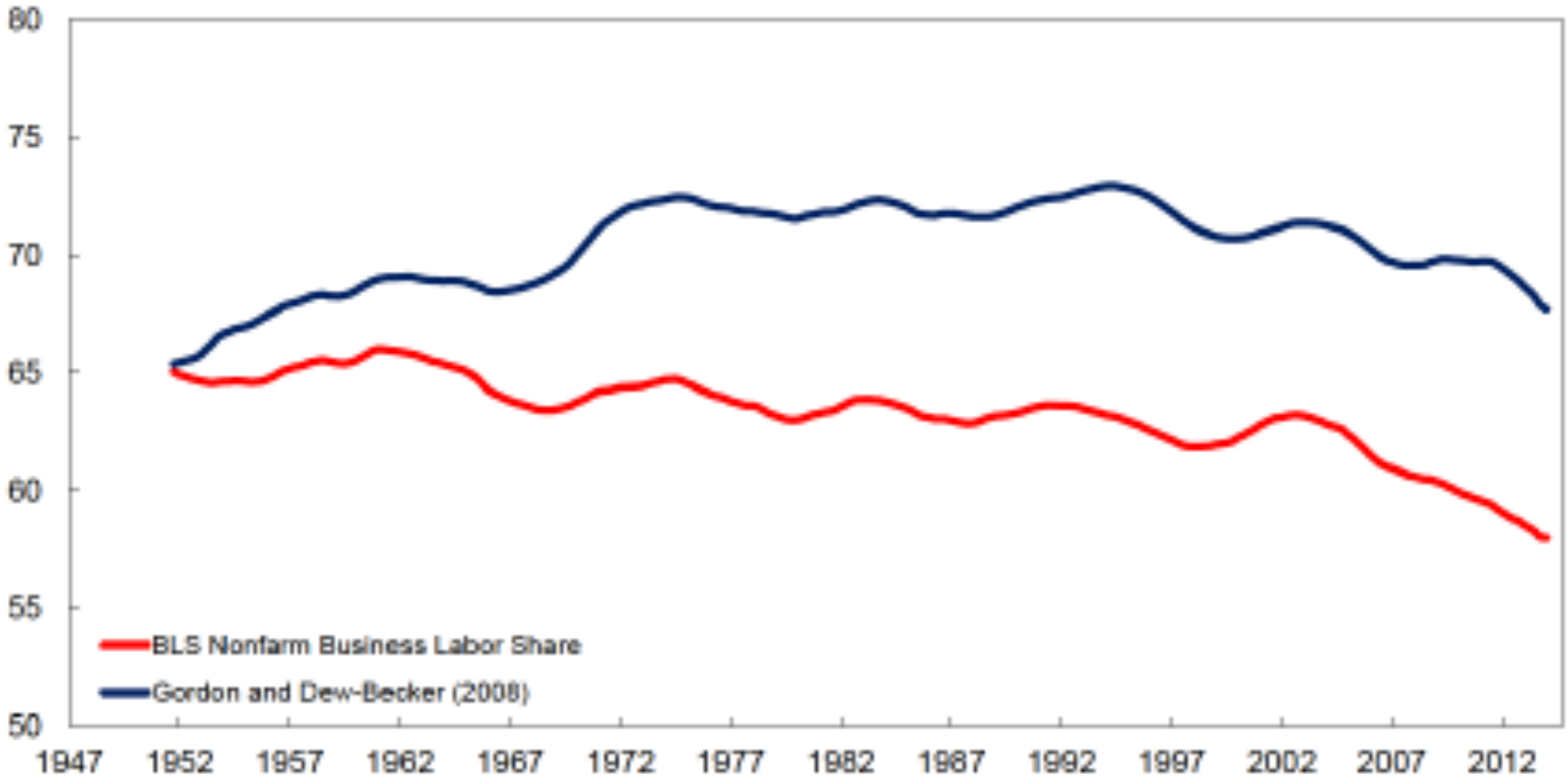


Source: Piketty, Saez, & Zucman, "Distributional National Accounts: Methods and Estimates for the United States," Appendix II, "Detailed distributional series," Tables B2b, B2c, "Composition of National Income Shares" (last updated Dec. 15, 2016).

Note: Labor share of mixed income set according to core income ratio from prior slide. Labor share of capital income (equity plus interest plus rents) set at 0% for 1958–1962 and at 20% for 1998–2002, following author's judgment based on capital gains.

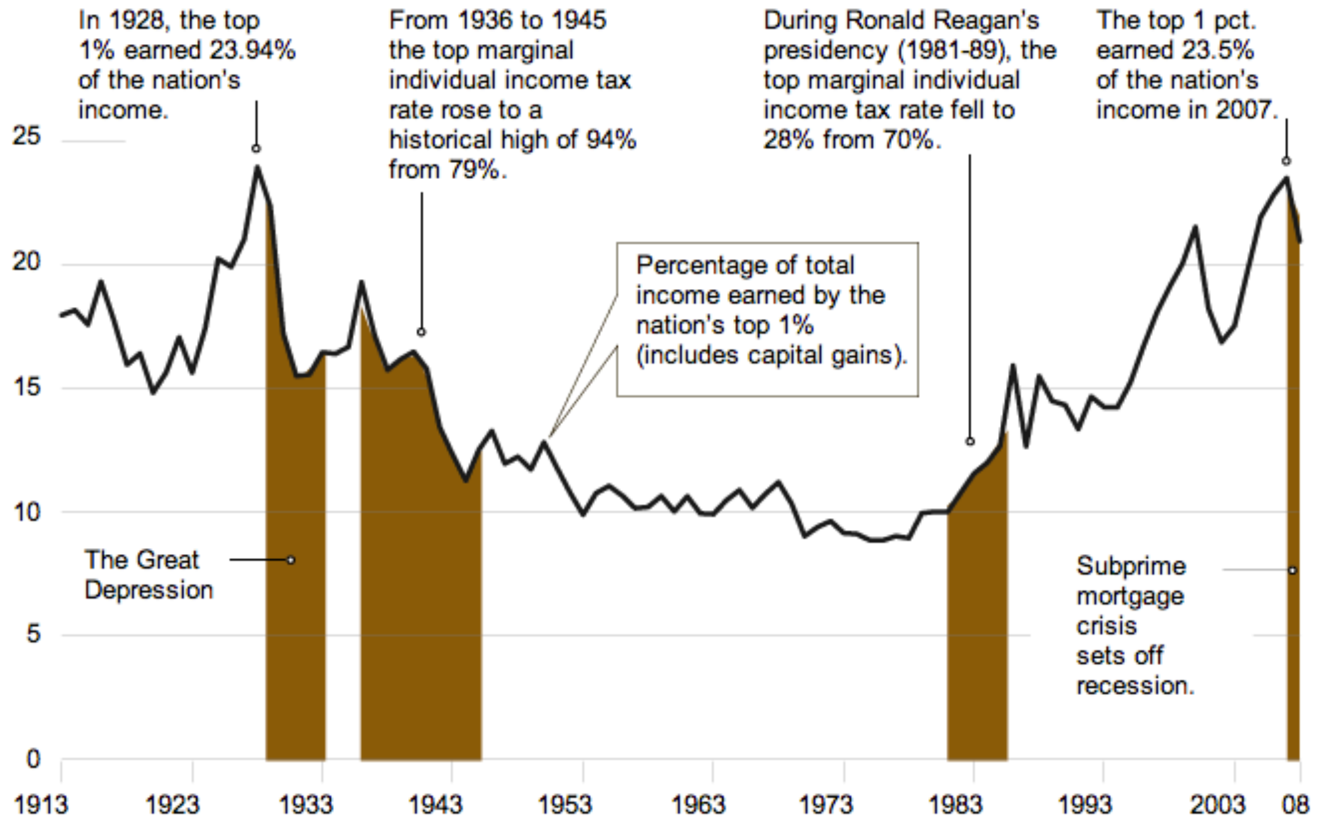
Rising top labor incomes in context

U.S. Labor Income Share, 1947-2014



Sources: Official labor share is from authors' calculations using the Bureau of Labor Statistics's Nonfarm Business Sector: Labor Share Index and the point estimate from Fleck et al. 2011. "Visual Essay: Compensation-Productivity Gap." *Monthly Labor Review*, pp. 57-69. Replication of the Gordon and Dew-Becker (2008) labor share uses data from the Bureau of Economic Analysis, Compensation of Employees and Net National Factor Income. See Figure 1a in Gordon, Robert J. and Ian Dew-Becker. 2008. "Controversies about the Rise of American Inequality: A Survey." *NBER Working Paper Series*, No. 13982.

Top 1% Income Share in the United States



Send Feedback

Sources: Thomas Piketty and Emmanuel Saez; Urban Institute, Brookings Institution

Source: The New York Times, 25 October 2011

Rising inequality is predominantly caused not by a shift of income from labor to capital (recall the earlier slide) . . .

. . . but rather by a shift of income away from one (mid-skilled) kind of labor and in favor of another (super-skilled) kind of labor.

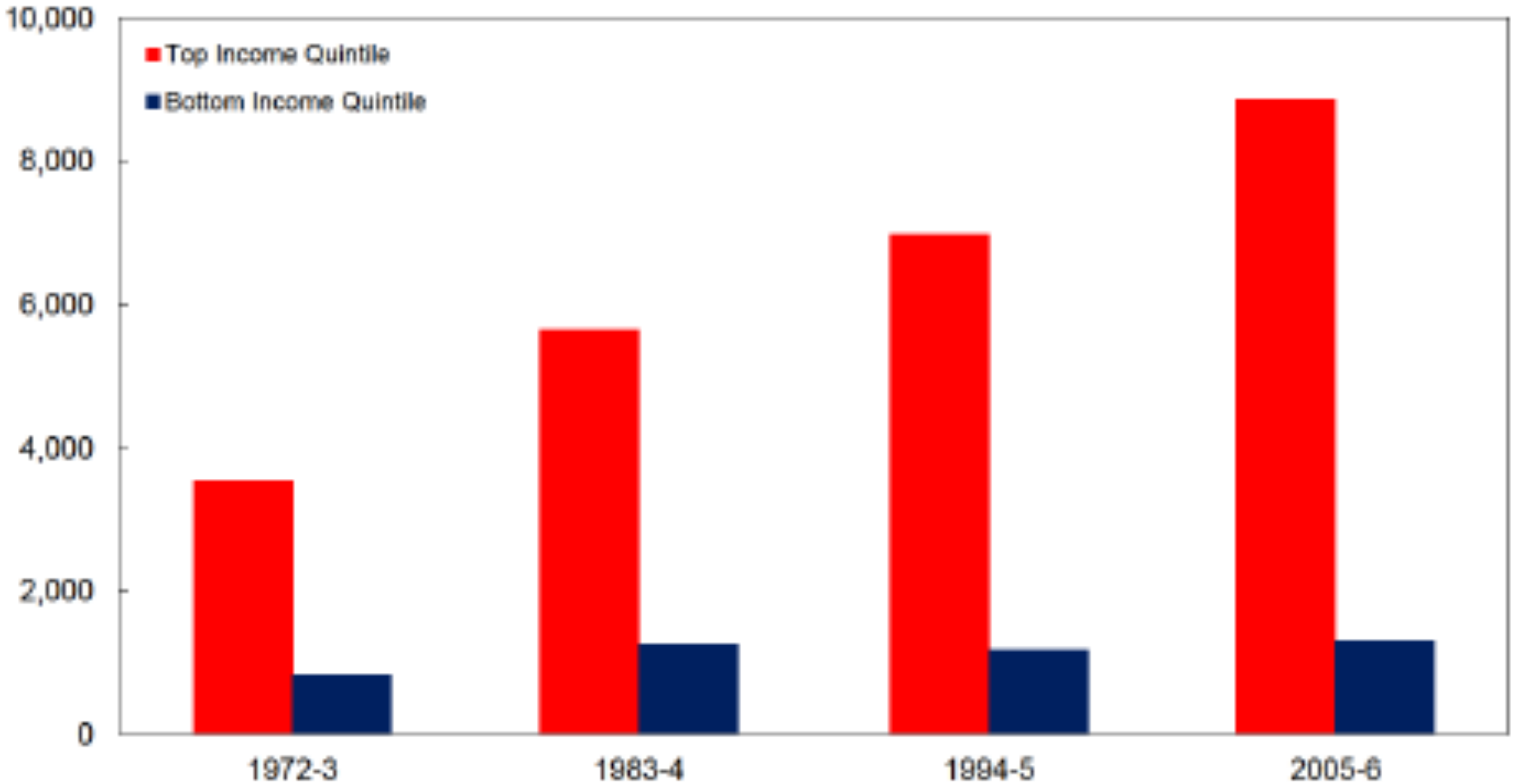
Economic maldistribution concerns not *poverty* but *wealth*.

The rich are not *rentiers*, but rather a *superordinate working class*.

