The revenge of the bell curve

As talent becomes more valuable, inequalities are widening

FRANCIS GALTON, a cousin of Charles Darwin, was a Victorian gentleman-scholar of eccentric genius. He devoted his life to measuring everything imaginable-from the frequency of fidgets in a bored audience to the size of the buttocks of a Hottentot woman (from a discreet distance, using a sextant). But what obsessed him above all was mental distinction. Why were some people cleverer than others? Why did intellectual distinction run in some families? And how were intellectual abilities distributed in the population?

Galton came to two conclusions. The first was that ability owed more to nature than to nurture. The second was that the range of mental powers between the cleverest and the dumbest was enormous-"reaching from one knows not what height, and descending to one can hardly say what depth". He put these together to produce a theory of human inequality: the more open society becomes, the more an aristocracy of talent will replace an aristocracy of birth.

Galton's argument contained a good deal of nonsense. He understated the importance of nurture, and he ignored class privileges. But it did offer an important insight: that a free market in talent could end up widening social inequalities.

The rich get richer

America, the country with the world's freest market in talent, is seeing a dramatic increase in inequality. Emmanuel Saez of the University of California at Berkeley and Thomas Piketty of the Ecole Normale Superieure in Paris have dissected tax records to examine changes in income distribution, and found that the share of income going to the highest-earning 1% of Americans doubled between 1980 and 2004, to 16%. The share going to the top 0.1% more than tripled over the same period, to 7%.

Part of the reason lies in social convention: Europeans have strong cultural objections to paying their CEOS the sort of salaries that American bosses get. Part of it is political: inequality has risen faster under the Republicans than under the Democrats. The unions are weaker than they were. But a bigger reason is rising returns to talent and skill.

This is most obvious with sports stars and Hollywood celebrities. The picture is a bit murkier when it comes to CEOS. There are well-publicised examples of company bosses who pack their board with cronies and rig their compensation so that they profit whether their company does well or not. On the other hand, the best CEOS, such as Jorma Ollila of Nokia and A.G. Lafley of Procter and Gamble, create huge value for their organisations. And most of them work in a highly competitive market. The average length of tenure of CEOS is going down, and a growing number of them are recruited from outside. Relative to mar-

ket capitalisation, by some measures executive pay is now falling.

Top performers are doing well in every field. Even universities, which were once bastions of collegiaFvequality, are willing to pay a premium for academic stars-not only because their ideas are so valuable but also because they will attract other high-flyers. These huge rewards may offend egalitarians, but they make a lot of economic sense. Stars have a dramatic impact on the fortunes of organisations. Alan Eustace, a vice-president of Google, told the *Wall Street Journal* that in his view one top-notch engineer is worth "300 times or more than the average". Bill Gates says that "if it weren't for 20 key people, Microsoft wouldn't be the company it is today."

Success in climbing to the top of an organisation requires many kinds of talent. Most consultancies eventually shed 80% of their recruits. Only one in ten law students makes it to senior partner at a top law firm. Managers suffer a huge attrition rate as they move up their organisations.

Trickle-down

Now the tendency.for the best to pull away from the rest is spreading down the corporate hierarchy. Companies are determined to keep their wage bill under tight control because they face competitive global markets. But they are also desperate to keep their best talent from falling into the hands of rivals. So they have been keeping their overall wage bill more or less steady but giving a larger share of it to the top performers.

A survey by the Society for Human-Resource Management found that the share of companies taking special measures to keep their best workers rose from 35% in 2004 to 49% last year. A survey by the Corporate Executive Board found that 88% of organisations wanted to increase pay differentials. Those differentials could get a lot wider in the future. The CEB says that the variance in performance increases with the complexity of the job. The best computer programmers are at least 12 times as productive as the average.

The link between talent and inequality is being strengthened by two things. The first is the tendency of talented people to cluster together. You might have thought that the advent of the internet would have eroded the connection between place and talent. In fact, the opposite is happening. Bright people gather in university cities such as Boston and San Francisco, or in technology hubs such as Austin, Texas, or Redmond, Washington, or in rural idylls such as Camden, Maine, and Jackson Hole, Wyoming. They cluster together because they feed off each other's intellect. Christopher Berry, of the University of Chicago, and Edward Glaeser, of Harvard, have studied the distribution of human capital across American cities. They found that in 1970 about 11% of people over 25 had a college degree, and they were fairly evenly distributed throughout the country. Since then the proportion of Americans with college degrees has more than doubled, but the distribution has become much more uneven.

Increasing numbers of high-flyers are moving from inland locations to the coasts: once flourishing cities such as St Louis, Missouri, are losing young talent to New York and Los Angeles. And the places where talent likes to cluster are becoming increasingly unequal, with the talent elite at the top, service workers at the bottom and nothing much in-between. The middle layer is being driven out by sky-high house prices and low-quality public schools. Richard Florida, of George Mason University, points out that the three most unequal metropolises in the country—Raleigh-Durham, San Francisco and Washington-Baltimore-are also hubs of what he calls "creative workers".

The second factor that links talent and inequality is that members of the talent elite are good at hogging "human capital". They marry people like themselves. In the heyday of "company man", bankers married their secretaries; now they marry other bankers. They work in jobs that add to their intellectual capital. They live in "talent enclaves", away from ordinary middle-class suburbs, let alone inner-city ghettos. Above all, they pass on their advantages to their children. Students from the top income quartile increased their share of places in elite American universities from 39% in 1976 to 50% in 1995.

None of this is peculiar to America or other rich countries; the same thing is happening in the developing world in even starker form. Members of the talent elite there live in gated communities, some of them with American names such as Palm Springs, Napa Valley or Park Avenue, that boast international schools, world-class hospitals, luxury housing and splendid gyms. And they try hard to give their children every possible advantage. One recent bestseller in China, "Harvard Girl", tells the story of two parents who trained their daughter for Harvard from birth, barraging her with verbal stimuli, subjecting her to a strenuous regime of home study and making her swim long distances. One of the most successful schools at getting students into American Ivy League universities is Raffles Junior College in Singapore.

The talent war is producing a global meritocracy-a group of people nicknamed "Davos men" or "cosmocrats" who are reaping handsome rewards from globalisation. These people inhabit a socio-cultural bubble full of other super-achievers like themselves. They attend world-class universities and business schools, work for global organisations and speak the global language of business.

Countries that still insist on clinging to egalitarianism are paying a heavy price. Sweden, for instance, finds it hard to attract foreign talent. And across Europe, egalitarian universities are losing out to their more elitist American rivals. •

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