Football, Cartoon and the Myth of Meritocracy

Luigi Bosco
Department of Economics and Statistics
University of Siena
Piazza San Francesco 7 I53100 Siena

Abstract

The history of the term "meritocracy" is intriguing: it was coined, in the late fifties of the last century, by a polymath social democratic politician, Michael Young, in his prophetic novel The Rise of the Meritocracy. The book was conceived as a satirical critique of animprobable and unfair future society, and the term was used in a negative sense. Sixty years after, things are completely changed the term "meritocracy" took on a positive connotation. The myth of meritocracy coupled with that of the market – the market selects the best and the best are those selected by the market – spread quite uncritically all over the world. In this paper I critically discus this modern myth and analyze the political and economic consequences of adopting it as the main guideline in economic and social policy.

Keyword: Merit, Meritocracy, inequality, incentive, performance.

1 Introduction

Real Madrid's Croatian midfielder, Luka Modric, won the 2018 edition of the FIFA *Ballon d'Or*,an awardassigned to the best soccer player in the world. The prize was instituted in 1956 at the initiative of the French magazine *France Football* that still runs it in partnership with FIFA. A jury of experts votesthe player they consider[1]the bestof the year.[2] Assumingthatthejurors are freeand not influencedby non-technical factors, the prize should represent an affirmation of meritocracy in football. However,on scrolling through *theroll of honor* of the prize, it is striking that the *Ballon d'Or*hasonly been won four times by a defender (Beckenbauer, twice,Sammerand Cannavaro) and oncebya goalkeeper (the SovietJascin) in the 62 editions so far. Either by definition defenders and goalkeepers are worse players and are therefore less likely to deserve the prize than forwards, or the assessment of the jurors is structurally biased in favor of forwards for reasons not determined by their worthiness. Admittedly,their position on the field and the fact that they score more goals make forwards more visible, more popular with supporters and more famous.Memories of a goal remain much more vivid in everybody's mind and therefore in the mind of jurors, than a conclusive save, yet both actions have the same effect on the outcome of the game.Thechoice of the best player of the year is therefore strongly influenced by the cultural and psychological background of the juror.

Mickey Mouse needs no introduction, being one of the most famous cartoon characters in theworld.Heisstill earning a lot of money, or rather the company that owns his copyright, the Disney Corporation,which has a monopoly on the imageand nameof this famous character, is still making huge profits.Until 1998, U.S. copyright lawgrantedcopyright for a totalof75 years, if the owner wasa corporation.[3] Thecharacter Mickey Mouse wascreated by Walt Disney in 1928 and copyrightwould have expired in 2003.From that moment onwards, everyone could use the character, the brand name or write stories and draw comics with Mickey Mouse. Disney lobbied Congress to extend the copyright to 95 years from the date of first publication. With the MickeyMouseProtection Act (Reich, 2015), Mickey Mouse, along with Goofy, Pluto and other characters created by the genius of Walt Disney,whose copyright was shortly to expire,were saved and the profits that flowed to the multinational company and the huge pay of its top managersremained untouched.[4]Does this have anything to do with worthiness? Mickey Mouse's market value is completely determined by law.The new ruleissuedbyCongress established that Mickey Mouse (Disney corporation) was entitled toanother 20 years of "wages"paidby consumers who would have benefited from Mickey being release to the public domain.

[1]Until 1994, the prize was only for European players, from 1995 to 2006 for players who played in European teams. It is now open to all.
[2] More information is available on the site of the newspaper: http://web.archive.org/web/20100108082943/http://www.francefootball.fr/FF/ballon_or/index_bo.html
[3]Copyright held by an individual lasts 50 years beyond the date of his death.
[4]The rightsexpire in 2023; any bets that the term will be further extended?

Economists would define Mickey Mouse pay as an economic rent: a compensation or other benefit received above what the subject would have received as next best alternative, that it is its opportunity cost. Almost all economic rents have a political source.

