



Luck of the Draw

November 19, 2020

Is success the luck of the draw? Tune in as Hugo speaks with Michael Sandel, a professor of political philosophy at Harvard University. Michael has authored several books, including “What Money Can’t Buy: The Moral Limits of Markets,” “Justice: What’s the Right Thing to Do?” and most recently, “The Tyranny of Merit: What’s Become of the Common Good?” Hugo and Michael discuss the impact of meritocracy and credentialism on society, investing, and politics.

Michael’s comments are edited excerpts from our podcast, which you can listen to in full below.

https://media.blubrry.com/the_active_share/b/content.blubrry.com/the_active_share/The_Active_Share_Michael_Sandel

In your newest book, you argue that to overcome the crises that are upending our world we must rethink our attitudes towards success and failure. Is it that you don’t like meritocracy or that you don’t like the attitudes that it engenders?

Michael: It’s hard to separate the two. The meritocratic ideal—which says that if only chances could be made equal, then winners will deserve their winnings—is attractive in many ways. We want well-qualified people to be assigned the social roles for which they’re qualified. If I need surgery, I want a well-qualified surgeon.

But the attitudes that have come along with meritocracy, especially in recent decades, have brought out its dark side. Even though chances aren’t truly equal, those who have landed on top have come to believe that their

success is their own doing—and by implication those who have lost out must deserve their fate as well.

This has led to hubris among winners and resentment (even humiliation) among losers. Thinking and organizing our politics in this way is corrosive of the common good, of the sense that we are all in this together.

Could we have a more sympathetic meritocracy?

Michael: It would depend on whether it went along with a culture of solidarity. But it's hard to imagine that, because the belief that one deserves the benefits that flow from the exercise of one's talent tends to make one forget that luck was also involved. And it's very hard to stave off the sense of hubris that goes with that. But if we could assign jobs and social roles based on qualifications, but at the same time preserve humility, then perhaps we could have a kind of meritocracy less prone to the hubris that afflicts it today.

Is talent overstated?

Michael: Those who defend the idea that winners deserve their winnings often point to very specialized forms of talent—the great violinist, the great athlete. But a relatively small proportion of the actual inequalities of income and wealth that we see today is due to such virtuoso talent. Mostly these inequalities have to do with the way the economy is configured and with the particular talents and contributions society happens to prize.

We can think about this more concretely, perhaps, by taking a case of athletic talent. LeBron James is a very talented basketball player. He works hard to cultivate his talents, but so do lots of other basketball players, and they're not as good, as successful, or as highly paid as LeBron.

LeBron is favored by fortune in two ways—by having the talents in the first place, and by living in a society that loves basketball and rewards it handsomely. Had he lived during the Renaissance, when fresco painters were more valued, his situation would be different.

This is another dimension of the contingency of who gets lavished with material rewards and who may struggle to get by. It has little to do with talent as such; it has to do with what this society at this moment happens to prize and reward.

In your book you say credentialism is the last acceptable prejudice. Could you explain what you mean by that?

Michael: Merit is measured in large part by the conferring of credentials, which typically means attending university. Politicians have responded to growing inequality not by taking on that inequality directly and trying to reconfigure the structural inequalities in the economy, but by offering a meritocratic promise of individual upward mobility.

They've said to workers whose wages have been stagnant for four decades, "If you get yourself a better education, if you get credentialed, then maybe you too will be able to rise and to flourish."

In one way this rhetoric of rising is inspiring. Of course people should be able to rise as far as their efforts and talents will take them, regardless of background.

But it's also limited as a way of responding to the inequality and wage stagnation that a great many workers have

experienced in recent decades. And it leads to a kind of credentialism in which those who do achieve university degrees tend to look down on those who haven't. This is especially invidious when we remember that most people don't have a four-year university degree.

So, I think it's folly to create an economy that says a university degree is a necessary condition for dignified work and a decent life, yet it reinforces the sense that those who haven't been to college must have failed to exercise the proper initiative.

And, I think that if you look at the populous backlash against elites in recent years, especially in 2016, it has a lot to do with the sense among many working people that elites look down on them. This is what I mean by the heavy hand of credentialism.

If you're an employer trying to work out who has the abilities required for the job you're seeking to fill, your information is imperfect. So is credentialism the least bad sorting mechanism?

Michael: I think we need different sorting mechanisms that are less tied to credentialism, which is not very predictive. It's also high skewed by class background.

Thinking about admission to highly selective colleges and universities, there's an excessive reliance on standardized tests, but many track family income very closely. So, I think we should certainly rely less on standardized tests for admissions. But I go even further in my book.

Harvard and Stanford get more than 40,000 applicants for 2,000 places in each freshman class, and admissions officers tell us that most of them are well qualified. So I propose that admissions offices cull out those students who are not well qualified, then do a lottery for the group that's left.

First, it's not really possible to make the fine-grain judgments about which 18-year-old applicant will have the greatest impact on the economy, on society, on politics, on science. But, there's a broader point, which is by admitting students through a lottery of the qualified, if we can call it that, it would be a way of reinforcing the role of luck. And maybe that would tap down to some degree the meritocratic hubris.