Two

Making the Modern Elite

Enrichment Expenditures on Children, 1972-2006

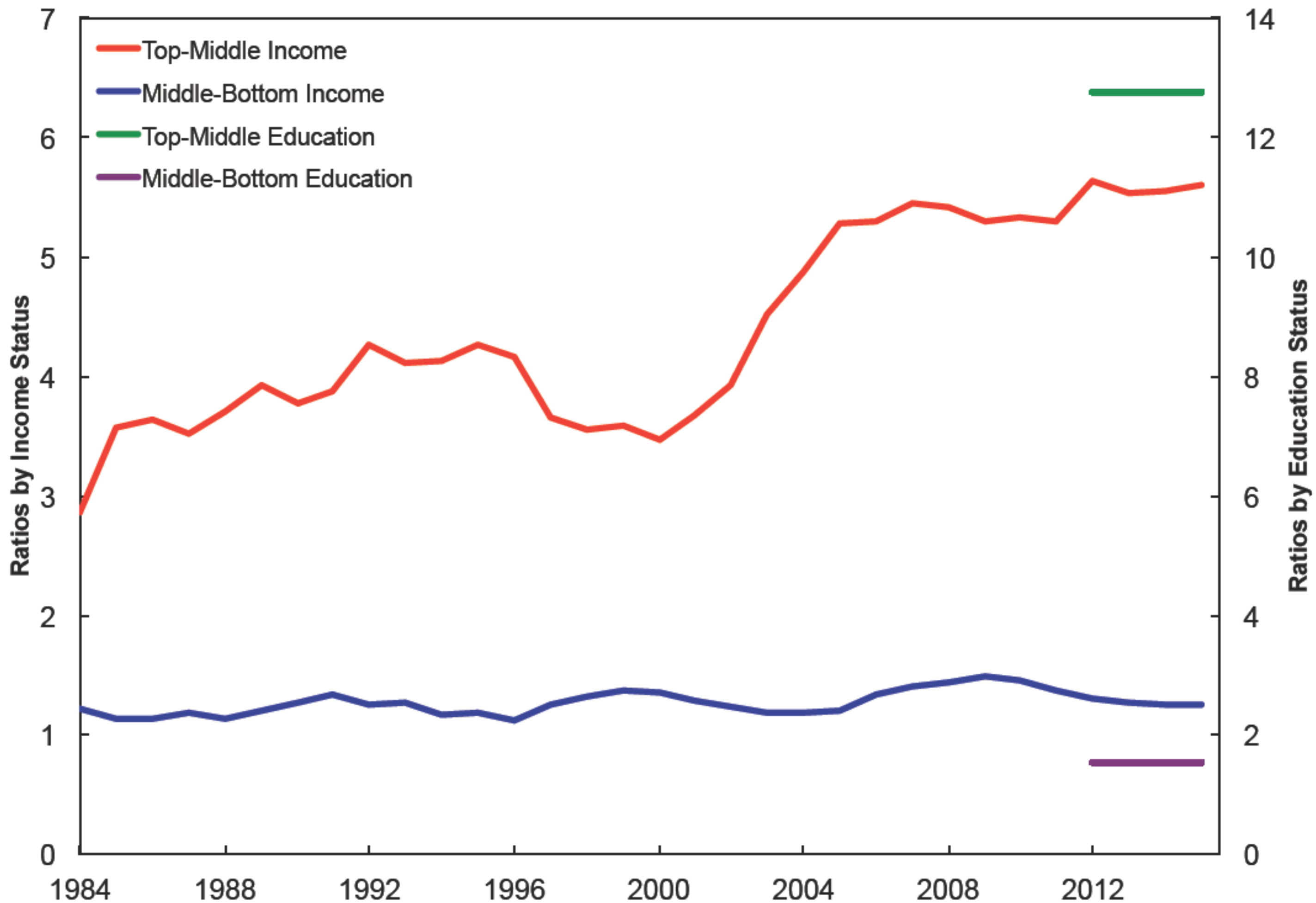


Source: Greg J. Duncan and Richard J Murnane, "Introduction: The American Dream, Then and Now," in Whither Opportunity: Rising Inequality, Schools, and Children's Life Chances, edited by Greg J. Duncan and Richard Murnane, 11. New York: Russell Sage Foundation, 2011. Authors' calculations based on Consumer Expenditure Surveys, U.S. Bureau of Labor Statistics.

Annual Per-Pupil Expenditures by School Type

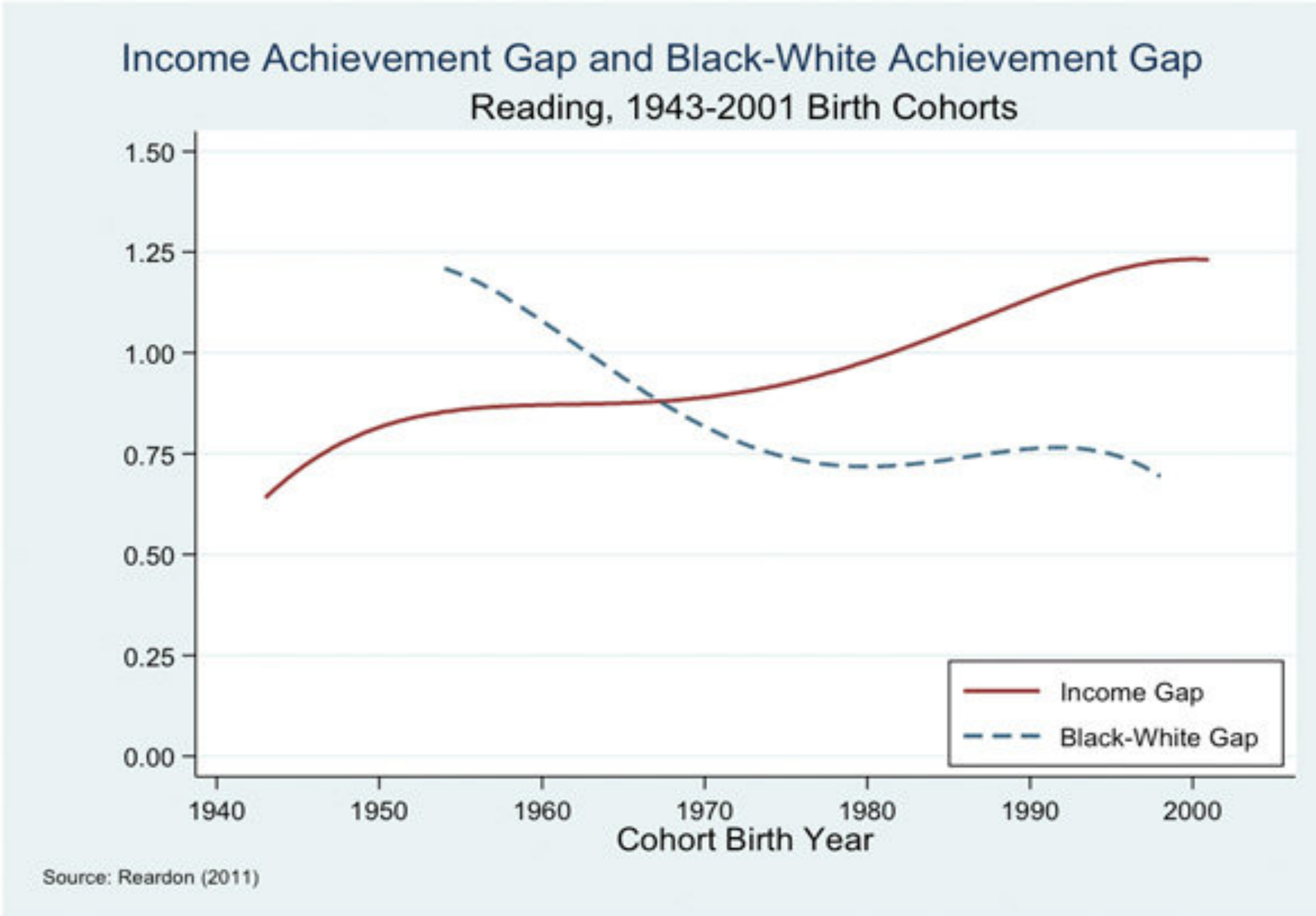
Type	Median Household Income	Per-Pupil Expenditures
Public School National Average	≅ $55,000	≅ $12,000
Poor State (Mississippi)	≅ $40,000	≅ $8,000
Rich State (Connecticut)	≅ $75,000	≅ $18,500
Super-Rich District (Scarsdale)	≅ $240,000	≅ $27,000
Elite Private (Forbes top 20)	80% earn over $200,000	≅ $75,000

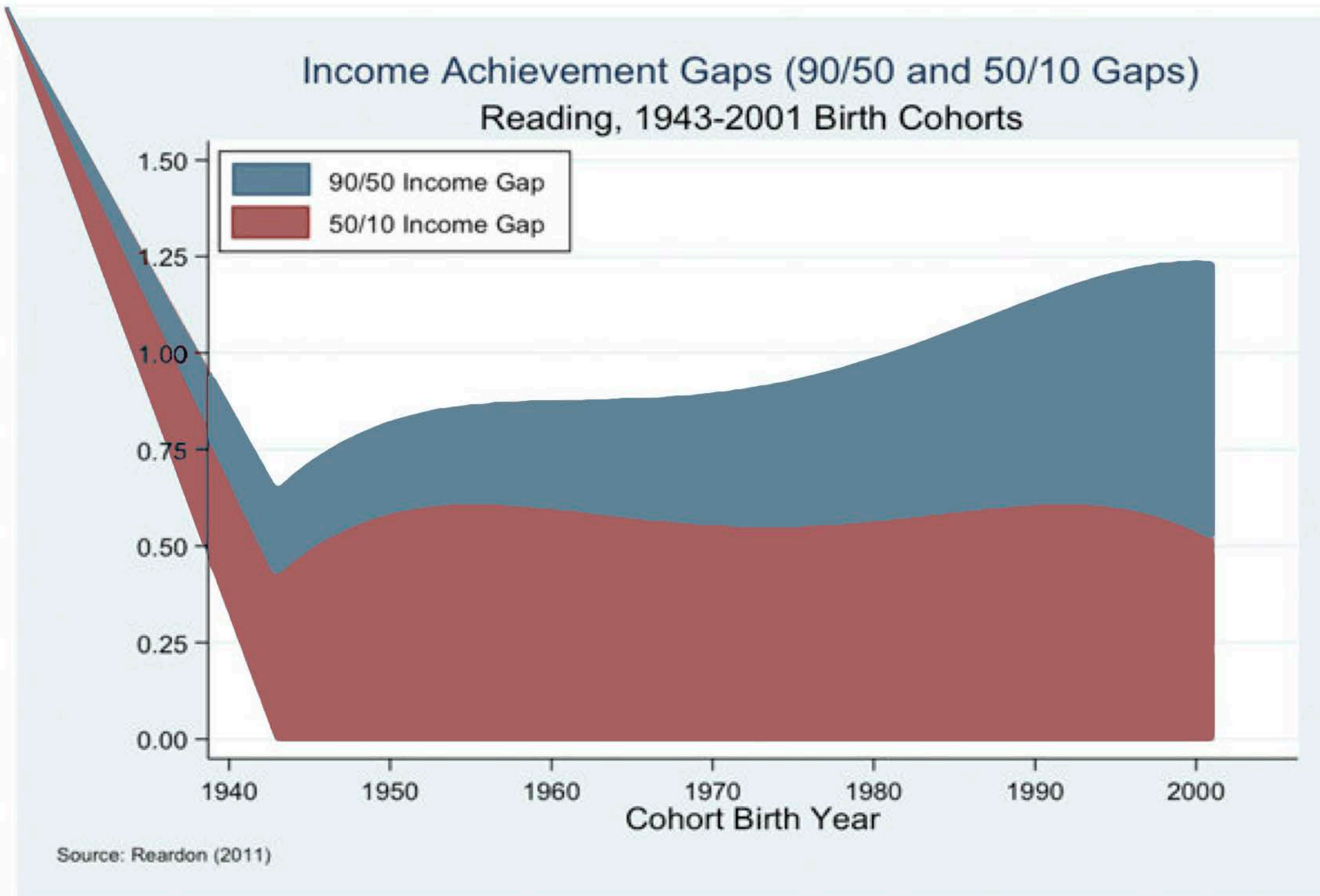
Education Expenditures by Household Income and Education



