

America's new aristocracy

As the importance of intellectual capital grows, privilege has become increasingly heritable



WHEN the candidates for the Republican presidential nomination line up on stage for their first debate in August, there may be three contenders whose fathers also ran for president. Whoever wins may face the wife of a former president next year. It is odd that a country founded on the principle of hostility to inherited status should be so tolerant of dynasties. Because America never had kings or lords, it sometimes seems less inclined to worry about signs that its elite is calcifying.

Thomas Jefferson drew a distinction between a natural aristocracy of the virtuous and talented, which was a blessing to a nation, and an artificial aristocracy founded on wealth and birth, which would slowly strangle it. Jefferson himself was a hybrid of these two types—a brilliant lawyer who inherited 11,000 acres and 135 slaves from his father-in-law—but the distinction proved durable. When the robber barons accumulated fortunes that made European princes envious, the combination of their own philanthropy, their children's extravagance and federal trust-busting meant that Americans never discovered what it would be like to live in a country where the elite could reliably reproduce themselves.

Now they are beginning to find out, (see pages 17-20), because today's rich increasingly pass on to their children an asset that cannot be frittered away in a few nights at a casino. It is far more useful than wealth, and invulnerable to inheritance tax. It is brains.

Matches made in New Haven

Intellectual capital drives the knowledge economy, so those who have lots of it get a fat slice of the pie. And it is increasingly heritable. Far more than in previous generations, clever, successful men marry clever, successful women. Such "assortative mating" increases inequality by 25%, by one estimate, since two-degree households typically enjoy two large incomes. Power couples conceive bright children and bring them up in stable homes—only 9% of college-educated mothers who give birth each year are unmarried, compared with 61% of high-school dropouts. They stimulate them relentlessly: children of professionals hear 32m more words by the age of four than those of parents on welfare. They move to pricey neighbourhoods with good schools, spend a packet on flute lessons and pull strings to get junior into a top-notch college.

The universities that mould the American elite seek out talented recruits from all backgrounds, and clever poor children who make it to the Ivy League may have their fees waived entirely. But middle-class students have to rack up huge debts to attend college, especially if they want a post-graduate degree, which many desirable jobs now require. The link between parental income and a child's academic success has grown stronger, as clever people become richer and splash out on their daughter's Mandarin tutor, and education matters more than it used to, because the demand for brainpower has soared. A young college graduate earns 63% more than a high-school

graduate if both work full-time—and the high-school graduate is much less likely to work at all. For those at the top of the pile, moving straight from the best universities into the best jobs, the potential rewards are greater than they have ever been.

None of this is peculiar to America, but the trend is most visible there. This is partly because the gap between rich and poor is bigger than anywhere else in the rich world—a problem Barack Obama alluded to repeatedly in his state-of-the-union address on January 20th (see page 33). It is also because its education system favours the well-off more than anywhere else in the rich world. Thanks to hyperlocal funding, America is one of only three advanced countries where the government spends more on schools in rich areas than in poor ones. Its university fees have risen 17 times as fast as median incomes since 1980, partly to pay for pointless bureaucracy and flashy buildings. And many universities offer "legacy" preferences, favouring the children of alumni in admissions.

Nurseries, not tumbrils

The solution is not to discourage rich people from investing in their children, but to do a lot more to help clever kids who failed to pick posh parents. The moment to start is in early childhood, when the brain is most malleable and the right kind of stimulation has the largest effect. There is no substitute for parents who talk and read to their babies, but good nurseries can help, especially for the most struggling families; and America scores poorly by international standards (see page 18). Improving early child care in the poorest American neighbourhoods yields returns of ten to one or more; few other government investments pay off so handsomely.

Many schools are in the grip of one of the most anti-meritocratic forces in America: the teachers' unions, which resist any hint that good teaching should be rewarded or bad teachers fired. To fix this, and the scandal of inequitable funding, the system should become both more and less local. Per-pupil funding should be set at the state level and tilted to favour the poor. Dollars should follow pupils, through a big expansion of voucher schemes or charter schools. In this way, good schools that attract more pupils will grow; bad ones will close or be taken over. Unions and their Democratic Party allies will howl, but experiments in cities such as battered New Orleans have shown that school choice works.

Finally, America's universities need an injection of meritocracy. Only a handful, such as Caltech, admit applicants solely on academic merit. All should. And colleges should make more effort to offer value for money. With cheaper online courses gaining momentum, traditional institutions must cut costs or perish. The state can help by demanding more transparency from universities about the return that graduates earn on their degrees.

