528. Meritocracy and equal opportunity

Meritocracy, a society based on reward for merit, is an excellent idea, in theory. Proponents argue that reward for talent and exertion makes for a flourishing society. It creates competition, which generates efficiency and innovation, and elicits development of talent and exertion in the use of it. Talents are inherited and thus unequal, but they take dedication and effort to develop and practise. Merit stimulates people to engage in the challenge of enterprise. Inequality of income and wealth is reduced by progressive tax. In many countries there is equality of access to schooling and health care. There has been substantial upward social mobility.

A question is how one measures merit, and how it is to be rewarded. Pecuniary reward depends on price, which is settled by the (im)balance of demand and supply. Thus merit does depend on satisfaction of others' needs and wants. This requires reasonably free markets. A society that yields benefits that are determined by need and are undeserved by talent and exertion will slump and lag in prosperity. Markets are needed because in contrast with central planning they make maximal use of localised knowledge of needs, wants and opportunities. They give room for diversity, in tastes and initiatives for production, supply or entrepreneurship. Competition is a learning system, as Friedrich Hayek claimed (Hayek, 1945). A justification of advertising is that it reduces search cost, informing users of the availability and quality of supply of products, for both consumer goods and inputs for production.

On the other hand, meritocracy is ethically acceptable only when people have reasonably equal opportunity, which is not the case. Few proponents of meritocracy will deny that equal opportunity is needed, but they often underestimate what is needed for it. Talents are unequally distributed. The socialist Dutch economist and Nobel prize winner Jan Tinbergen once proposed to tax talent. For most people that goes too far. The talents one has are inevitably unequal, but one can tax the proceeds of talent, and use it to equalize the opportunity of developing and utilising the opportunities one has, however limited. Talent is a potentiality, and needs to be developed and brought into action to flourish. That requires effort and perseverance, but success depends on where one was born, what resources of housing, family and education one has.

The economist Amartya Sen, who among economists has an exceptionally broad view, emphasising justice and morality, offered the concept of *capability* to realise potential, for which one needs not just room for action, but also access to the resources needed.to utilise that room. A blind person needs braille and a guide dog, a lame person a wheelchair.

Capability requires education and schooling, to draw out the realisation of potential. Teaching involves a dilemma of push and pull. How far to go in transmitting knowledge or competence to pupils, and how far to go in leaving them to their own resources, another dilemma. The Russian developmental psychologist Vygotski offered the metaphor of *scaffolding*. Teaching is like building a bridge along a scaffold, until the bridge can support itself, after which the scaffold can be removed. Not all children have access to schooling, and the effect of schooling depends on education and support, in particular language ability. Covid-19 has increased inequality in this, with the imposition of home schooling, where children differ in the resources they have, in terms of space at home and a computer, attention from parents and the educational level of those.

Next to public schools there are private ones, often of higher level and quality, also offering networks of advantageous contacts, with higher fees, accessible only to those with well-to-do and highly educated parents. An argument for such elite schools might be that they promote excellence and hence higher potential merit, but they do create greater inequality of opportunity. This can be reduced with liberal scholarships, but only in part. Partly out of a drive for more equality, school programmes have been standardised in skills that can be measured. This is part of a more general drive to standardise programmes, products, procedures, in many services, out of an urge to control everything, and make them measurable to enable such control. One finds the drive towards measurement and control everywhere, out of a fear of deviance, but it also kills experimentation and originality.

After a period of going up, social mobility is now stagnating and even declining. It had to decline sometime. Not everyone can be above average. For it to continue, there also has to be downward mobility, but the well-to-do fight the downward mobility of their dependents, by submitting them to a rigorous learning discipline, and sending them to expensive elite schools and remedial teaching, and offering inherited leadership positions or property.

Learning goes beyond the acquisition of skills. Vygotsky, mentioned before, characterised teaching as drawing understanding, insight and capability out of the pupil, mobilising its potential, to develop and discover its ability and interest, and find its path in life.

Equality lies in the eye of the beholder. Recently, in a newspaper I read a quote of Carol Andersen in Politico, in 2016: 'If you have always been privileged, equality sounds like suppression'.This is certainly part of the uproar of populists against protests from BLM (Black Lives Matter), by whites who were previously privileged compared to blacks.