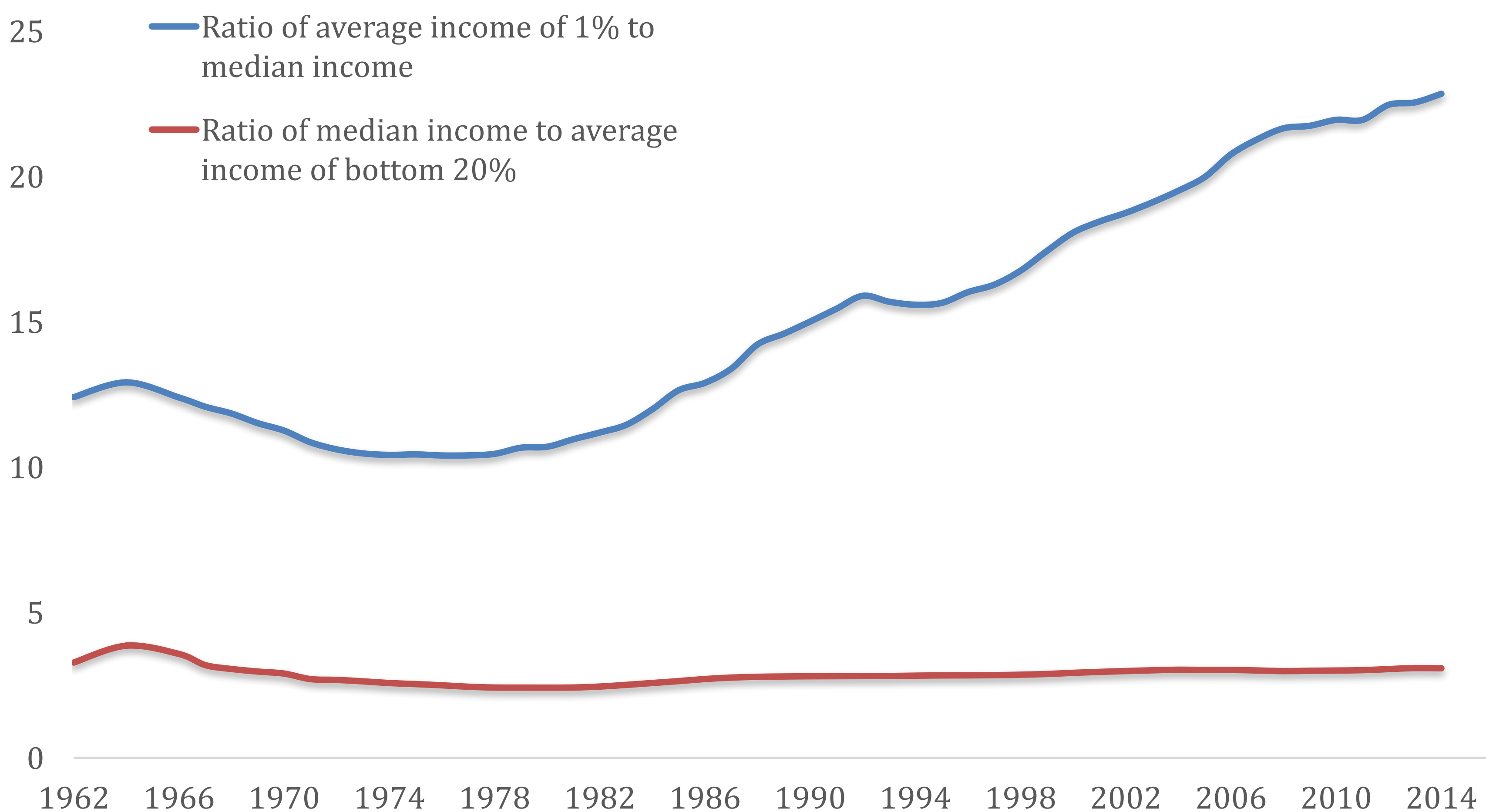
Source: Data from the Bureau of Labor Statistics

Differences in investment produce dramatic differences in childhood achievement

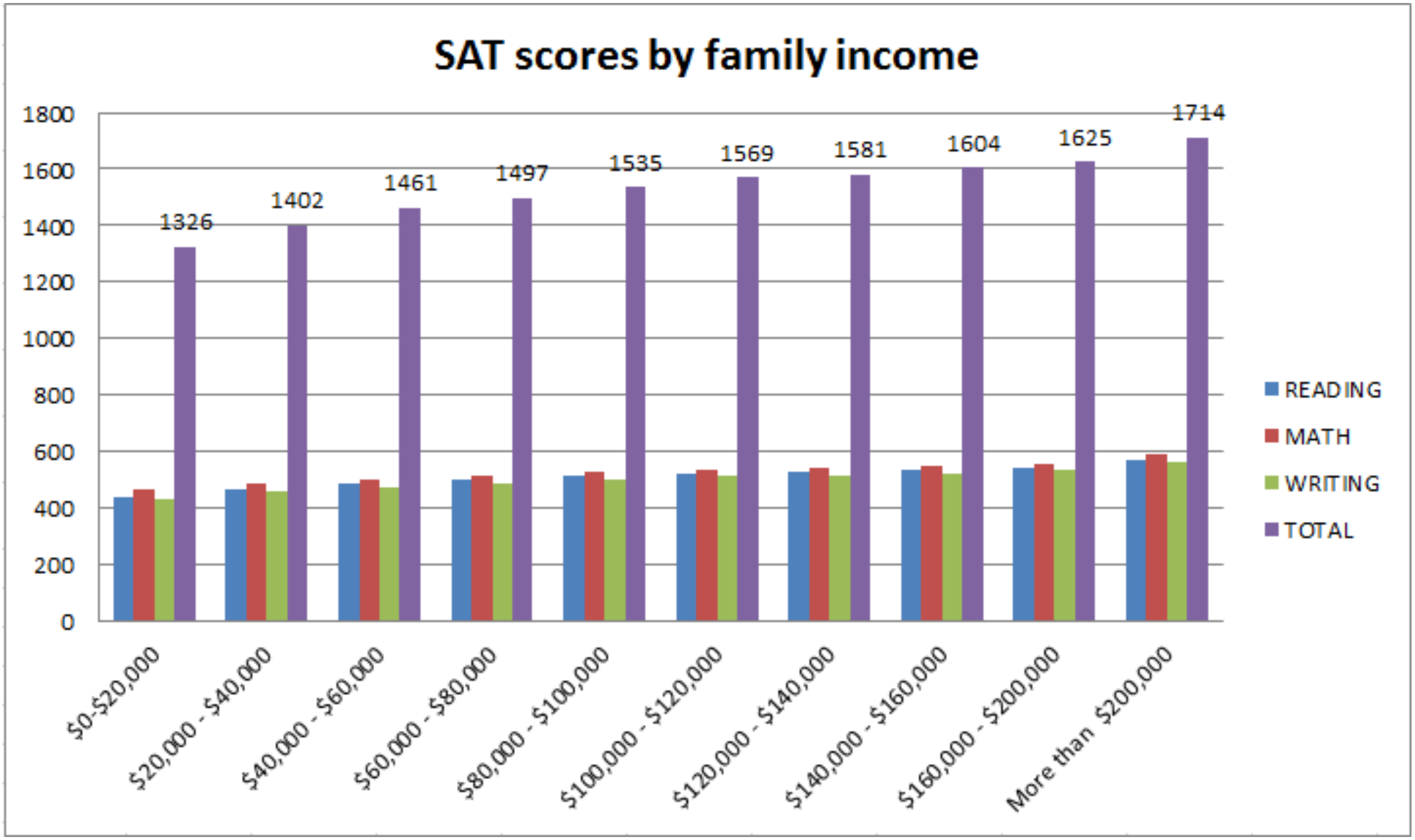

Income Achievement Gap and Black-White Achievement Gap
Reading, 1943-2001 Birth Cohorts
1.50
1.25
1.00
0.75
0.50
0.25
0.00
1940
1950
1960
1970
1980
1990
2000
Cohort Birth Year
Income Gap
Black-White Gap
Source: Reardon (2011)


Income Achievement Gaps (90/50 and 50/10 Gaps)
Reading, 1943-2001 Birth Cohorts
90/50 Income Gap
50/10 Income Gap
1.50
1.25
1.00
0.75
0.50
0.25
0.00
1940
1950
1960
1970
1980
1990
2000
Cohort Birth Year
Source: Reardon (2011)

Ratios of High, Middle, and Low Incomes Over Time



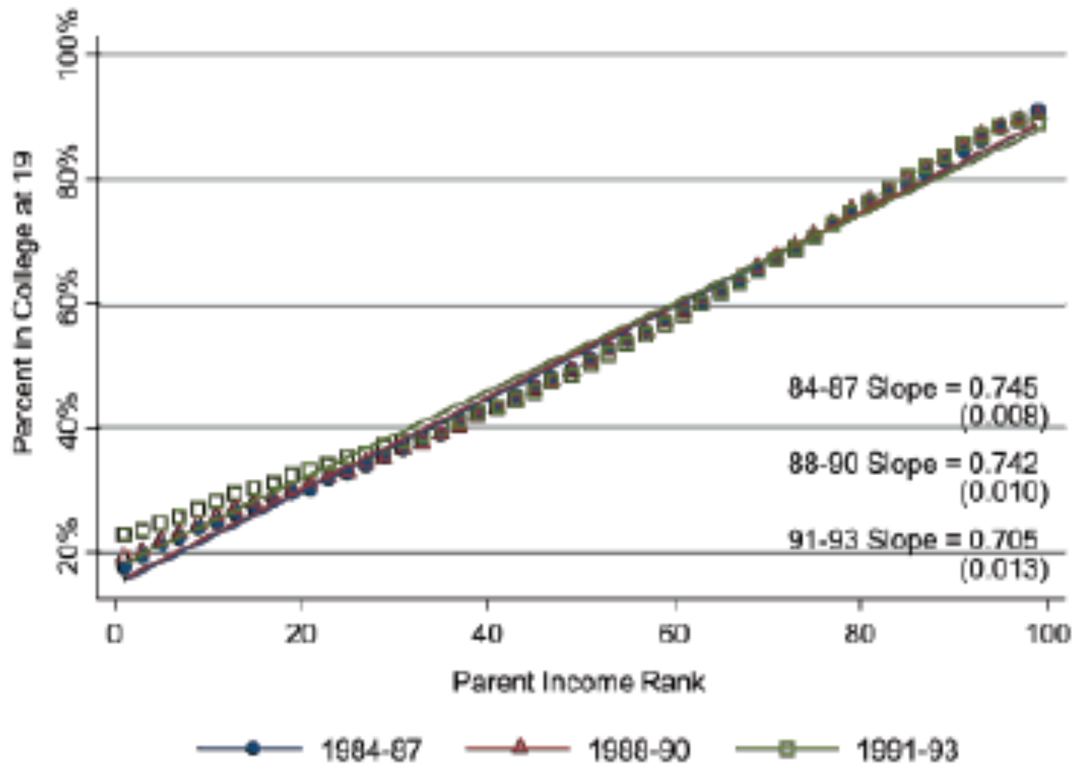
Sources: Data from the World Top Incomes Database, Post- tax national income / equal- split adults / Average / Adults / constant 2015 local currency, https:// wid.world/ country/ usa/.



Source: Zachary Goldfarb, These Four Charts Show the SAT Favors Rich, Educated Families, Washington Post, March 5, 2014, at http://www.washingtonpost.com/blogs/wonkblog/wp/2014/03/05/these-four-charts-show-how-the-sat-favors-the-rich-educated-families/ and Anthony P. Carnevale and Jeff Strohl, "How Increasing College Access Is Increasing Inequality, and What to Do about It," in Rewarding Strivers, ed. Richard D. Kahlenberg (New York: The Century Foundation Press, 2010)

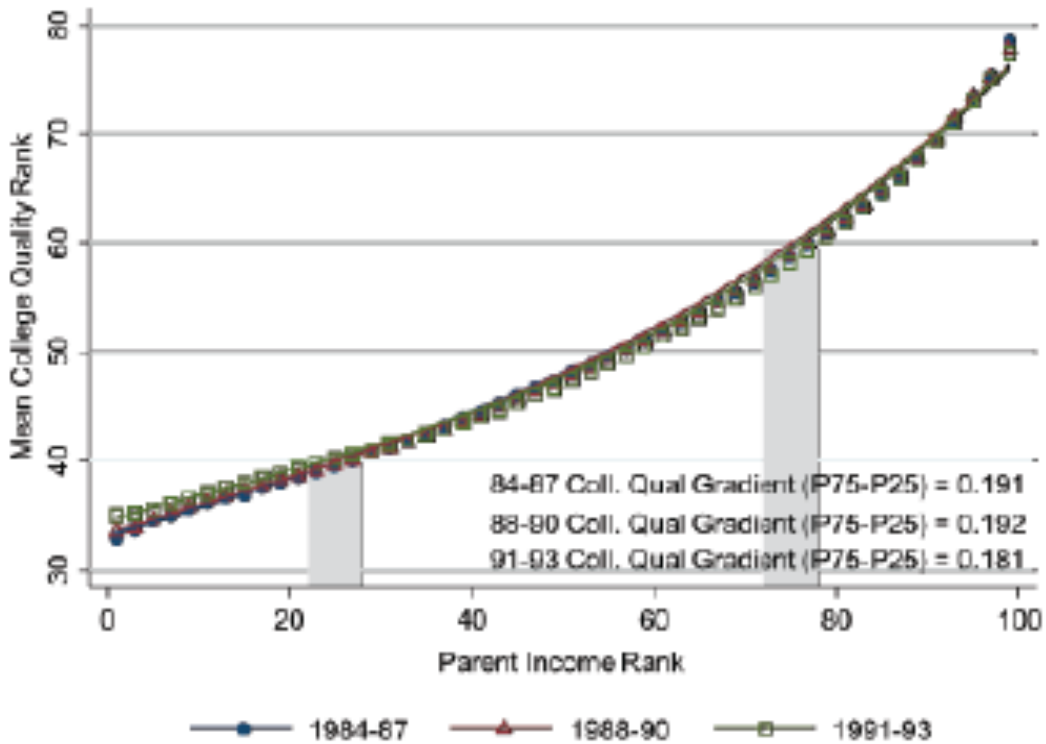
These effects combine to produce a skewed elite.

