

# Is Meritocracy Another Source of Inequality?



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## Introduction

It is said that income inequality is increasing in the United States and in some developed nations in Europe and that this is a principal source of poorer people's frustration with current politics, leading to rising anti-establishment sentiment among voters and destabilizing the center-right or center-left political elites that have been the mainstream in these nations' administrations since the end of World War II.

The coronavirus pandemic since 2020 has been increasing income inequality, since its negative impact is concentrated mainly on non-skilled workers with low salaries. Workers with skills and knowledge employed by large companies have lost very little even during the lockdowns in big cities, as they can work remotely at home with little effect on their salaries. But non-skilled workers engaged in manual labor are exposed to risk of losing their jobs or wage cuts as their employers are faced with declining business. They also face greater health risks, as many of them are essential workers like cashiers at convenience stores or supermarkets compelled to have more physical contact with customers even if rules of social distancing are observed.

Income inequality is measured by the Gini-coefficient and an increased Gini-coefficient implies expanded income inequality. We can see the background of increasing income inequality in developed nations before the pandemic in the factor analysis on Gini-coefficient expansion in developed nations in 2007 in METI's White Paper on International Economy & Trade in 2017. According to this, Foreign Direct Investment (FDI)/GDP and Information and Communication Technology (ICT)/total cumulative capital investment are the major factors enhancing the Gini-coefficient. This means a nation's corporate overseas investment to establish subsidiaries or factories abroad would take away non-skilled job opportunities within that nation as these jobs would be transferred to those overseas subsidiaries or factories where labor would be cheaper. High-technology would also take non-skilled workers' job opportunities by replacing them and thus increase income inequality.

In order to lessen such income inequality, it is known that enhancing the quality of labor through education programs would be effective. According to the United Nations, a negative correlation is observed between income inequality and average years at school, that is to say the Gini-coefficient declines as the average years of learning at schools increase. In the light of what is happening with

income gaps under the pandemic, we need to strengthen our efforts to promote education for those with low skill levels and knowledge due to their poor educational background.

## Difference in Educational Background Leads to Inequality

Educational background is not the only reason for income inequality. There are others such as aging or health. As the aging of society progresses, the greater proportion of elderly people among the total population living on pensions will contribute to increasing income inequality. Though there will be a few aged people with large financial assets, the majority of them will not be given many opportunities to continue earning. Overall, an aging society will make society less egalitarian. Assuming that elderly people are in poorer health than young people, health inequality also increases in an aging society. This would further exacerbate the situation. Besides aging, gender, race and employment status (permanent or non-permanent) could be other possible sources of inequality.

In what context will a difference in educational background be crucial to inequality? In advanced economies, meritocracy is usually dominant in determining the level of salary of employees. Employees with higher educational backgrounds are considered to have expertise and knowledge and thus be more highly productive, for which they are rewarded with higher incomes. In particular, the top elites in society, including not only business executives but also lawyers, academics, medical doctors and even politicians, are earning high incomes for their significant expertise, the outcome of their better educational background, such as having degrees from prestigious universities or graduate schools. There would be exceptions, of course, where some people with a high educational background are not necessarily well paid and those with a lower educational background are well paid for professional skills acquired through work experience. But a well-working meritocracy in developed nations generally limits these exceptions.

The inequality created by meritocracy seems to be, at first glance, legitimate, as different educational backgrounds can simply be the result of an individual's own talents and efforts. Greater competency should naturally result in better income. But this is not always the case.

## The Case of the US

In their book *Deaths of Despair and the Future of Capitalism* (Princeton University Press, 2020), authors Anne Case and Angus Deaton, both emeritus professors at Princeton, show that in the United States there has recently been a rapidly growing number of deaths among middle-aged white Americans by suicide, drug overdoses and alcoholism, and that these “deaths of despair” occur mostly among people without a university degree. The book is an analysis endorsed by data on the reality of income inequality in the US, and the difference in education is cited as one of the principal backgrounds to these tragedies. According to the authors’ calculations, in Kentucky there was a significant difference in the number of deaths of despair among the middle-aged (45-54 years old) non-Hispanic white Americans between those with more than a university degree and those without. In 2015, the number of “deaths of despair” in the latter was around 130 per 100,000, while that in the former was around 30. This is how educational background can result in differences in mental health.