Loosening the link between birth and success would make America richer—far too much talent is currently wasted. It might also make the nation more cohesive. If Americans suspect that the game is rigged, they may be tempted to vote for demagogues of the right or left—especially if the grown-up alternative is another Clinton or yet another Bush. ■



An hereditary meritocracy

WASHINGTON, DC

The children of the rich and powerful are increasingly well suited to earning wealth and power themselves. That's a problem

“MY BIG fear,” says Paul Ryan, an influential Republican congressman from Wisconsin, is that America is losing sight of the notion that “the condition of your birth does not determine the outcome of your life.” “Opportunity,” according to Elizabeth Warren, a Democratic senator from Massachusetts, “is slipping away.” Marco Rubio, a Republican senator from Florida, thinks that “each element” of the sequence that leads to success “is eroding in our country.” “Of course you have to work hard, of course you have to take responsibility,” says Hillary Clinton, a former first lady, senator and secretary of state, “but we are making it so difficult for people who do those things to feel that they are going to achieve the American dream.” When discussing the chances of ordinary Americans rising to the top, politicians who agree about little else sound remarkably similar.

Before the word meritocracy was coined by Michael Young, a British sociologist and institutional entrepreneur, in the 1950s there was a different name for the notion that power, success and wealth should be distributed according to talent and diligence, rather than by accident of birth: American. For sure, America has always had rich and powerful families, from the

floor of the Senate to the boardrooms of the steel industry. But it has also held more fervently than any other country the belief that all comers can penetrate that elite as long as they have talent, perseverance and gumption. At times when that has not been the case Americans have responded with authentic outrage, surmising that the people at the top are, as Nick Carraway said, “a rotten crowd”, with bootlegging Gatsby better than the whole damn bunch put together.

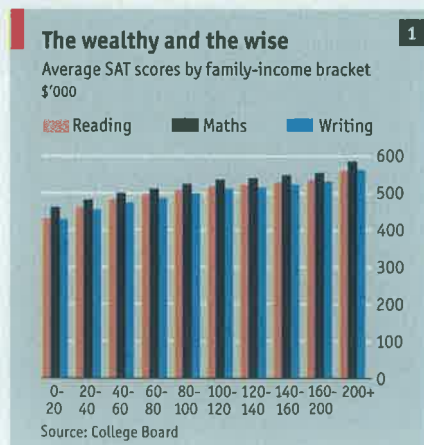
Today's elite is a long way from the rot-

ten lot of West Egg. Compared to those of days past it is by and large more talented, better schooled, harder working (and more fabulously remunerated) and more diligent in its parental duties. It is not a place where one easily gets by on birth or connections alone. At the same time it is widely seen as increasingly hard to get into.

Some self-perpetuation by elites is unavoidable; the children of America's top dogs benefit from nepotism just as those in all other societies do. But something else is now afoot. More than ever before, America's elite is producing children who not only get ahead, but deserve to do so: they meet the standards of meritocracy better than their peers, and are thus worthy of the status they inherit.

It takes two

This is partly the result of various admirable aspects of American society: the willingness of people to give money and time to their children's schools; a reluctance to impose a uniform model of education across the country; competition between universities to build the most lavish facilities. Such traits are hard to object to, and even if one does object they are yet harder to do anything about. In aggregate, though, they increase the chances of wealthy par-



Also in this section

18 Good starts around the world

ents passing advantage on to their children. In the long run that could change the way the country works, the way it thinks about itself, and the way that people elsewhere judge its claim to be an exceptional beacon of opportunity.

Part of the change is due to the increased opportunities for education and employment won by American women in the twentieth century. A larger pool of women enjoying academic and professional success, or at least showing early signs of doing so, has made it easier for pairs of young adults who will both excel to get together. Between 1960 and 2005 the share of men with university degrees who married women with university degrees nearly doubled, from 25% to 48%, and the change shows no sign of going into reverse.

Assortative mating of this sort seems likely, on average, to reinforce the traits that bring the couple together. Though genes play a role in the variation of intelligence from person to person, this is not a crude genetic determinism. People tend to encourage in their children what they value in themselves and their partners. Thus people bought together by their education and status will typically deem such things important and do more to bring them out in their children, both deliberately and by lived example—processes in which nature and nurture are more than likely to work hand in hand.

Not only do graduate couples tend to value education; they also tend to have money to spend on it. And though the best predictor of an American child's success in school has long been the parents' educational level—a factor which graduates are already ahead on, by definition—money is an increasingly important factor. According to Sean Reardon of Stanford the past decades have seen a growing correlation between parental income and children's test scores. Sort the students who took the SAT, a test for college applicants, in 2014 by parental income and the results get steadily better the further up the ladder you climb (see chart 1 on previous page).