College Attendance by Parental Income Rank



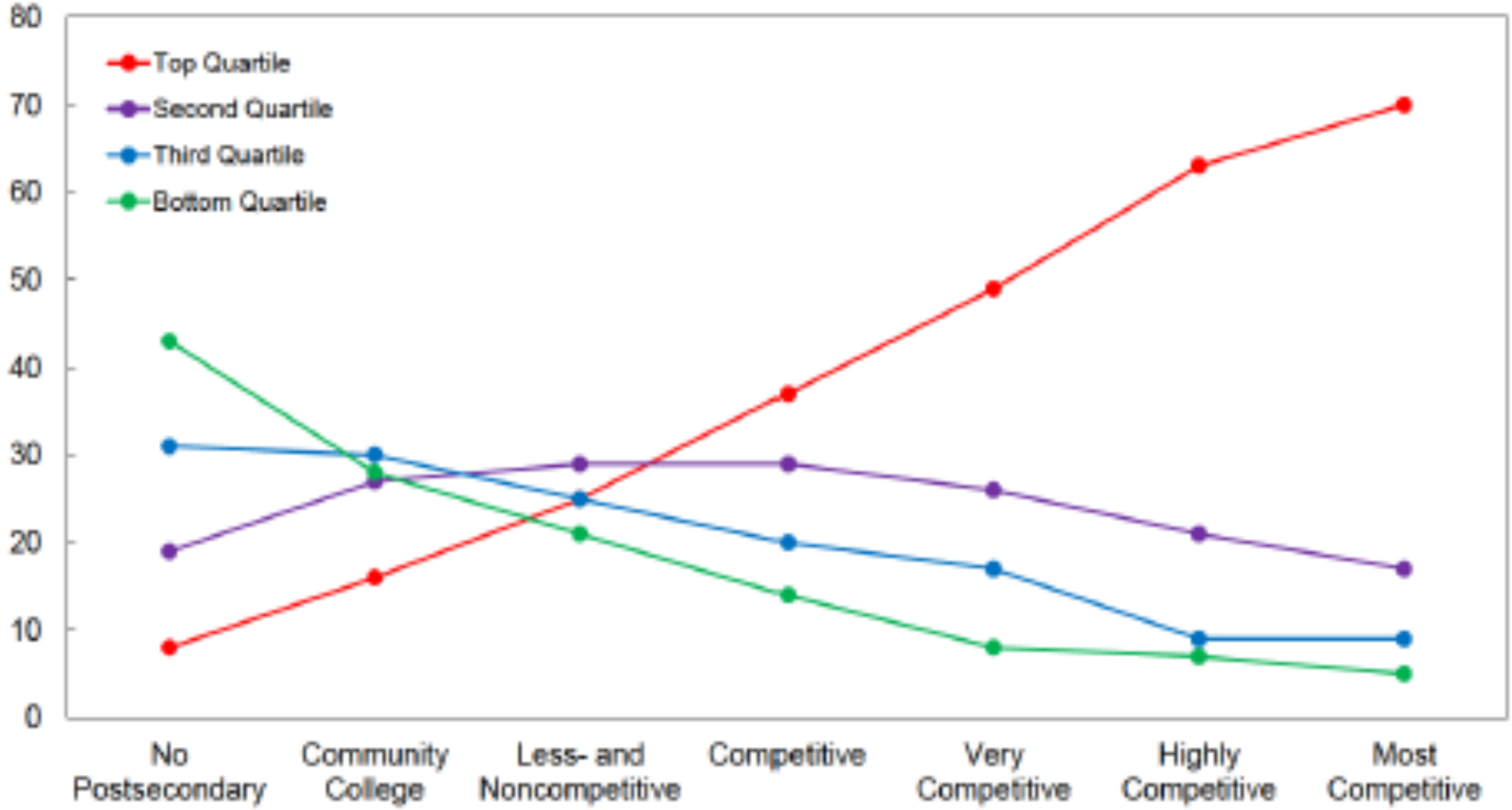
Source: Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, & Nick Turner. 2014. "Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility." American Economic Review Papers and Proceedings 104(5): 141-147.

College Quality by Parental Income Rank



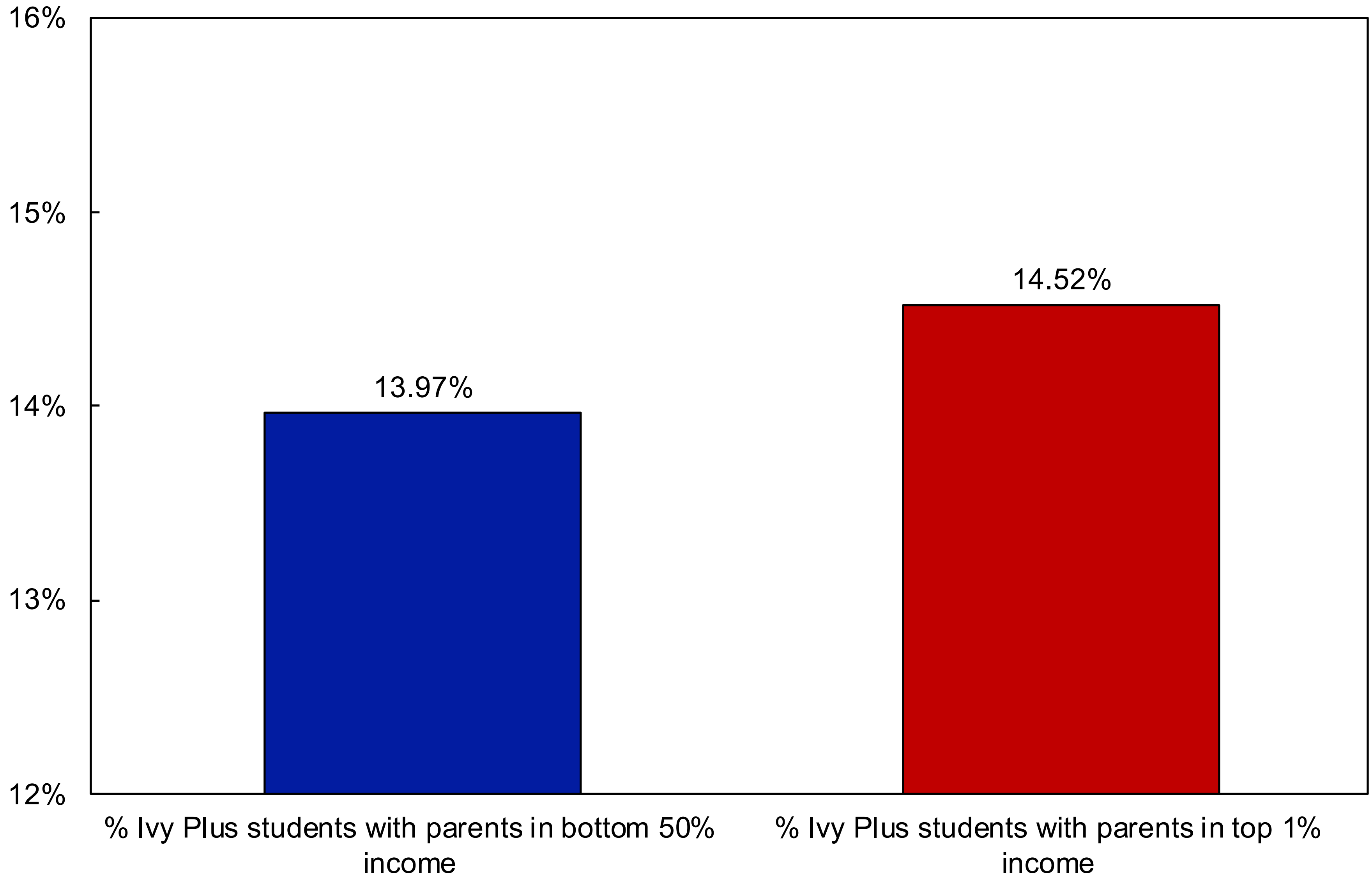
Source: Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, & Nick Turner. 2014. "Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility." American Economic Review Papers and Proceedings 104(5): 141-147.

Student Body Skew to Wealth by College Selectivity

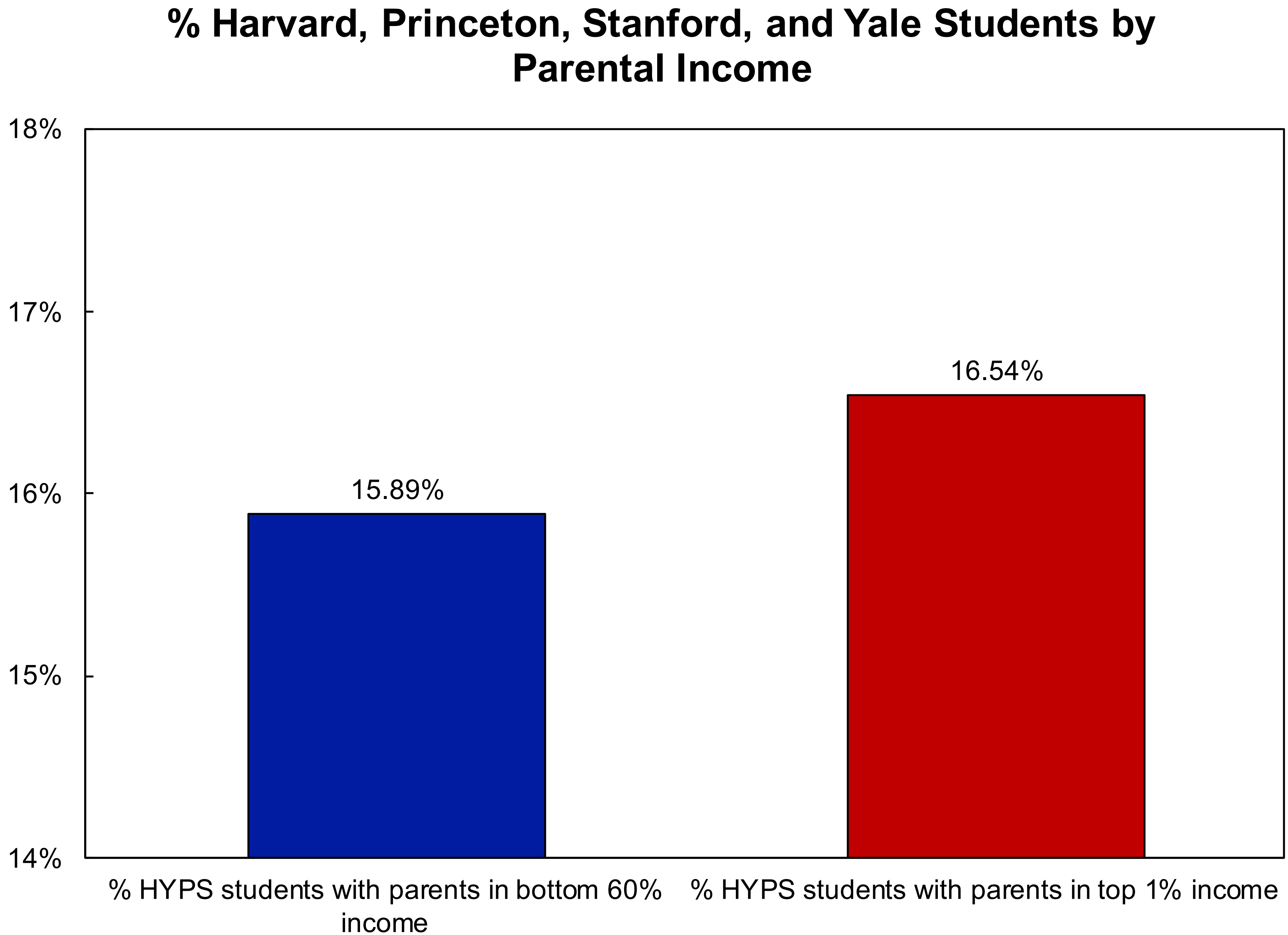


Source: Figure 3.7 from Carnevale, Anthony P. and Jeff Strohl. 2010. "How Increasing College Access Is Increasing Inequality, and What to Do about It." *Rewarding Strivers: Helping Low-Income Students Succeed in College*, ed. Richard D. Kahlenberg.