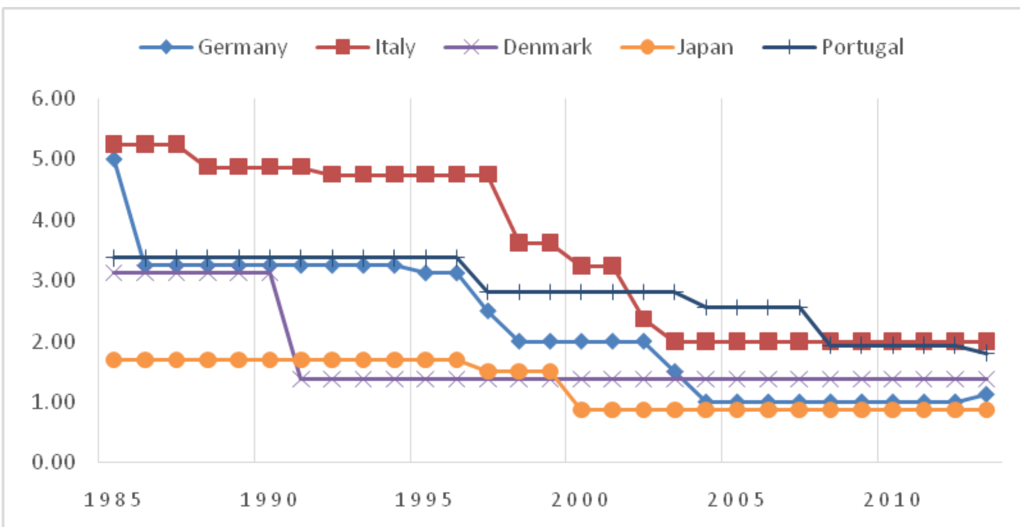
Cipputi is an Italian cartoon character designed by the Italian cartoonist Francesco TullioAltan (Altan, 2007). Cipputi is a left-wing industrial worker often battered by his employer but never broken. He is so famous in Italy that the word "cipputi" has become synonymous witha unionized metalworker.Like Mickey Mouse, the earnings of a typical worker, a *Cipputi*, also depend on the rules in force:whether the right to strike andto form trade unions is recognized and how it is regulated; whether there is legislation on minimum wages;whether there are rules about the procedures and costs of dismissing individuals or groups of workers or of hiring workers. One of the most important rules concerns the existence and legitimacy of collective bargaining, in the absence of whichworkers areforced tofall back on individual bargaining. A lone worker's bargaining power is profoundly different, and he/she is inevitably faced with a take-or-leave offer, and leaving almost always meansremainingunemployed withenormous personal and family costs. Irrespective of the worker's "value"or merit, his remuneration invariably depends on labor market rules. As in the case of Mickey Mouse, worthiness in itself matters very little.

2 Merit changes with rules

Despite what we have seen in the case of Mickey Mouse, policy makers have progressively deregulated the labor market (one of the most advocated "structural reforms"), decreasing the guarantees of workers, undermining collective bargaining and reducing the role of trade unions.The OECD computes indicators of employment protection legislation that measure the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts.

Figure 1 shows an OECD index that measures how much a country's legislation protects employment. The particular indicator shown in the figure measures the strictness of regulation on the use of fixed-term and temporary work agency contracts in the period 1985-2015. A sharp decrease is evident in all countries.[5]

Figure 1 EPL for temporary employment (EPT_V1 OECD indicator)