First, cultivate your kindergarten

Another factor is family stability. Wealthier and better educated American families tend to marry before having children, and like most married couples they split up less than unmarried ones. This correlates with various good outcomes for their children.

The educational benefits of being born to wealthy parents are already clear in toddlers (see box). Families which are used to and eager for success try to build on them at kindergarten. Competition for private kindergarten places among high-status New Yorkers is farcically intense. Jennifer Brozost of Peas, an educational consultancy, recommends that parents apply to 8-10 kindergartens, write "love letters" to their top three, and bone up on how to make the

"...but it's not fair"

Enrichment spending on children
Constant 2008 dollars, '000



Source: "Whither Opportunity?" by Greg Duncan & Richard Murnane

right impression when visiting. Some parents pay for sessions at which their children are coached on how to play in a way that pleases those in charge of admissions. Once children enter the public school system—which about 90% of them do—the advantages of living in a well-off neigh-

bourhood kick in. America is unusual in funding its public schools through property taxes. States have a floor price for education of each child, but parents vote to pay more local tax in order to raise this up, and frequently do. Funding per pupil can vary by up to 50% across state, says Mike McShane of the American Enterprise Institute, a think-tank.

Sometimes this results in poor students in cities that collect lots of property tax doing better funded than the children of wealthier families in the suburbs. More often, though, the opposite is true. The result is that America is one of only three advanced countries that spends more on richer pupils than poor ones, according to the OECD (the other two are Turkey and Israel). And on top of spending on schools there is spending outside it: the gap between what rich and poor parents shell out for museum trips, music lessons, books and so on has been widening (see chart 2 in a world where lots of people do well on

The world's nurseries

Getting 'em young

Early education matters, but it is not everything

THE mayor of New York, Bill de Blasio, has promised that there will be free pre-schooling available to all the city's infants this year. It is one example of a wider American political enthusiasm for dealing with gaps in educational attainment by focusing on the youngest. International comparisons show that such measures have a long way to go—and that they are far from a cure all.

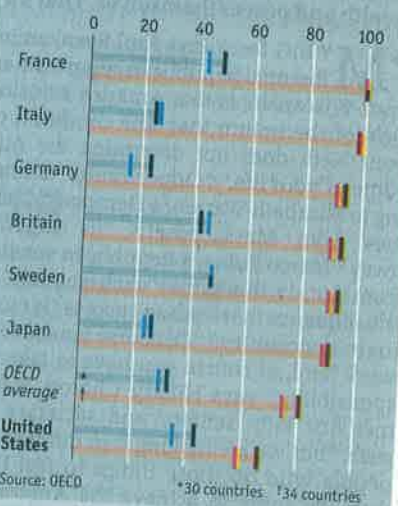
Figures from the OECD show America faring quite well on provision for 0-3-year-olds (see chart); but when it comes to providing pre-school for 3-to-5-year-olds it falls to the back of the class—behind Chile and just ahead of Lithuania and Greece.

Attitudes to the right way to spend early childhood years still vary around the world. Scandinavians dislike formal early schooling but relish subsidised day care earlier on. German parents put relatively few of their toddlers into formal crèches, but are happy for them to head off to kindergarten when they are three. Ambitious Asians, notably in South Korea, are keen on solid pre-schooling as a chance to improve educational outcomes and make them more consistent. The Swiss prefer to keep their kids at home a bit longer, but still do well by them overall.

Andreas Schleicher, head of the OECD's education team, says early-years investment does not "automatically produce gains in learning, unless systems

Class action

Average enrolment of children in pre-school and child care, % of total. Age: 0-3, 3-5. 2007, 2010



Source: OECD *30 countries; †34 countries

transfer this to primary and secondary level". He has just published research showing that in a worrying number of rich-world countries more than 15% of young people are "unqualified". Those with a problem include France, the Netherlands, Norway and Denmark—all high scorers for early-years provision. A good start is not enough on its own. The system's stamina and consistency matters just as much—and possibly more.

▶ SATs, cultivating extra skills matters.

The opportunities for parental investment continue in higher education, which is ever more costly (see chart 3) but offers ever greater returns. Between 1979 and 2012 the income gap between the median family with college-educated parents and one with high-school educated parents grew four times greater than the headline-grabbing income gap between the top 1% of earners and the rest, according to David Autor of MIT, rising from \$30,000 to \$58,000.

Those whose parents have provided good schooling and good after-schooling have advantages already—but some get an extra one from institutions that discriminate in favour of the children of alumni. According to a survey by the *Crimson*, Harvard's newspaper, 16% of the 2,023 who got in last year had at least one parent among the university's alumni. Harvard says that legacy preference is only ever a tie breaker in admissions; but with 17 applicants for every place there can be a lot of ties.