% Ivy Plus Students by Parental Income



Source: Online Data Table 6 for NBER Working Paper 23618, Mobility Report Cards: The Role of Colleges in Intergenerational Mobility by Chetty, Friedman, Saez, Turner, and Yagan (2017), available at http://www.equality-of-opportunity.org/data/



Source: Online Data Table 2 for NBER Working Paper 23618, Mobility Report Cards: The Role of Colleges in Intergenerational Mobility by Chetty, Friedman, Saez, Turner, and Yagan (2017), available at http://www.equality-of-opportunity.org/data/

A Meritocratic Inheritance

If one were to take the difference between the resources devoted to training a typical child from a 1 percent household and a typical child from a middle class (not a poor) household . . .

and invest the money, each year, in the S&P 500, to be given to the child as a bequest on the death of the parents . . .

. . . this meritocratic inheritance would amount to roughly
$10 million per child.

Three

Gloomy and Glossy Jobs

Labor Market Polarization

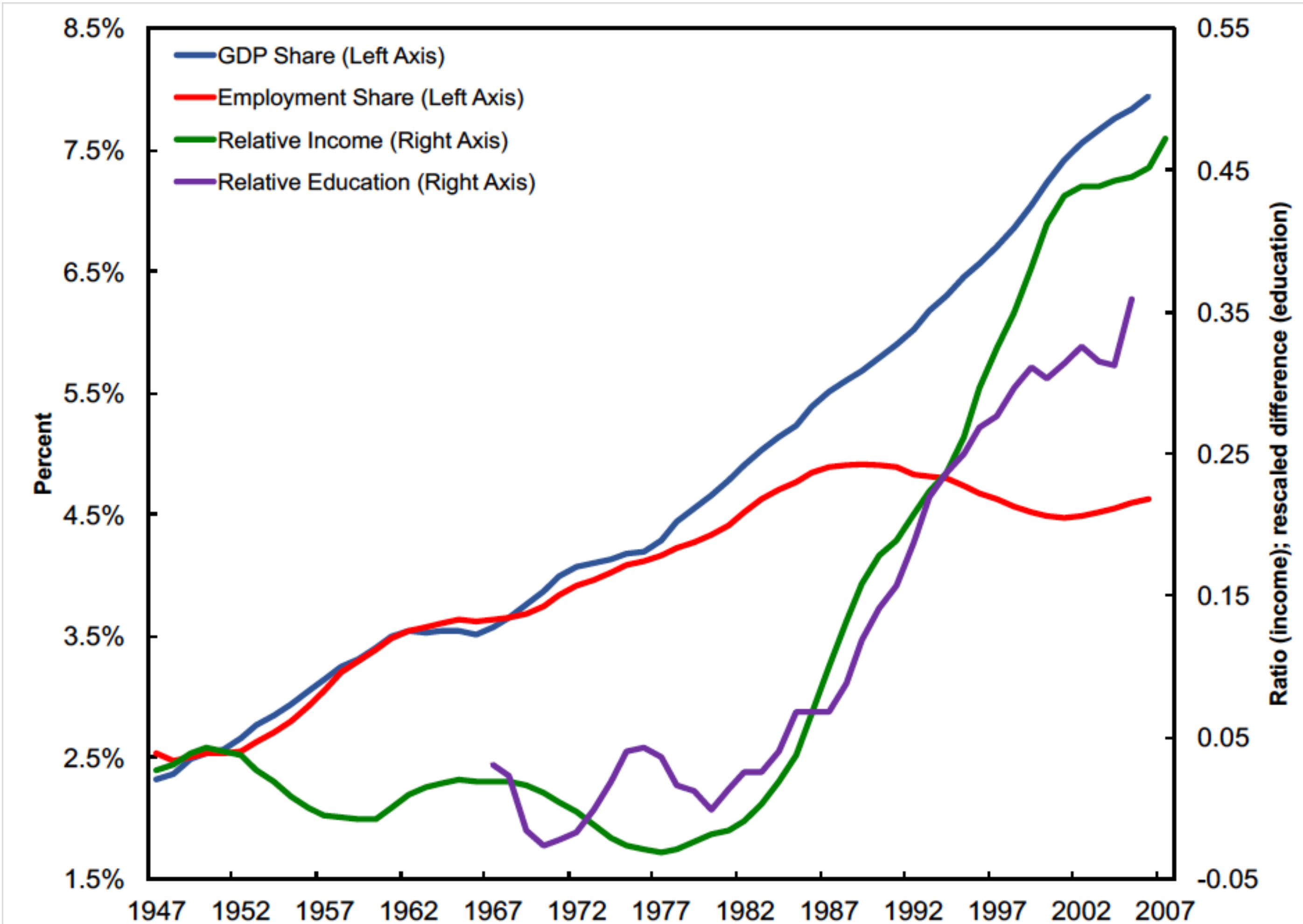
Hollowing out of mid-skilled jobs, to produce an economy with opportunities and gains concentrated among the low-skilled and the super-skilled

Finance as a case study

Home Mortgage Finance

Finance in General

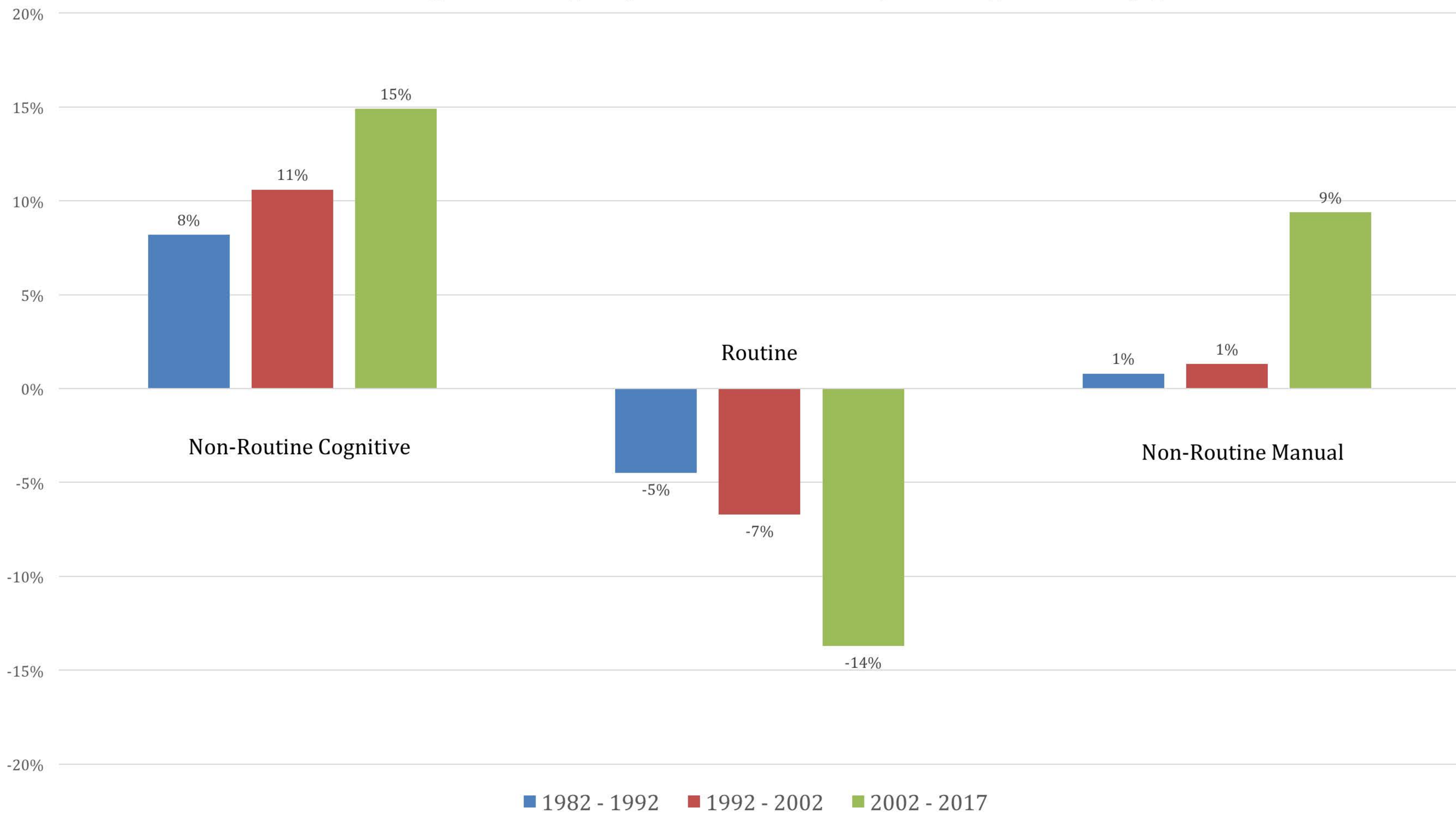
GDP Share, Employment Share, and Relative Income and Education for Finance, 1947-2005



Source: Finance includes insurance but excludes real estate. GDP share is computed as the ratio of nominal value added by the finance sector to the nominal GDP of the United States. Data from Annual Industrial Accounts, Bureau of Economic Analysis. Relative education is computed as the share of hours worked by employees with at least a college degree in the financial sector minus the corresponding share of hours in the rest of the private sector. Data from March CPS. The figure is inspired by Philippon and Reshef, “Wages and Human Capital in the U.S. Finance Industry: 1909– 2006,” Quarterly Journal of Economics 127, no. 4 (November 2012): 1558, Figure 1 and 1561, Figure 2.

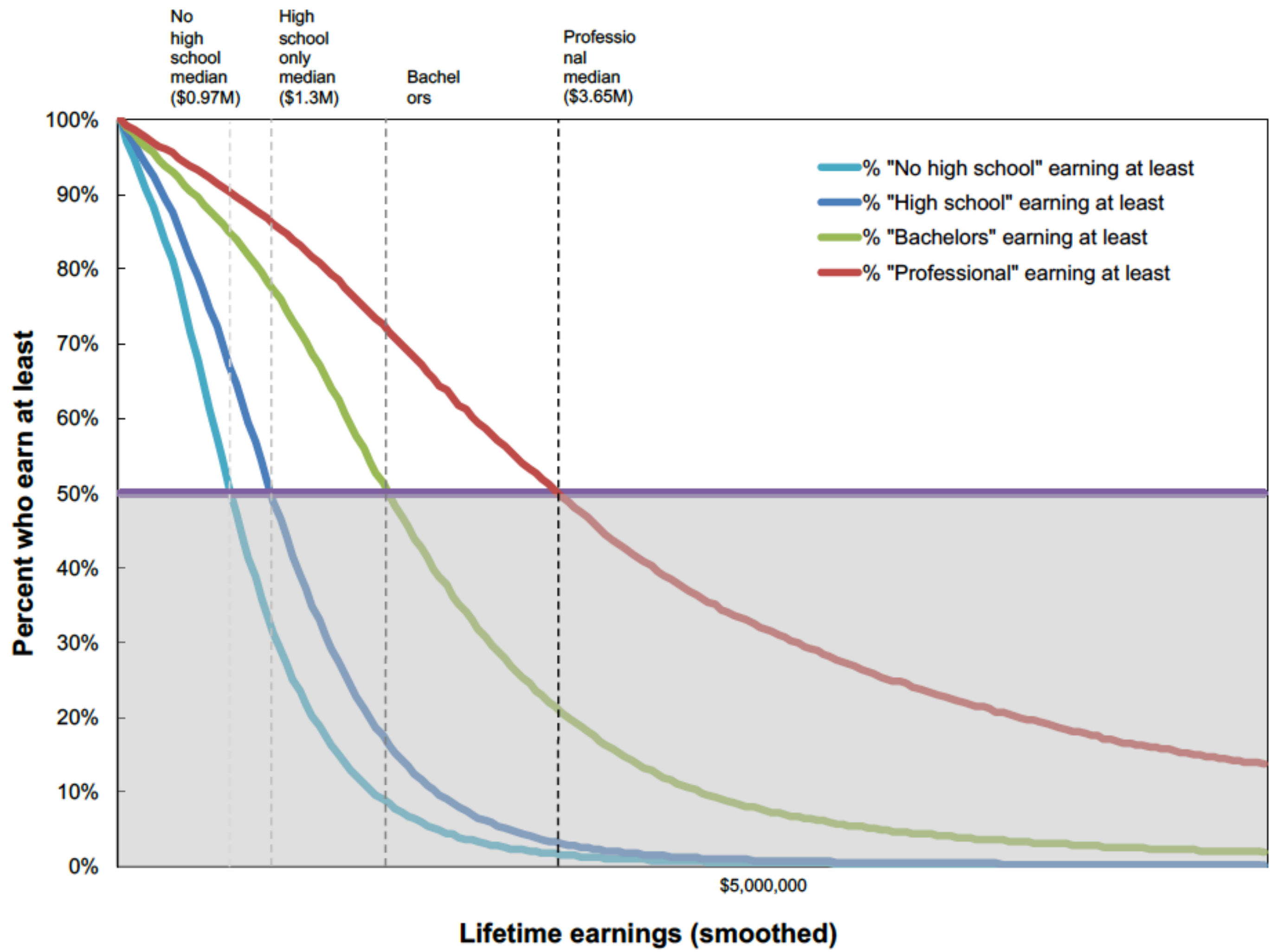
The pattern generalizes across the economy

Percent Change in Employment Shares by Occupation Type



Source: Nir Jaimovich and Henry E. Siu, "Job Polarization and Jobless Recoveries," forthcoming in *The Review of Economics and Statistics*, 8, figure 3.