Many economists and policy makers bandy about the notion of an 'equal playing field', for everyone to have equal chances in competition. And indeed, one can try to prevent entry barriers to markets, discrimination in labour markets, nepotism and corruption, but access to talent, information, knowledge will always remain unequal.

Many people get rich without merit, in inheritance and investment in houses and other assets. Flexible workers run more risk of unemployment and have fewer social benefits and lower or no pension than those with an employment contract. Immigrants are often discriminated in the access to labour markets, housing and other facilities.

There are also problems with markets. Its blessings are routinely blocked or distorted by monopolies, oligopolies, lobbying, lack of transparency of quality, and other so-called transaction costs. Transaction costs are costs of contact, contract and control. Costs of contact lie in the need for supply and demand to find each other, costs of control in judging quality and reliability, monitoring adherence to agreements, and haggling and litigation in case of disagreement.

One kind of transaction cost, yielding *relational risk*, is that associated with so-called *relation-specific investments*, dedicated to a partner, and worthless when the relation breaks. This creates dependence on the partner that may be used by him/her to bargain for a greater share of jointly produced added value, threatening to walk out and leave you with a useless asset. The investments can be specific in facilities close by the partner, in dedicated tools or installations, in training, knowledge and skills, the building of trust in the partner, knowing who is who in the partner's organisation. An example is submitting an article or book for publication by a journal or publisher. You are supposed not to submit to others at the same time. This limits competition and is a nuisance to the author, but it is understandable because the journal or publisher makes investments of judging the proposal and sending it out to reviewers, specific to this proposal, which are lost when the author switches to another journal or publisher. The exclusive relation should last sufficiently long to recoup the specific investment. For the duration, this excludes competition, which flies in the face of public competition policy. This yields a dilemma for that policy: should one maintain openness to competition or allow temporary exclusiveness to stimulate specific investments, to encourage durable collaboration for the 'novel combinations' of innovation that require dedicated investments.

I have experienced problems in the measurement of merit as director of an academic research institute, where there was external pressure from funding agencies to evaluate the merit of researchers on the basis of number of their articles, weighted by the standing of the journal, measured by its *citation score*, the average number of citations of articles in the journal, or by the citations of a specific article or book. However, supposedly objective counting of citations is tainted by citation groups of scholars colluding to cite each other, and there is the phenomenon of citing celebrities because that is the thing to do, in order to have a paper accepted for publication. Against the stream, I pleaded to also read a published book now and then, and form a substantive judgement of it. But that is seen as opening up to prejudice, inequality and perhaps corruption. I grant that this is a real problem, and some form of control may have to be devised. There is such a form, in peer review once in a while, where judgements are discussed by independent peers who have actually read at least some of the publications involved. Judgment and control is then based not on blind measurement, but on dialogue.

The difficulty of judging merit depends on the kind of product or service. The merit of housekeeping and education is not measured.in the National Product So-called *search goods* can be judged prior to consumption because one is more or less familiar with them, such as a house, car or washing machine. Other goods, called *experience goods* can only be judged in consumption, such as a concert, piece of cake or professional service. To repair this, there is a demand for prior professional evaluation, in reviews and advice. A third type is *credence goods*, which one cannot judge even after consumption, such as advice of a consultant. If I could judge it, I would not have needed it. These search costs evoke the service of proxy judgement, by a commentator on a concert, a film critic, or accreditation of the supplier.

Advertising can distract with misleading, irrelevant or dense information, such as the ‘small letters’ of an insurance policy. Providers of lotteries brag about how much one can win, but do not admit that the probability of doing so is negligeable. It is advantageous for an organisation to build up a reputation of reliability of a product and communication, but when in need the organisation can misuse it to deceive.

Power in the market, from offering much employment, contributing to the national product, is used for lobbying, pressing governments for subsidies, slack rules of pollution, low taxes or slack control of tax evasion, and low energy prices, on the threat of moving employment abroad when they are not accommodated. Here, in immoral conduct in the market, the principle of a *prisoners dilemma* is at work, which will be discussed later. One may honestly wish to behave morally, but cannot afford to do so unless one’s rivals conform, but they all think that and nothing happens.