All this and lacrosse too

Most of the country's research universities and liberal arts colleges grant preferences to legacy students; the practice seems widespread at universities just below the top tier. The University of Pennsylvania is particularly friendly to the children of alumni, says Katherine Cohen of Ivywise, a firm with several ex-deans of admissions on its books which provides advice on getting children into the best schools. Though it is rare, stories still crop up of the parents of academically borderline students buying admission for their children with a generous bequest to a particular school.

The fierce competition between universities to build endowments makes doing such favours for alumni enticing. And there is a public-good argument for it: a student who comes with \$1m attached can pay for financial aid for many others. But in practice this is not how the system works. While it is true that some elite universities are rich enough to give out a lot of financial support, people who can pay the full whack are still at the centre of the business model for many. Mitchell Stevens, a Stanford sociologist who spent a year working in the admissions office of an unnamed liberal arts college in the north-east, found that the candidate the system most prized was one who could pay full tuition and was just good enough to make one of the higher-profile sports teams but had a strong enough academic record not to eat into the annual allocation reserved for students whose brains work best when encased in a football helmet.

Combined with the long-running push for racial diversity on college campuses, this makes for an esoteric definition of merit. Men are slightly under-represented across college campuses; African-Ameri-

Knowledge is pricey

College tuition fees v inflation
1982-84 average=100



cans are not, but can still benefit from some forms of affirmative action; and there is always a need for those who are good at sports. Poor whites and Asians get a bad deal from this kind of filtering. Though the Ivies all deny operating quotas to limit Asian students—the best performing group in SAT scores—the number admitted each year has fallen from its peak in 2008 and stays strangely consistent both from year to year and between institutions. Caltech, a university which admits purely on academic ability, has more Asian students than other elite schools. It also has much less feared sports teams.

On graduation, many members of America's future elite will head for the law firms, banks and consultancies where starting salaries are highest. Lauren Rivera of Kellogg School of Management interviewed 120 people charged with hiring in these sectors for a forthcoming book. She found that though they did not set out to recruit students from wealthy backgrounds, the companies had a penchant for graduates who had been to well-known universities and played varsity sports (lacrosse correlates with success particularly well). The result was a graduate intake that included people with skin of every shade

but rarely anyone with parents who worked blue-collar jobs. "When we are asked to identify merit," explains Ms Rivera, "we tend to find people like ourselves."

Something similar has happened in corner offices of America's biggest companies. As computing power has increased and clerical jobs have been automated, the distance between the shop floor and executive positions has increased. It was never common for people to start at the bottom and work their way to the top. Now it is close to impossible. Research by Nitin Nohria, the dean of Harvard Business School, and his colleagues has shown how in the second half of the 20th century a corporate elite where family networks and religion mattered most was replaced by one whose members required an MBA or similar qualification from a business school. This makes the managers better qualified. It also means they are the product of a serial filtering that has winnowed their numbers at school, college and work before they get their MBAs.

More than 50 years ago Michael Young warned that the incipient meritocracy to which he had given a name could be as narrow and pernicious, in its way, as aristocracies of old. In America some academics and thinkers on the left are coming to similar conclusions. Lani Guinier of Harvard speaks for many when she rails against the "testocracy" that now governs America. Once progressives saw academic testing as a way of breaking down old structures of privilege; there is now a growing sense that it simply serves to advantage those who have been schooled to excel in such situations. Heirs to Andrew Jackson on the right have their own worries about the self-perpetuation of an American elite, but no desire at all to use government as a leveller. Both sides can agree that the blending of merit and inheritance is un-American. Neither has plausible ideas for what to do about it. ■



Disability insurance

Not working

WASHINGTON, DC

Many disabled people can work. Washington prevents them, at ruinous cost

FOR years, Doug, who lives in Binghamton, New York, suffered from bipolar disorder. In 2003 he enrolled in the federal disability insurance (DI) programme. With his illness now properly treated, he has been looking for work since 2013, without much luck. Because he worked full-time in a shop a decade ago, he would lose his disability benefits if he returned to full-time work now. He worries that he couldn't handle it, and would end up without a job or benefits. So he is hunting for part-time work that won't overtax him, and will let him keep his benefits.

His dilemma is about to get even trickier. DI, on which he depends, is fast running out of money. In the past quarter-century the share of working-age Americans on disability has doubled, to 5% (see chart). Some 11m Americans—9m workers plus their dependants—now receive benefits, nearly as many as work in manufacturing. The result is that DI now pays out far more in benefits than it receives in payroll tax. Its trust fund will run dry by the end of 2016.