Earnings Segmentation by Education Level



Source: Anthony P. Carnevale, Stephen J. Rose, and Ban Cheah, The College Payoff: Education, Occupations, Lifetime Earnings, Georgetown University Center on Education and the Workforce (2011)

Gloomy Jobs

- Low wages
- No discretion
- No workplace training or opportunities for promotion

Veblen versus Keynes

- Utopian vision of universal leisure
- Leisure versus idleness

Glossy Jobs

- Intense labor effort
- Constant evaluation and strain

- **Elite workers as *rentiers* of their own human capital**
- **Self-exploitation and self-alienation**
- **A fetish for skill**

Part II

Values

Four

A Morality Play

Traditional arguments for economic redistribution emphasized:

Humanitarian concern for the poor . . .

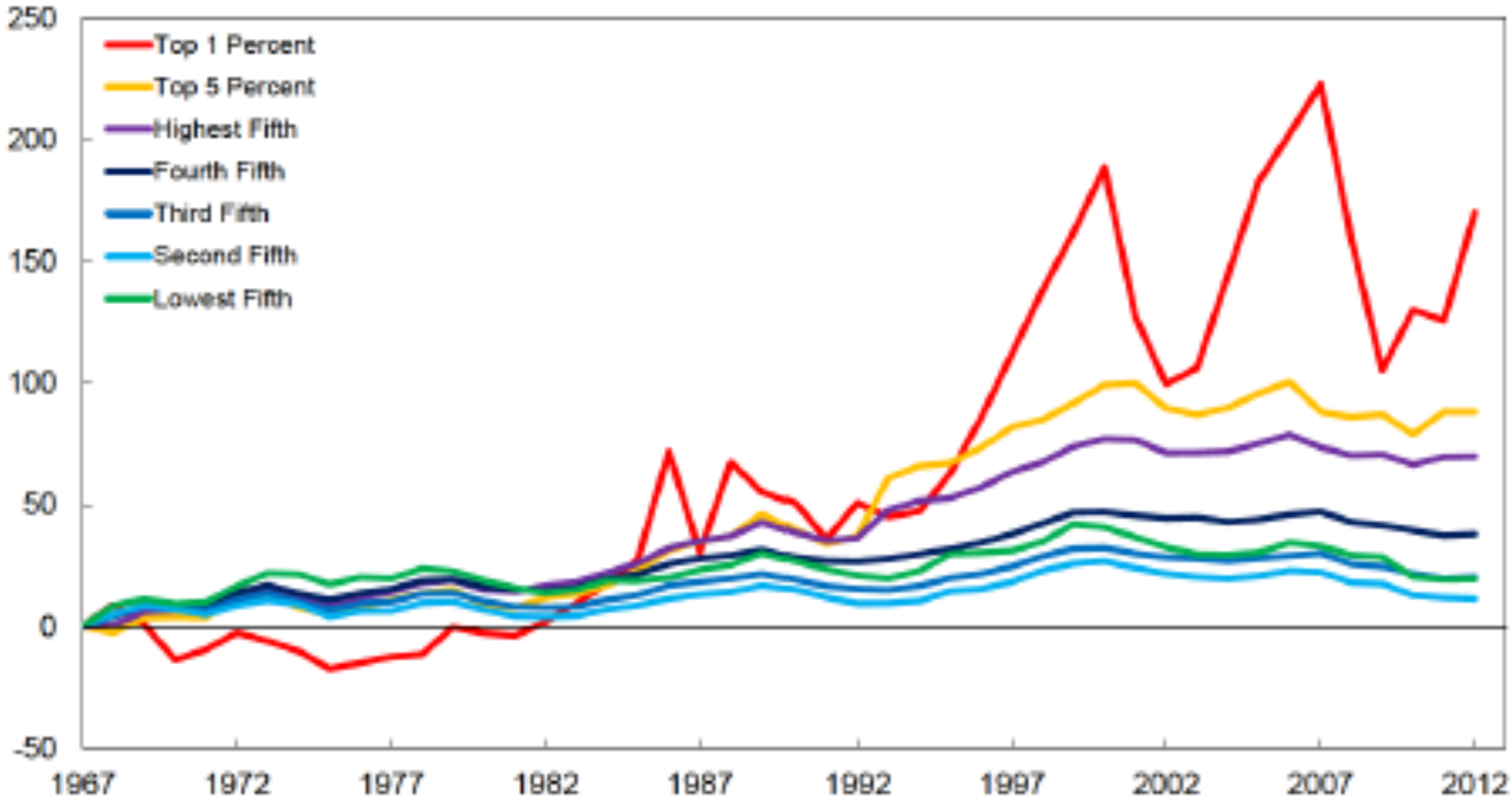
. . . but today, poverty is much less of a problem than it was when there was much greater equality overall

Exploitation of labor by the leisure class. . .

. . . but the new superordinate working class are not *rentiers*; they work harder than the rest

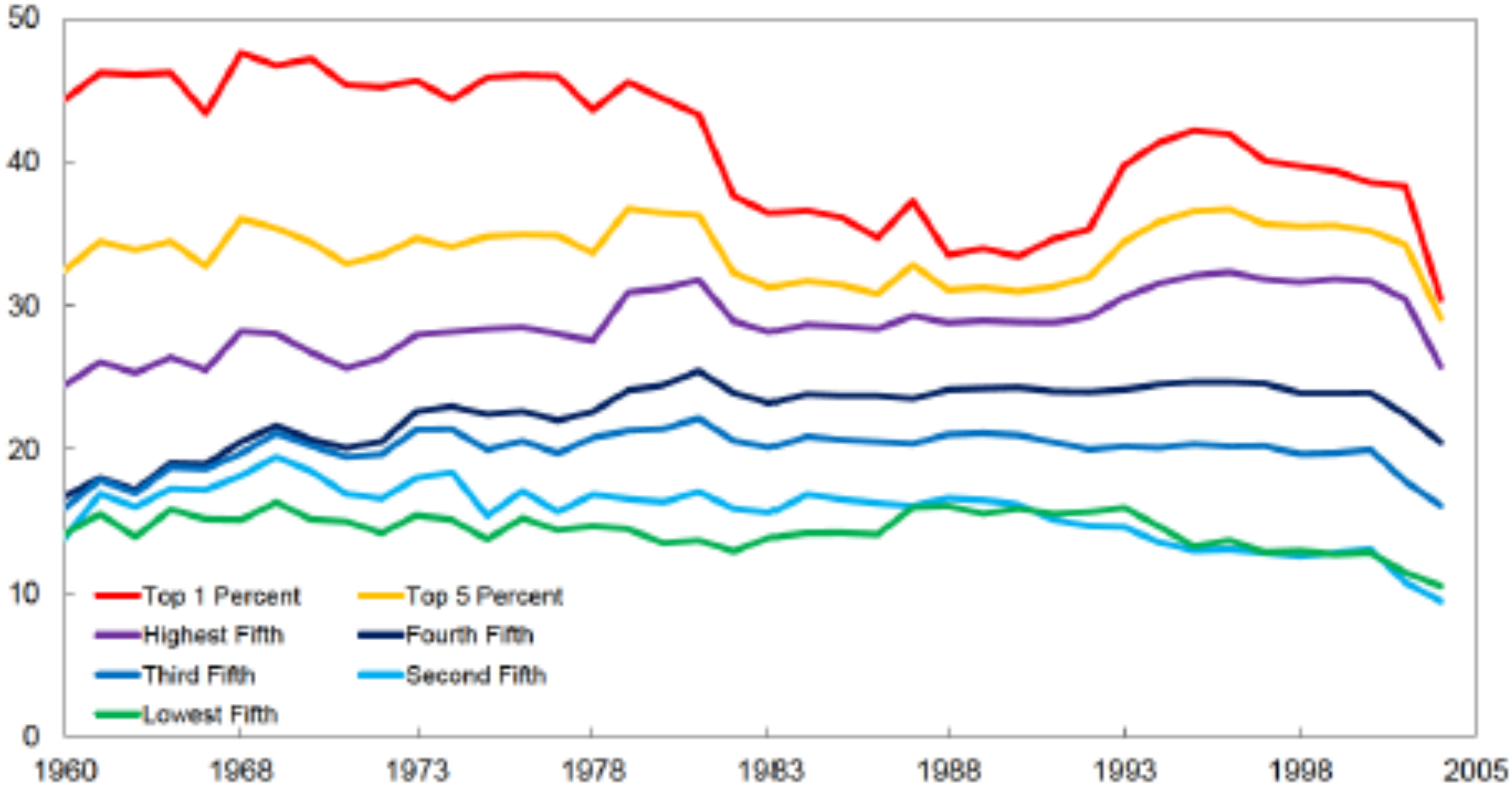
Policy will not follow where morality cannot lead.

Cumulative Real Household Income Growth, 1967-2012



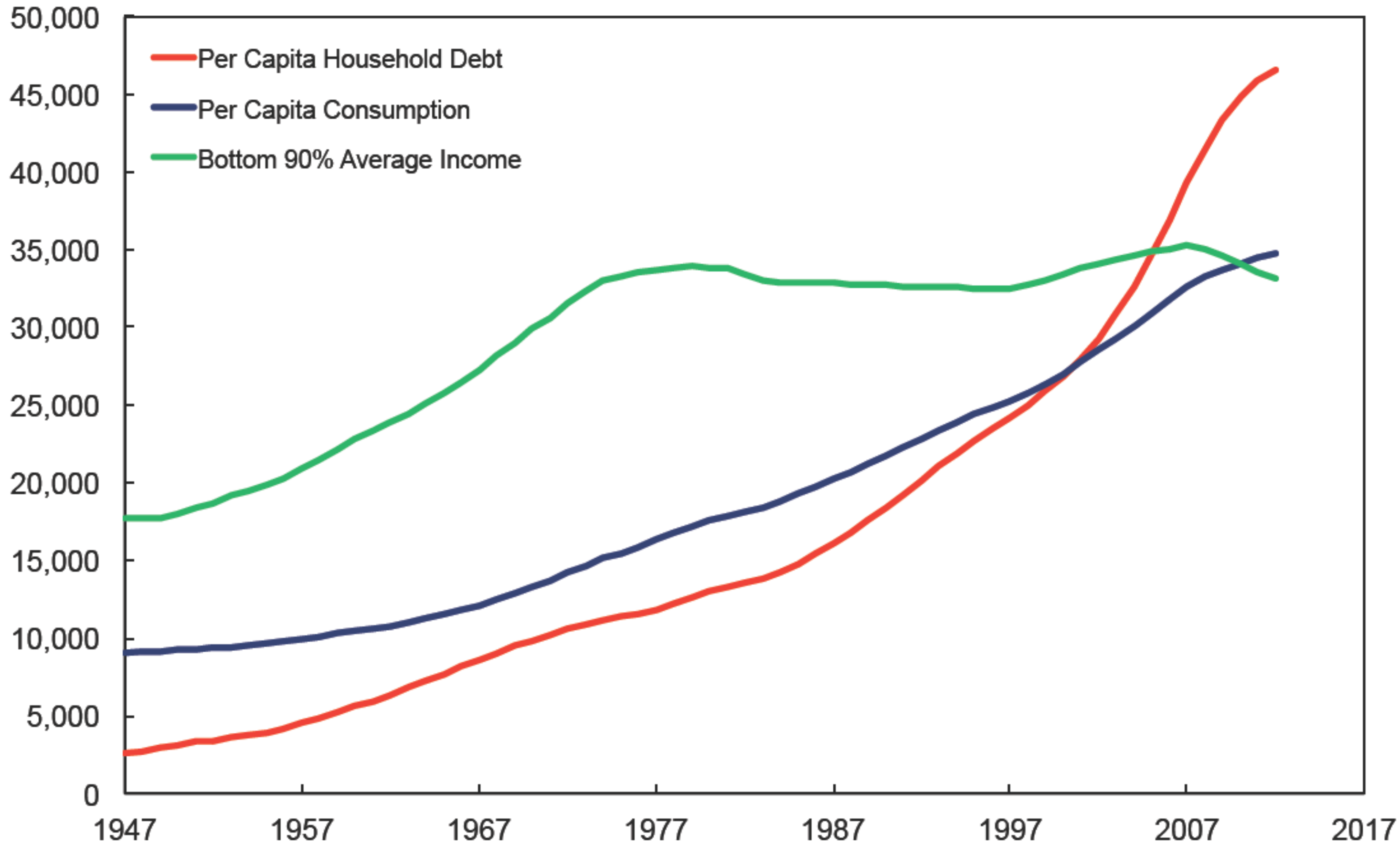
Sources: U.S. Census Bureau, Historical Income Tables: Income Inequality, Table H-3 All Races; The World Top Incomes Database, Average Income of Top 1% Including Capital Gains.

