MY YEAR AT THE WISSENSCHAFTSKOLLEG
DANIEL MARKOVITS

Education: Yale Law School, J.D., 2000; Christ Church, University of Oxford, D.Phil., Philosophy, 1999; Balliol College, University of Oxford, B.Phil. (post-graduate), Philosophy, 1994. London School of Economics, M.Sc., Econometrics and Mathematical Economics, 1992. Appointments: Guido Calabresi Professor of Law, Yale Law School, 2010–present. Professor of Law, Yale Law School, 2007–2010. Associate Professor of Law, Yale Law School, 2001–2006. Publications: *A Modern Legal Ethics: Adversary Advocacy in a Democratic Age* (2008). "Contract and Collaboration." *Yale Law Journal* 113, 7 (2004). (With Raymond J. Fisman and Shachar Kariv) "Individual Preferences for Giving." *American Economic Review* 97, 5 (2007). – Address: Yale Law School, 127 Wall St., New Haven, CT 06511, USA. E-mail: daniel.markovits@yale.edu

I devoted a productive year at the Wissenschaftskolleg to writing a book and several articles.

The book, tentatively entitled *Snowball Inequality: Meritocracy and the Crisis of Capitalism*, tackles rising economic inequality, focusing on the United States. (Economic inequality elsewhere in the rich world, and especially on the European continent, follows a different dynamic. The US American and European dynamics do not necessarily exclude each other, or even compete, save on the margin of explanation; and evidence suggests that each style of inequality is reaching beyond its native habitat to other shores.)

In 2007, on the eve of the recent financial crisis, the richest one percent of US American households captured nearly a quarter of the nation's total household income. Moreover, income concentration in the United States today has a fractal quality. For each increasingly narrow economic elite, income is overwhelmingly concentrated among the elite of that elite: The top 1/10th of one percent thus captures fully half of the total income of the top 1 percent (and has the same aggregate income as the bottom fifty percent of the distribution); and the top 1/100th of one percent again captures half of the income of the top 1/10th of one percent. No thoughtful person can applaud this extreme concentration of income right at the very top of the distribution. But it is much harder to say just why the distribution of economic advantage in the United States today is wrong; and it is harder still to divine how things might be made right. Two features of economic inequality contribute especially to the moral complexity of the problem.

First, maldistribution's distinctive center of gravity today concerns not poverty but wealth. This represents a departure from past precedent. Reasonable estimates suggest that perhaps 40 percent of US Americans were poor in the 1930s; and as recently as the 1950s, even during the middle of the period of relative overall economic equality that political progressives wistfully call the "Great Compression", probably 25 percent and perhaps 33 percent of Americans remained poor. In the years since then, even as the rich have left the middle behind, the poor have caught up: today, even in the wake of the Great Recession, poverty (as officially measured) is a quarter as prevalent as it was during the Depression and half as prevalent as it was during the postwar boom associated with the Great Compression. Credible alternative measures suggest that poverty – and especially deep poverty – has declined more dramatically still. Poverty endures, to be sure; and one might plausibly insist that reducing poverty continues to be the greatest moral challenge for US American politics. But it remains undeniable that economic maldistribution has captured the political imagination today on account not of widespread poverty but rather concentrated wealth.

Maldistribution's changed causes pose a second challenge to familiar political programs for economic justice: today's rich work; and they are rich because they work. This also represents a startling break from the past. When Thorsten Veblen studied the elite of the last gilded age, he discovered a leisure class, constituted by a rejection of industrious work and an embrace of social practices specifically designed to demonstrate that participants did not need to work for money. Things could hardly be more different today. Rich US Americans now work, both much harder than they used to and much longer hours than either the poor or the middle class. Moreover, the rich owe their incomes to their labor: in 2007, the top 1 percent of US earners derived nearly three quarters of their incomes from labor; and the top 1/10th of percent derived nearly two thirds of their incomes from labor. Finally, the rich derive their labor incomes largely by deploying intense training and skill. Quite possibly, this complex of elite training, skill, and labor effort represents an unprecedented economic invention – the first society in human history in which the elite, and indeed the narrow elite, owes most of its income to skilled labor. Certainly, Veblen's leisure class has been supplanted by a superordinate working class.

The structure of the old inequality emboldened its critics. Traditional, poverty-laden maldistribution shocked the humanitarian conscience and undermined the authority of the state. No affluent society could tolerate widespread material deprivation in its midst; and a society that condemned its poor to material misery and social exclusion could not legitimately expect the poor to remain loyal to its institutions and to obey its laws. Veblen's leisure class and the *rentier* elite that endured through the Great Compression at the middle of the last century similarly presented champions of economic justice with an easy target. For one thing, the typical *rentier* cannot credibly claim a moral entitlement to the (often inherited) capital from which he extracts his rents. Furthermore, these rents generally come from mixing capital with other people's labor, on terms that invite charges of exploitation. A final consideration in favor of redistribution away from *rentiers* is less appreciated but not therefore less important: the state may expropriate a share of the *rentier's* profit, or even a share of her underlying capital, without thereby attacking her personality. (As Marx would have said, attacks on private property might leave personal property untouched.)

The final proof of the old inequality's moral vulnerability comes from the fact that it was attacked, and attacked in decidedly *moral* terms, not just from the socialist left but also from the capitalist right. John Rawls's *A Theory of Justice* championed the cause of the worst-off from within the ideology of liberal capitalism. And mid-century corporate raiders righteously targeted firms owned by the idle rich or, as one of them put it, the "third-generation Yale man who spends his afternoons drinking martinis at the club".

The new inequality, by contrast, challenges equality's champions at each point. A blunt and perhaps even crude, but nevertheless apt, characterization sums up the challenges that economic egalitarians face in the United States today: equality's champions must justify political interventions that harm the harder-working rich to benefit the less-industrious middle class. This is a formidable challenge.