This is not the place to be exhaustive in the enumeration of market failures, but to illustrate their seriousness, I give a few. The financial crisis of 2008 was due, in large measure, to the fact that banks had incurred excessive risks in giving dubious loans and mortgages and when those defaulted and brought banks close to bankruptcy, the banks were bailed out at the cost of citizens, on the argument that otherwise the financial system would crash. A second example is the *Ponzi scheme*, such as engineered by Bernard Madov, where people are enticed to buy a stake in a project on the promise of large returns, and to lure customers, returns to early buyers are financed from the entry of later ones, which requires ever more new buyers until the scheme is unmasked and collapses.

There are *network externalities*, where the utility of something increases with the number of buyers of products with the same technical standard, as with telephones, which require that users employ telephones with the same standard. If the standard is proprietary, this blocks competition. Then the first to establish a significant number of buyers establishes an advantage that followers cannot overtake. This yields an argument for establishing public standards accessible to all. More generally, large firms can raise entry barriers to new competitors, not only by such proprietary standards, or patents, but by threatening to lower prices to a ruinous level if the new entrant appears. Patents are intended to encourage innovation, but are often built or bought to block entry, and are then left unexploited.

In markets, demand may be perverse, not serving public interest. There is great demand for president Trump, but it is largely built on lies, rhetoric, deceit, unfulfilled promises, and a lurid lure of violence. There is demand for excitement, entertainment, unhealthy foods, addictive substances, complot theories, riches for the sake of riches, and less for culture.

In this dilemma of meritocracy and equal opportunity also, as in other dilemmas, we need a combination of both sides, of meritocracy and equal opportunity. Entrepreneurship can be encouraged, but needs to be blocked when it is against public interest or safety, or justice. Sandel (2012) narrates the case where the mayor of New York wanted to offer a free concert in Central Park. Because of limited capacity of the park, one did have to collect a free ticket of admission. An entrepreneur recruited strays from the street to stand in line for a pittance, to collect admissions to be offered to the highest bidder, thus frustrating the aim of a free concert. Markets are desirable, in principle, but not always. Sometimes, something loses its value when left to the market. Sandel gives the example of a prize, such as the Nobel prize: what is the worth of it when it can be bought and sold to the highest bidder? What is the worth of a diploma when it can be bought? When markets are indeed desirable, they never work perfectly, and need to be corrected, in ways that differ between industries. Markets need to be regulated, to prevent entry barriers, limit transaction costs, increase transparency, block monopolies, control lobbying, insider dealings, corruption, discrimination and misleading advertising.

A universal, unconditional basic income (UBI) might contribute to the solution of the dilemma between meritocracy and equal opportunity. It goes against meritocracy in being unconditional, not depending on merit, but it provides a basis, equal for everyone, of conducting any kind of endeavour. Entrepreneurs, for example, have a basis to survive in the difficult early years of a new enterprise when they have nothing yet to warrant a loan. When the business fails, they can fall back on the UBI. In case of indigence, people no longer need to receive conditional social benefits that they now need to surrender when entering employment. This is the so-called 'poverty trap' that keeps people trapped in unemployment Fears that with a UBI people will have no incentive for economic activity have been shown to be largely unjustified, in experiments in several countries. On the contrary, the current discouraging surrender of benefits in case of activity falls away since the UBI is unconditional. Yet, the debate on a UBI is ailing from the claim that it could not be financed. Currently, under the plight of Covid-19, many people lacking the merit of economic activities, blocked by restrictions for fighting Covid, are receiving benefits. This has occasioned a resurgence of the debate about a UBI. If large sums can be forked out for compensation for the Covid restrictions, why not for a UBI, which would allow or even stimulate the exercise of merit when the pandemic recedes?

Questions

- Do you lean more towards meritocracy or equal opportunity
- Can you give more cases where merit is difficult to measure
- Can you think of a case where unequal opportunity can be improved while preserving meritocracy
- Can you think of a relation-specific investment
- Do you agree that markets may have to be excluded from certain actvities and regulated in others

- Are you in favour of a UBI