Average Tax Rates by Income Group, 1960-2004



Source: Table A3 from Piketty, Thomas and Emmanuel Saez. 2007. "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective." *Journal of Economic Perspectives*, Vol. 21, No. 1, pp. 3-24.

Income, Consumption, and Debt over Time



Sources: Federal Reserve Board, Flow of Funds - Households and Nonprofit Organizations, Total Liabilities; Bureau of Econo
Analysis, Personal Consumption Expenditures (PCE) and PCE Price Index; The World Top Incomes Database, Bottom 90% A
Income Including Capital Gains; U.S. Census Bureau Population Estimates.

Five

Comprehensive Inequality and Social Solidarity

Work

- **Income, education and hours worked**

- **Workplaces segregated by skill**

    - **Top banks recruit exclusive at Ivy League, Stanford, MIT, Williams**
    - **Three quarters of partners at top firms attended top 10 law schools**

- **Workplace culture and skill**

- **Unemployment risk by education**

Family

Assortative Mating

- **The share of couples in which both partners possess a college degree has increased 8-fold since 1960.**

- **Today, only a quarter of highest earning couples include even one partner without a college degree.**

Marriage and Childbirth

- **Women with a BA are half as likely to divorce within first decade of marriage as those without.**

- **Women with high-school education or less bear over 50% of children outside of marriage; women with a college education or more bear 3% of children outside of marriage. (In 1970, out of marriage births accounted for less than 10% of births of women of all education levels.)**

- **90% of children in the best-educated 5% of US zip codes grow up in two-parent households.**

Geography

In 1960 college educated Americans spread relatively evenly across cities

- **By 2000, there existed 62 metro areas in which less than 17% of adults were college graduates and 32 metro areas in which more than 34% were college graduates.**

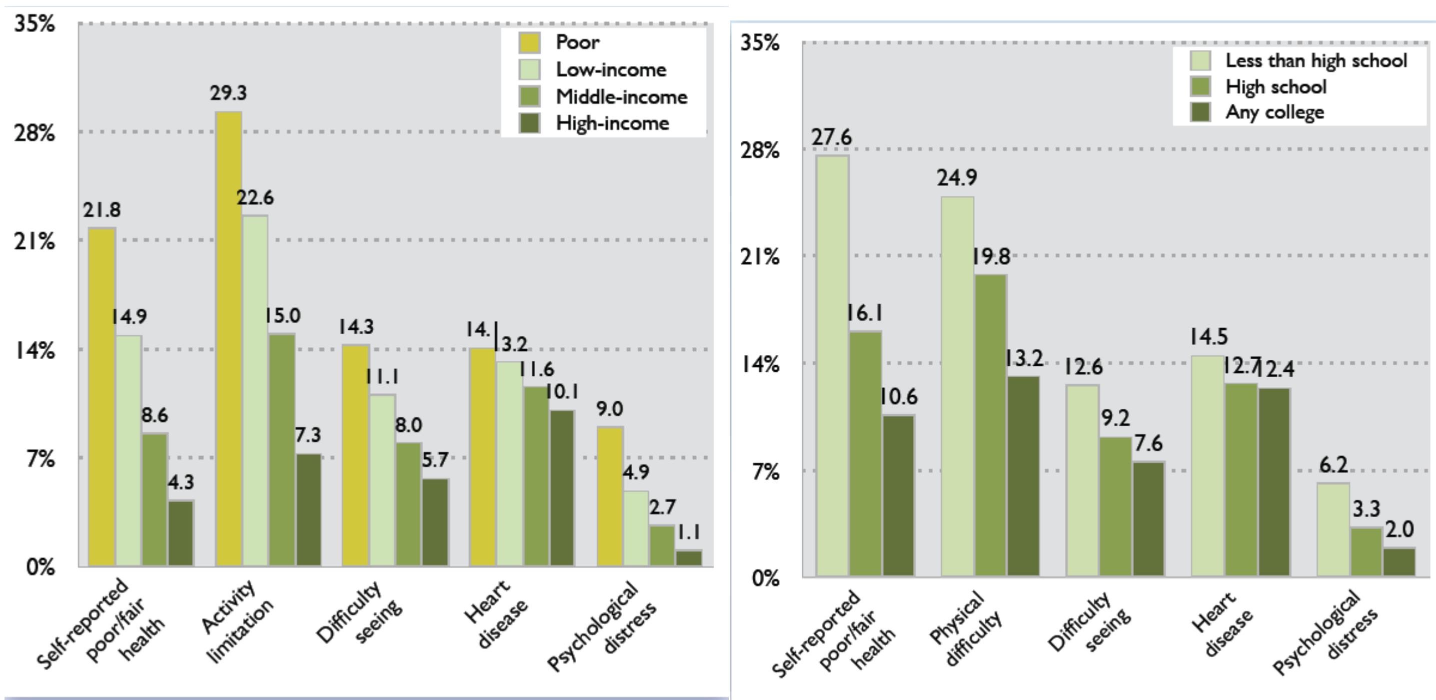
- **The college graduate isolation index doubled between 1970 and 2000.**

- **In the most elite 5% of zip codes (by education and income) 65% of adults hold college degrees.**

- **75% of Harvard/Yale/Princeton graduates live in zip codes in the top fifth by eliteness.**

Health

Rates of Prominent Ailments by Income and Education



Source: Stanford Center on Poverty and Inequality

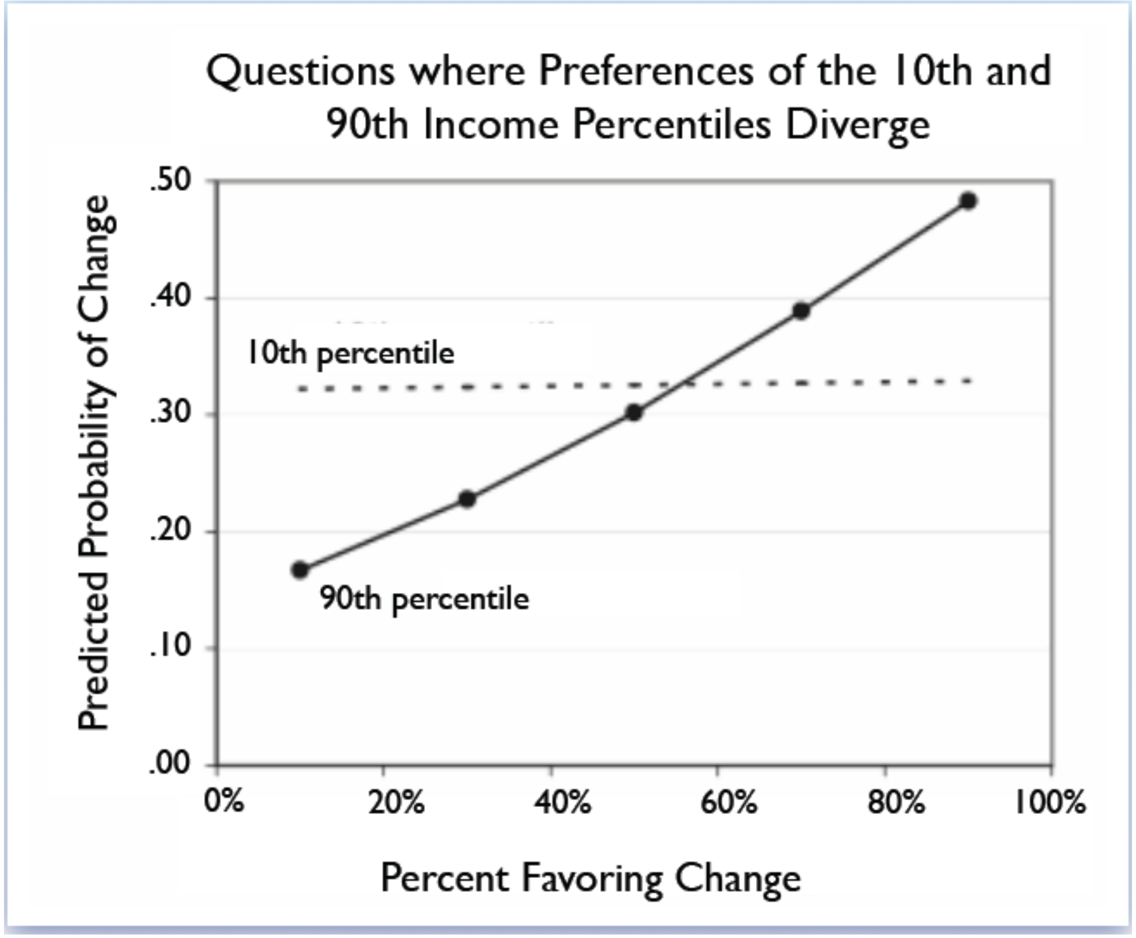
Six

Meritocracy and Political Inequality

Distortions of the Democratic Process

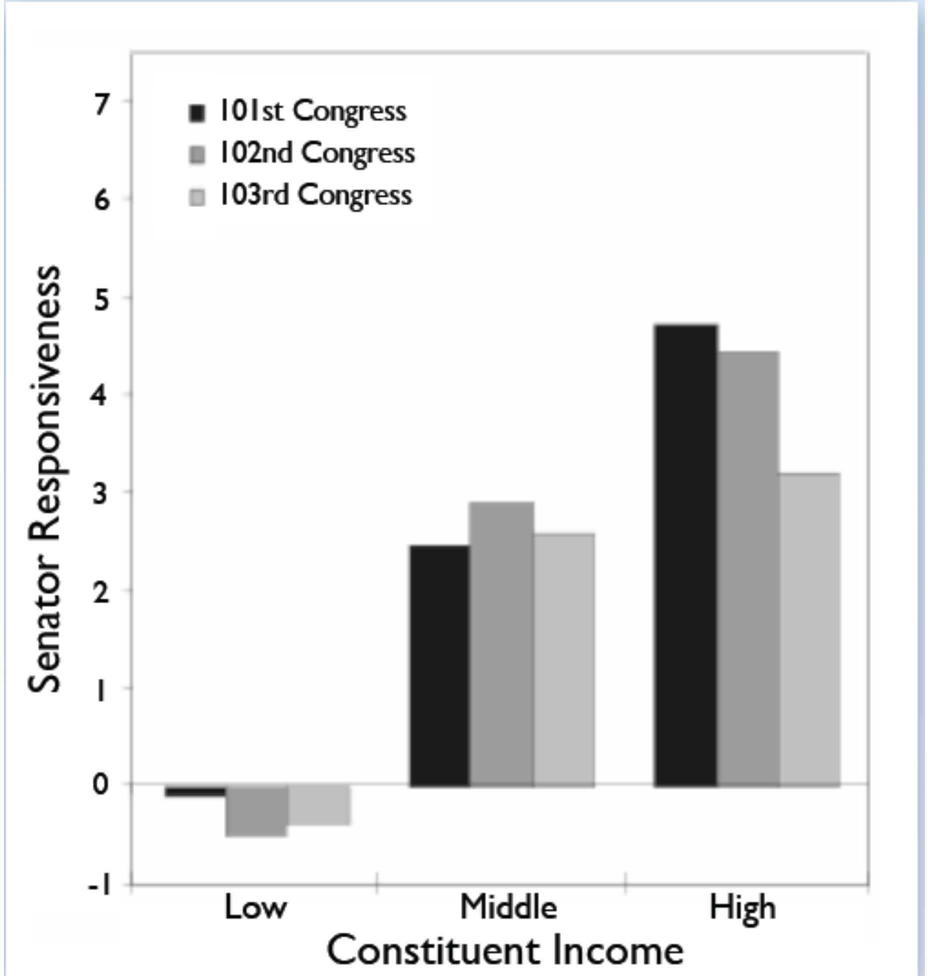
Economic Inequality and Mass Politics

Inequality and Democratic Responsiveness: I



Source: Gilens, Martin, "Inequality and Democratic Responsiveness," 69 *Public Opinion Quarterly* 778-796 (2005)

Inequality and Democratic Responsiveness: II



Source: Larry Bartels, *Unequal Democracy* 253-4 (2010)

Economic Inequality
and
The Politics of Influence

In 1970, 3% of retiring Congresspeople became lobbyists.