In the US, the proportion of college graduates among adults is around 30%, and their average salary is around 80% higher than a high-school graduate’s average wage. As many vocations now require a bachelor’s degree as a qualification, though it was not the case before, the job opportunities available to high-school graduates are limited. In 2017, the unemployment rate among high-school graduates was twice as high as that among college graduates. The labor market in the US thus provides more jobs (and likely better jobs) for college graduates. This means not only that opportunities for high-quality jobs are not available to people with a low educational background but also that they would be deprived of the chance to learn from such jobs and gain promotion.

ICT innovation and a knowledge-based economy have reinforced this trend in recent years. They have increased demand for more skilled and knowledge-intensive labor. Such people’s income is sometimes limitless. In 2018, the salary of the average CEO in the US was around \$17.2 million, some 278 times higher than the average employee’s salary, whereas in 1965 it was only 20 times. In the US today, those with a high educational background and those without are divided. As their salary gaps widen, they live in different residential areas due to different living costs and their children go to different schools and have little chance to talk with or relate to each other.

The legitimacy of meritocracy rests upon its assurance of equal educational opportunities for all people regardless of their class, birth, family or any other distinction not related to individual competency. It is thus considered to provide equal opportunities for all to be successful in social life. But it also has serious defects. One is to deprive those with high potential but a poor educational background of the opportunity to be successful. Another is that people who are successful thanks to meritocracy tend to defend their own interests for their children in the competition to enter good universities. Successful people use their personal influence with universities to enable their children to enter. Or it may be that their

children enjoy a better learning environment with good tutors or good preparatory schools thanks to the wealth of their parents, enabling them to enter good universities. In such cases, meritocracy can have the effect of working exclusively against an egalitarian society.

In the US overall, educational background can impact health inequality. Lifestyle-related diseases are closely related to education. For example, the habit of smoking has been and still is different between people with different educational backgrounds. In 2017, the proportion of white American adults over 25 years old graduating only from high schools, if at all, who continued to smoke was 29% of the total, while the percentage of those with bachelor’s degrees or more who smoked was only 7%. Meanwhile, one-third of white Americans without bachelor’s degrees were recognized as suffering from obesity in 2015, while less than a quarter of those with bachelor’s degrees were obese.

This health inequality has been rapidly widening the gap in the mortality rate between people with university degrees and those without them. Among white Americans between 45 and 54 years old, the mortality rate of those without bachelor’s degrees has increased by 25% since the first half of the 1990s, while the rate for those with such degrees has decreased by 40%. Thus the risk of death in middle age for the latter is less than a quarter of that for the former. And the latter’s income is twice as high as the former’s.

On the question of deaths of despair, the possibility of their being caused by suicide, drug abuse or alcohol for people with university degrees will be much lower than for those without such degrees. The risk of such deaths for non-college graduates is three times as high as for college graduates. This difference also explains the increase in health inequality among people with different educational backgrounds.

Prof. Michael Sandel at Harvard University, an expert on political philosophy, discussed in his essay “Populism, Trump and the Future of Democracy” published by openDemocracy on May 9, 2018, the erosive effects of meritocracy upon democracy, noting the winners in the race for higher education would be convinced of their success being uniquely the outcome of their own efforts and talents and nothing to do with good luck or their rich parents giving them better opportunities to learn at prestigious schools, and that they would eventually look down on the unlucky losers. While the winners become arrogant, the losers become jealous of them and either deeply disappointed in their presumed incompetence or angry that the unfairness of the social and political system has failed to bring them success. This creates further divisions in US society, providing a background for further political turmoil.

*Deaths of Despair and the Future of Capitalism* is highly recommend to understand the key features of current US political realities. But what about Japan? Can the same concerns be applied to the current Japanese political and economic situation?

## The Reality of Inequality in Japan

In Japan, though its Gini-coefficient has been increasing in recent

years, income inequality is not as significant as in the US. According to Prof. Takashi Oshio at Hitotsubashi University (see the interview article with him in this issue), health inequality in Japan is therefore not so significant between the poor and the rich. On the question of an educational background's impact on inequality as well, there is, at least, no significant statistical difference in income between college graduates and others. However, I think there is an increasing divide between the elites with a high educational background and others even in Japan.