Formidable, but not insurmountable. The intuitions that condemn US American inequality today survive the observations just rehearsed. And a deeper understanding of contemporary inequality underwrites the present-day egalitarian's intuitions with systematic arguments. Two such arguments possess particular potency.

First, the meritocracy that produces contemporary US American inequality – the gauntlet of competitions and tests that leads to elite education, the connection between elite training and elite jobs, and the immense economic returns that highly trained elite workers enjoy – does not promote equality of opportunity. On the contrary, US American meritocracy today defeats equality of opportunity. Children from economically elite households vastly outperform not just poor but also middle class children on every measure of academic achievement; and these achievement gaps grow larger as children grow up. By 2000, the difference between the academic achievement of secondary school children from families in the 90th and 10th percentiles of the income distribution had grown to exceed the difference between white and black children in 1954, the year *Brown v. Board of Education* declared racially segregated schools unconstitutional. Economic inequality today thus produces greater educational inequality in this century than American apartheid did in the last. Moreover, economic inequality disadvantages not just the poor but also the middle class and indeed distinctively the middle class. Even as the achievement gap between children from the 50th and 10th income percentiles has fallen since 1960, the gap between children in the 90th and 50th percentiles has exploded. These differences only compound as educations become increasingly elite and generate increasingly large economic returns. The roughly 100 most competitive US American universities thus enroll 14 times as many students from families in the top quarter of the income distribution as from families in the bottom quarter. And the student bodies of the very most elite institutions skew still more dramatically towards wealth. The best available data suggest that at Harvard College and Yale Law School, for example, the same percentage of students comes from families in the top one percent of the income distribution as from families in the entire bottom half.

A second reflection opens up a still deeper attack on the moral foundations of the current US American economic order. Every society develops and employs technologies of production that suit its productive resources. Among agrarian societies, for example, those inhabiting deserts develop drip irrigation whereas those inhabiting flood plains develop rice-paddy farming. In the contemporary world, the greatest productive resource is no longer land or other physical capital but rather the effort and skill – the human capital – of free workers. The technologies of production that contemporary societies develop and deploy thus naturally adjust to suit the skill profiles of their workers. It is therefore not surprising to find that, across societies, a high correlation arises between the degree to which training and academic achievement are concentrated among the rich and the extent of the wage premium associated with elite education and training. Both effects display especially extreme developments in the United States today, where the effect of parents' education on children's academic achievement is larger than in other rich nations and the tertiary wage premium (especially for elite university educations) is also unusually large.

These two developments constitute an interlocking pair: the US American economy fetishizes skill – in the manner that produces the superordinate working class – *because* the US educational system concentrates training in elites. The United States economy invents and adopts the production techniques that make elite training so economically remunerative because it possess an elite with the training that these techniques require.

This observation reveals that present-day US American meritocracy not only offends against equality of opportunity, but is itself directly a sham. The conception of merit around which the American economy revolves is not natural but constructed. Moreover, the ideal of merit is constructed upon a foundation of prior economic inequality in training and thus skill. When cast in this light, contemporary meritocracy comes to resemble nothing more than a flimsy renovation of an older aristocratic order that egalitarians of many stripes have long, and rightly, rejected. If one were to ask an aristocrat from the heyday of the *ancien régime* why he was justified in his power, wealth, and prestige, he would have answered that he represented the best his society had to offer. His breeding, his training, his connection to the land, and his long-term perspective rendered him properly suited to rule wisely, as a prudent husband of his society. Moreover, within the ideological frame of his day, the historical aristocrat would have been right. The egalitarianism of Europe's republican revolutions did not so much deny the old aristocracy's self-conception as reject its moral valence. The conceptions of excellence on which the aristocrats of the *ancien régime* relied were unmasked as ideological – as the self-serving conceit of a dominant caste, rather than an impartial conception of human flourishing and worth.

The arguments just rehearsed similarly unmask the meritocratic pretensions of today's economic elite. The skills that they trumpet are not naturally valuable, and certainly not objectively valuable, but are instead valuable only in social and economic systems that are constructed around economic inequality. Indeed, the conception of merit that dominates US American society today is just the mask given the most recent application of the iron law of oligarchy. It is the ideological construction produced and favored by the elite that arises when human capital becomes a society's greatest productive asset and through which that elite manages to concentrate human capital, across generations, in a narrower and narrower set of hands.

This is what is wrong with the distribution of economic advantage in the United States today. But this wrong cannot be remedied by shallow redistributions that leave the basic structures of training, production, and value untroubled. To fix the new economic inequality, one must reconstruct the economy from the ground up.

The articles take up narrower questions and address more specialist audiences. Two interconnected articles elaborate the doctrinal structure of good faith in contract law and fidelity in fiduciary law, in order to draw a fundamental contrast between two styles of sharing – sharing *ex ante* and sharing *ex post* – recognized by modern legal orders. A third, unrelated article reports the results of an experimental study of other-regarding behavior. The experiment measures the other-regarding preferences of subjects drawn from a pool representing the general US American population and from more elite subject pools. Elites display both less altruism and a greater preference for efficiency over equality than the general population.

These projects – especially taken together – drew on a wide range of materials: prominent and obscure, technical and general, and from many disciplines. The Wissenschaftskolleg library and its outstandingly skilled and dedicated staff made it possible to pursue them, and to pursue them all together and at once. I am grateful.

I, and my children, are also especially grateful for the warmth and kindness of the child-minders engaged by the Kolleg in connection with evening events for Fellows and families. I have rarely encountered so lively, engaging, and kind a group. My children loved them and miss them.