When danger-point has been reached in previous years, money has been shifted to DI from payroll tax or the Social Security trust fund (which is meant to cover public pensions); but a rule passed this month by the House of Representatives says this cannot be done any more without reform. Republicans say this will force Congress to grapple with the problem. Maybe.

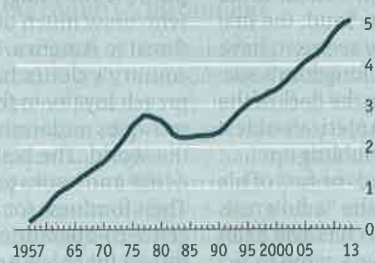
The programme owes its dire state, in part, to the same demographic forces undermining Social Security and Medicare. Baby-boomers who haven't yet retired are now at the age when they are most likely to become disabled. Their numbers have been swollen by the entry of more women to the workforce. And a gradually rising retirement age means beneficiaries collect disability payments longer before they switch to a pension.

But demography explains only a bit more than half the rise in the rolls since 1980, according to the Congressional Budget Office. The rest is because workers of any age or sex are now much more likely to qualify. Americans are no sicker than before. As David Autor of MIT and Mark Duggan of Stanford note, the number of 40- to 59-year-olds reporting any kind of disability has remained stable at about 10%. The health of older workers has improved.

However, in 1984 the eligibility criteria were changed. It is now easier to qualify with hard-to-verify ailments, such as stress

**A one-way ratchet**

Population aged 25-64 on Social Security Disability Insurance, % of total



Sources: Mark Duggan, Stanford University; David Autor, MIT

and back pain. Meanwhile, wage stagnation among the low-skilled makes disability benefits—which come with automatic annual increases and health insurance—more appealing, especially during recessions. One study found that ten years after starting on disability benefits, less than 4% of recipients had returned to work.

Some people are ripping off the programme. Last year New York City prosecutors charged 134 people for defrauding DI of about \$30m. Applicants, many of them former police officers or firemen, were coached in how to fake psychiatric illnesses such as depression or anxiety. Many were plainly not disabled; one flew a helicopter, another rode a jet-ski and one taught martial arts. But fraud is only a small part of the problem. DI's whole design is antiquated. It presumes that people, once disabled, cannot work. If they do, they usually lose their benefits. Yet lots of people with disabilities can work: wheelchairs did not stop FDR from becoming president or Greg Abbott (pictured) from becoming

governor of Texas.

Since 1999 the federal government has encouraged experiments to get beneficiaries back to work. Recipients can generally work full-time for up to a year, or part-time indefinitely, without losing their benefits. Randy Cook, who administers one such effort for a state-county agency in Binghamton, says many don't know that, so they are reluctant even to try.

Matthew, a builder in New York, went on disability after a car accident left him seriously injured. It was six years before he felt able to work again, but his first efforts to do so were half-hearted. "You get out of the [habit] when you're sitting at home, and the most you have to look forward to is 'The Price is Right' coming on at 11 in the morning," he says. "Even though you didn't make a lot of money it was easy to sit there, on the couch, collect a cheque, go to doctor's appointments. I might read the classifieds and see something that interested me, and never act on it. But I was fed up with it." Eventually Matthew met Mr Cook, who told him how to work without losing benefits, and to use acquaintances to look for jobs. In 2011 he found full-time work as an electrician.

Doug, who is also a client of Mr Cook's, has been less lucky. He applies almost every day for jobs online, but has had few interviews and, so far, no offers. "One of my major fears at this point is that because I've been out of work for so long that I'm unemployable. Where I live, there are a lot of job seekers and not a lot of jobs to go around."

Fixing DI will not be easy. Pilot projects which allow people to keep more of their benefits have increased the number working, but not by enough to save much money, reckons Dave Stapleton of Mathematica, a consultancy. A more promising approach is to staunch the flow of people entering the programme by toughening eligibility criteria. Several European countries have tried this. The Netherlands in 1994 and 2002 required employers to pay disability benefits for up to two years, a spur to rehabilitating the employee as soon as possible. To receive long-term state benefits thereafter, beneficiaries must document their efforts to return to work. Sweden has restricted eligibility to those who can't do any job. In America, Mr Autor and Mr Duggan suggest expanding private disability cover, thus giving employers an incentive to keep workers working and speeding the return of the disabled.

Such reforms, though, would take years to show results. In all likelihood, a long-lasting fix to DI may require fixing Social Security as well, by restricting benefits for higher-paid workers, indexing annual benefit increases less generously, or raising the payroll tax. All are political poison. So although there will be much talk of fixing disability in the year to come, little is likely to get done. ■