Today, over 30% do.

	Congressperson: Lobbyist	Chief Justice: Partner	Federal Chair: Bank CEO
1960	**$200,000: $200,000**	**$300,000: $900,000**	**$225,000 $1,000,000**
2010	**$175,000: $2,000,000**	**$240,000: $4,000,000**	**$200,000: $20,000,000**

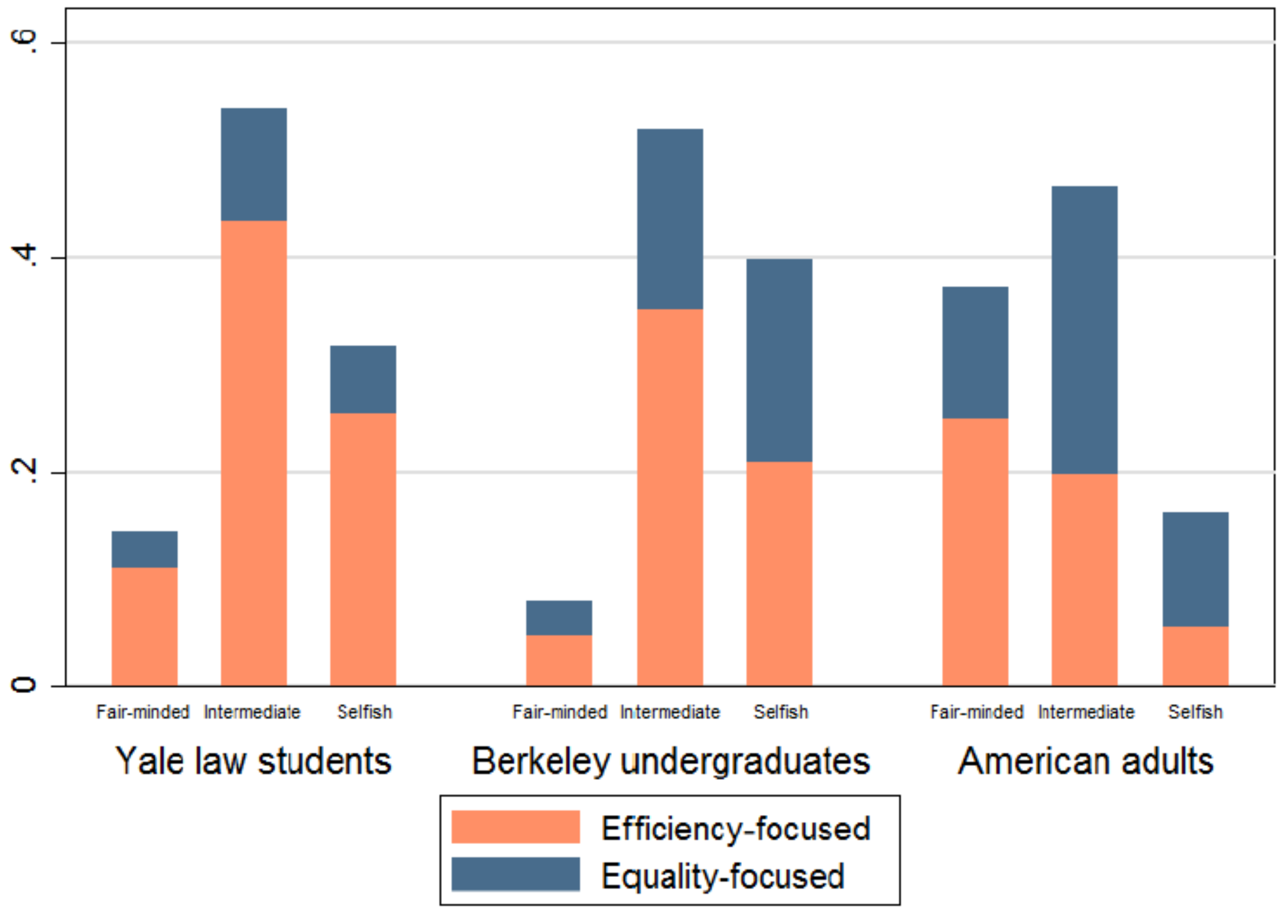
Wealth Defense as Politics

The swollen fortune, by the mere fact of its size, acquires qualities which differentiate it in kind as well as degree from what is possessed by men of relatively small means.

—Theodore Roosevelt

Distortions of the Political Values

Elite Quietism



Source: Ray Fisman, Shachar Kariv, Pamela Jakiela, and Daniel Markovits, "The Distributional Preferences of an Elite," Science 349, aab0096 (2015). DOI: 10.1126/science.aab0096

Mass Anger

The dark psychology of justified disadvantage

Seven

Snowball Inequality

What is the relationship between:

- **training concentration, and**
- **skill fetishism?**

The conventional view:

- **skill fetishism causes training concentration**
- **the cause of skill fetishism is exogenous technical change**

This one-way causation cannot be the whole story.

- **The agrarian example**
- **The same lesson applies when greatest economic resource is human capital**

A better view involves reciprocal causation

- **Technological innovation is interested and induced**
- **Training concentration thus causes skill fetishism**

Eight

A New Aristocracy

Meritocracy

and

Equality of Opportunity

Meritocracy was invented at mid-century expressly to open up the American elite

- President Kingman Brewster, who brought meritocracy to Yale, called himself “an intellectual investment banker” and declared that he did “not intent to preside over a finishing school on Long Island Sound.”

- Yale’s new admission standards were “a statement, really, about what leadership was going to be in the country and where leaders were going to come from.”
  — Inky Clark (Kingman Brewster’s new director of admissions)

- “You will laugh, but it is true that a Mexican-American from El Paso High with identical scores on the achievement test, and identically ardent recommendations from the headmaster, has a better chance of being admitted to Yale than Jonathan Edwards the Sixteenth from Saint Paul’s School.”
  — William F. Buckley, Jr.

- “You’re talking about Jews and public school graduates as leaders. Look around you at this table. These are America’s leaders. There are no Jews here. There are no public school graduates here.”
  — Anonymous member of the Yale Corporation

Meritocracy Worked as Planned

- In the first year of the new admissions regime at Yale, the share of admittees who hailed from alumni families fell by half and Yale rejected the son of its biggest donor.
- The median SAT of the Yale class of 1970 would have been in the 90^{th} percentile for the class of 1961.
- Similar developments spread throughout the elite between 1950 and 1970

Meritocracy functions very differently today

Super-educated children dominate the superordinate workforce:

- Just 7.3 percent of workers without a high school degree earn more than the median college graduate

- Just 1.3 percent of high-school-only educated workers, and just 17.2 percent of workers with a B.A. only, earn more than the median professional school graduate.

Children of superordinate workers dominate elite education.

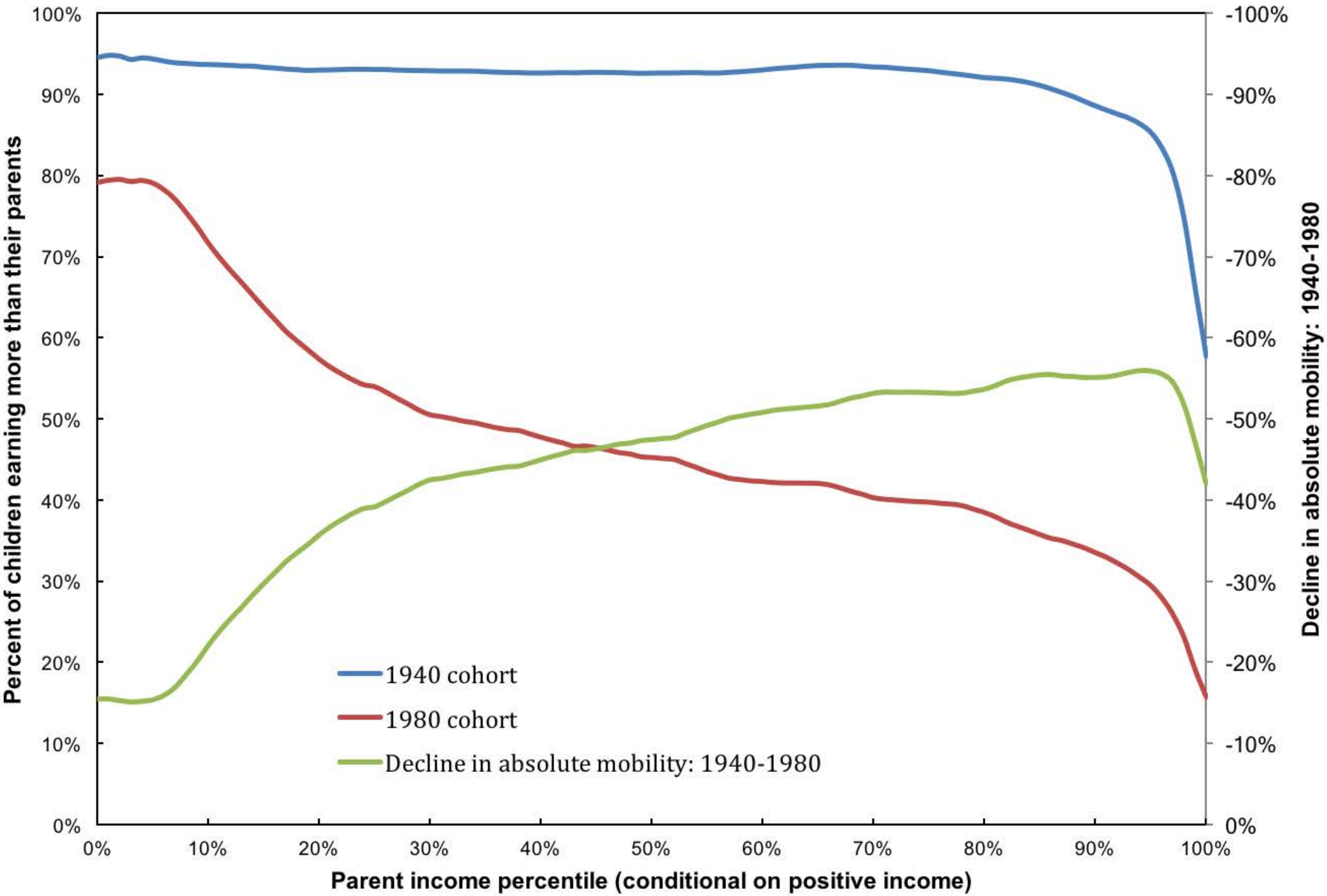
- Recall that immense achievement gaps between the rich and the middle class in schools

- Recall the immense skew towards wealth among students at elite colleges and universities

The pattern of elite dominance over the best schools and jobs thus reproduces itself down through the generations.

Meritocracy—first embraced to promote equality of opportunity—has today become the single greatest obstacle to equality of opportunity.

Children's Changing Odds of Earning More than Their Parents



Source: Raj Chetty et al., "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," *Science* 356, no. 6336 (April 2017): 398–406, Figure 1.

Meritocrats and Aristocrats

Nine

What Might We Do?

Deep social and economic forces drive meritocratic inequality forwards.

But where the danger is, the saving power grows also. The snowball mechanism reveals that rising inequality is not inevitable.

- **Not technological determinism**
- **Policies that diffuse education and encourage middle class labor can revise the arc of innovation and throw the motor that now drives inequality forwards into reverse.**

The toughest problems are not technocratic but political.

Even responsible elites are captured by meritocracy's allure—a sort of ideological Stockholm syndrome.

It doesn’t help that the conventional wisdom conceives of redistribution as a zero- or even negative-sum game (Arthur Okun’s leaky buckets).

This makes high-end inequality especially difficult to unwind, as it appears that the costs must be concentrated in a narrow (and powerful) elite.

Nativists and populists fill the breach—as today they alone name meritocracy's costs, and dignify them as moral harms.

Decent people are drawn to populism as the only ship that even acknowledges the meritocratic storm.

But meritocratic inequality changes the calculus of redistribution.

The meritocracy trap is a gilded cage that ensnares the rich even as it excludes the rest.

A more equal world would make *everyone* better off.

- **Return the middle class to income, status, and dignity.**

- **Restore the elite's authentic freedom (and at a price that, being so rich, they can easily afford to bear).**

Young people, including my students, are beginning to understand this—inarticulately and uncertainly, but with an increasingly powerful urgency.


SAME BOSSES
STRIKE LAWS
RENT INCREASES
STUDENT REPRESSION
£
$
PROFITS
SAME FIGHT

To update an old slogan:

The workers of the world—working-and-middle-class and now superordinate as well—should unite.

They have nothing to lose
but their chains, and a whole world to win.

Thank You

The Meritocracy Trap

#LSEMorishima

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Sir Anthony Atkinson Chair in Economics and Director of STICERD

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