Japanese corporate culture has had a reputation for being egalitarian. Regardless of titles or posts, whether they are superiors or subordinates, employees in the same company work as members of the company as if they were a family. They not only work together but also occasionally have lunch or dinner together, and spend pastimes together, such as playing golf. They sometimes talk with each other beyond the organizational hierarchy even about personal issues. This was the Japanese traditional management style, with a caring spirit and little class distinction.

But these humanistic customs are now being eroded by meritocracy based on educational background. This is probably mostly due to the increase in non-permanent employees in Japanese companies. Today, more than half of all employees in Japan are non-permanent. Their job security is not fully assured and their working conditions, including salary, are not necessarily equal to those for permanent employees. Educational background varies even among non-permanent workers. There are also college graduates among them, but in most cases the permanent good jobs are given to graduates from prestigious universities. With this employment distinction, I guess the elites in management would tend to look down on their non-permanent colleagues and not care for them. We often hear now about "power harassment" by such superiors towards their non-permanent subordinates, some of whom then develop mental problems. There is less dining together and less socializing outside of the workplace. They talk with each other less and less, as people feel increasingly isolated.

More seriously, these non-permanent employees cannot become permanent very easily due to the stagnant economy in Japan, which has become even more serious due to the pandemic. And these non-permanent employees' children are unlikely to become permanent employees as their educational opportunities will be limited due to their parents' lower incomes. The permanent elite employees will increasingly tend to socialize among themselves, and their children will go to the prestigious schools thanks to their parents' wealth and marry people from the same kinds of family. Thus, increasingly, elites will talk only with elites and not ordinary people, and so the social divide between the two will expand in Japan.

Meanwhile, ordinary people's trust in the political class is declining. During the pandemic, political leaders have sometimes failed to convince the people of the relevance of their policies to contain the virus and restore the economy. People have become more skeptical about these elites' concern for the public interest, and this skepticism has sometimes resulted in disrespect for intellectuals. Overall, in Japan the social divisions between the elites

and non-elites may not be so serious or striking as in the US, but potentially it could expand from now on. What is the solution for this?

## How to Mitigate the Demerits of Meritocracy

It is natural to have income differences to a certain extent caused by meritocracy, as it is a reflection of differences in abilities. One question that needs to be addressed is how to ensure opportunities for non-college graduates to improve their capabilities either by on-the-job training or at adult schools where they can pursue life-long learning. Another is how to encourage the elites to abandon their arrogant attitudes toward such non-college graduates so as not to offend them. They need to be more modest about their success in the race for academic achievement. They should be grateful for their good luck and to their parents or others who enabled them to enjoy an advanced education. This is an ethical question, but sometimes ethics fall short when confronted by reality.

In the US, where there is a much more serious division between the elites and non-elites, some might say that to mitigate this divide a lottery should be introduced for entrance exams to prestigious schools. So whether you could enter and graduate from a prestigious university would be completely a matter of luck and not academic ability. This might erase one of the demerits of meritocracy, but this extreme idea has its own demerit, as it would work as a disincentive to study hard and improve one's own knowledge and abilities. This lack of incentives would result in a much less vigorous economy.

My suggestions are as follows:

First, we need to recognize the importance of social cohesion. Social divisions result in costs to the economy, such as big public spending on compensation for the unsuccessful. Political instability resulting from social divisions would create even greater costs. Social cohesion would be the cheapest way to achieve a stable political economy and create happiness for all. So elites should care for non-elites and be more sensitive to their plight. This is not merely an ethical question but one of logic.

Secondly, we have to appreciate the pleasures of talking or socializing with a variety of people. Socializing only among our own group leads to biased thinking, and a failure to achieve a fair and balanced view on any issue. Elites can discover a diversity of views from talking with non-elites and so become smarter themselves. There are many venues where such views can be exchanged. Any community gathering for sports or festivals, or spontaneous discussions on topics like China's influence on the world economy organized by a civic hall or non-profit organization can play a key role in achieving this.

This can be a practical solution for encouraging modesty among the elites and reducing the divide between them and others less fortunate.

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