By extension, in business, academic credentials are often used as a sorting mechanism even though those credentials are not very closely related to the job the person will perform. So I think we should move away from that.

How can technology contribute to the idea of "dignity of work" rather than drive it out?

Michael: There is a fear that technology is coming for a great many jobs, including some relatively skilled jobs. But we should not mistakenly assume that the direction of technology is fixed. To a large extent, we can direct the course of technology by deciding what innovations are worth investing in. And I think one of the guiding principles should be dignity of work. How can we encourage technological innovation that makes existing jobs more productive?

Has COVID-19 changed your perspective about dignity of work?

Michael: The pandemic has shown us—especially those who have the luxury of working remotely—how deeply we depend on workers we often overlook.

I'm thinking of not only the hospital workers who are caring for COVID patients, but also delivery workers, warehouse workers, grocery store clerks, home healthcare providers, truckers. These are not the most honored persons in our society, yet now we are recognizing them as essential workers.

This could be the beginning of a broader public debate about the dignity of work—about what counts as essential work, about how to bring into better alignment pay and social recognition for the jobs we now regard as essential.

Milton Friedman argued that a company has no social responsibility to the public or society; its only responsibility is to its shareholders. We're now seeing a shift in attitudes. Is ESG something you take an interest in, and does it make sense to you?

Michael: Milton Friedman's picture misses the broader social purpose of corporations and for that matter a capitalist economy. This is part of the problem that we've been discussing with meritocracy. We assume that the money people make is the measure of their contribution to the common good, and we outsource to the markets our moral judgment about what the common good really is.

But markets can't answer these questions for us. I think investors should take on the question of which companies really are contributing value to the common good—their role on the environment, the way they treat their workers, their impact on the communities they serve. The rise of ESG in investing is a very hopeful sign.

If we adopt some of your ideas, how much could that change not just political outcomes, but the discourse, debate, and process of policymaking?

Michael: I think one of the most dispiriting and dangerous aspects of civic life today is the impoverished state of public discourse. What passes for public discourse these days consists of either narrow managerial technocratic talk, which inspires no one, or shouting matches where partisans shout past one another without really listening.

A better kind of public discourse depends on a couple of things, one of which is bringing ethical arguments into our civic debate. We should not outsource our moral judgments about the common good to markets or to technocratic elites. They can't decide these questions for democratic citizens.

We need a more morally robust public discourse that addresses questions of values head on—not because we'll agree about all of those values, but because we may learn something about one another and may heal the rancor in the polarization that afflicts our public life.

Beyond that, we need a moral turning—a reconsideration of the meaning of success—because insisting that my success is my due makes it hard to see myself in other people's shoes.

Together, these changes can point us beyond the tyranny of merit toward a less rancorous, more generous public life.

Disclosure:

This content is for informational and educational purposes only and not intended as investment advice or a recommendation to buy or sell any security. Investment advice and recommendations can be provided only after careful consideration of an investor's objectives, guidelines, and restrictions.

Information and opinions expressed are those of the authors and may not reflect the opinions of other investment teams within William Blair Investment Management, LLC, or affiliates. Factual information has been taken from sources we believe to be reliable, but its accuracy, completeness or interpretation cannot be guaranteed. Information is current as of the date appearing in this material only and subject to change without notice. Statements concerning financial market trends are based on current market conditions, which will fluctuate. This material may include estimates, outlooks, projections, and other forward-looking statements. Due to a variety of factors, actual events may differ significantly from those presented.

Investing involves risks, including the possible loss of principal. Equity securities may decline in value due to both real and perceived general market, economic, and industry conditions. The securities of smaller companies may be more volatile and less liquid than securities of larger companies. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks. These risks may be enhanced in emerging markets. Different investment styles may shift in and out of favor depending on market conditions. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result.

Investing in the bond market is subject to certain risks including market, interest rate, issuer, credit, and inflation risk. Rising interest rates generally cause bond prices to fall. High-yield, lower-rated, securities involve greater risk than higher-rated securities. Sovereign debt securities are subject to the risk that an entity may delay or refuse to pay interest or principal on its sovereign debt because of cash flow problems, insufficient foreign reserves, or political or other considerations. Derivatives may involve certain risks such as counterparty, liquidity, interest rate, market, credit, management, and the risk that a position could not be closed when most advantageous. Currency transactions are affected by fluctuations in exchange rates; currency exchange rates may fluctuate significantly over short periods of time. Diversification does not ensure against loss.

There can be no assurance that investment objectives will be met. Any investment or strategy mentioned herein may not be appropriate for every investor. References to specific companies are for illustrative purposes only and should not be construed as investment advice or a recommendation to buy or sell any security. Past performance is not indicative of future returns.

Copyright © 2020 William Blair & Company, L.L.C. "William Blair" is a registered trademark of William Blair & Company, L.L.C. No part of this material may be reproduced in any form, or referred to in any other publication, without express written consent.