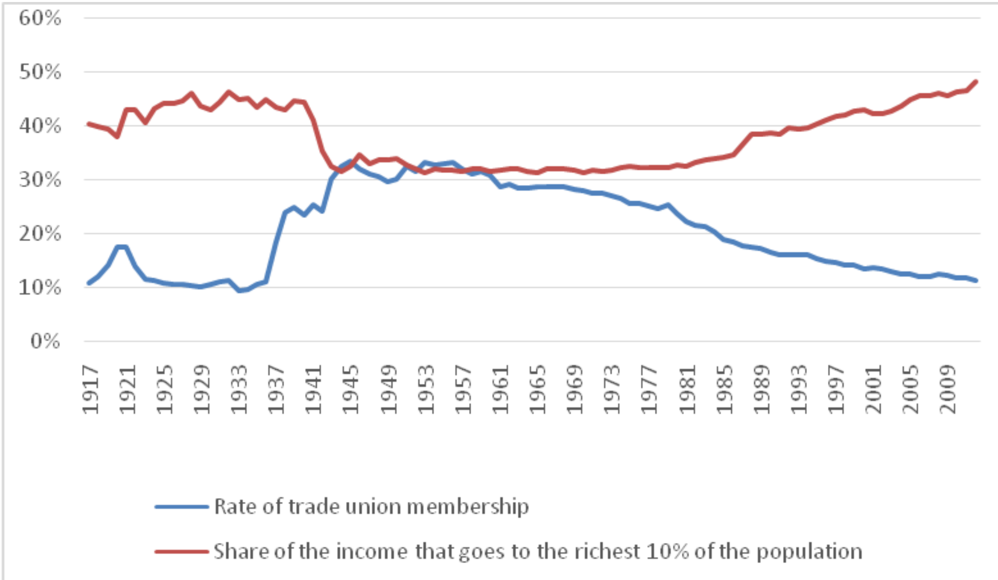
Source OECD data

So in the last 30 years, the rules have rewarded Mickey Mouse (and the multinational company that owns him) and punished Cipputi. Empirical evidence shows that in most of developed economies the share of output that goes to labor has decreased since the start of the nineties, following repeated reforms of the labor market and the bargaining system (ILO, 2015). It was anything but by accident that this produced a strong regressive redistribution of income.

[5]Synthetic OECD indicators of worker protection reflect the strictness of laws on dismissals and temporary contracts. The figure is based on EPT_V1 that measures the strictness of laws on fixed-term and temporary work agency contracts. We chose this indicator because most new jobs created in these countries are now temporary jobs.

Figure 2showsthe trends of trade union membership in the United States against the share of income that goes to the richest 10% of the American population. The visual result is impressive: one trend seems to mirror the other.

Figure2Trade union membership and the income of the richest



Source: Bivens et al. 2015

The share of income that goes to therichest 10% of Americans isa maximum when the unionization of workers isa minimum and vice versa. The negative correlation between the two phenomena is confirmed by a study of the IMF that uses methodsfar more sophisticated than simple graphical analysis(JaumotteandOsarioBuitron, 2015).The reason for this is straightforward:a weaker role of unions reducesworker market power and therefore their wages while increasing the remuneration of top managers and shareholders. Again an institutional change is the source of the change in the distribution of wealth.

More generally,an indisputable parameter is relevant to more or less all countries: labor share, the proportion of the national product that goes to labor, has decreased considerably in the last25 years (OECD, 2012, Bassanini and Maifredi, 2012).

The remuneration of Mickey Mouse increased while Cipputi'sdecreased and this has nothing to do with theirintrinsicvalue but was simply determined by institutional changes.The truth is that worthiness in absolute terms does not exist; the merit of an individual depends in a significant way on social conventions, formal and substantial rules and cultural milieu. The"merit of an individual", her market value, is historically and politically determined and always depends on the implicit and explicit rules a community agrees on. Changes to rules often lead to changes in ranking and changes in rewards; the same group of people can be orderedfor merit in a completely different manner depending on the function used to determine the order itself.[6]

"Anyone who still believes people are paid what they're worth is obliged to explain the soaring compensation of CEOs in America's large corporations over the last three decades, relative to the pay of average workers —from a ratio of 20:1 in 1965, to 30:1 in 1978, 123:1 in 1995, 296:1 in 2013, and over 300:1 in 2014 (Reich, 2015).

Can such a macroscopic change have anything to do with real merit? It seems very unlikely, unless these individuals havegenuine superpowers. The truth is that most of these salaries are self-determined, or determined by the Board of Directors of the company which is controlled or at least strongly influenced by the CEO.The pay of directors is determined in the same way, and againit depends very much on the rules used. In the United States, for example, company law only gives shareholders an advisory role in deciding CEO pay. This rule surely fostered the growth of CEO emoluments.A furtherquick note:the question is not just a private one within the company:the pay of CEOs and other top managers – and in the US, often also stock options–are subtracted from corporate profits, reducing corporate taxable income. This means thatat least partially, CEO rewards are paidby taxpayers.

[6]These observations are similar to those already advanced in the example on scholarship, see2.1

The federal revenue foregone over the period 2007–2010 was estimated at $30.4 billion: quite an expensive tax bill. More than half the federal revenue foregone is due to taxpayer subsidies for executive performance pay (Balsam, 2012).

3 Meritocracy and Rules

The history of the term “meritocracy” is intriguing: it was coined by a polymath social democratic politician, Michael Young, in his prophetic novel The Rise of the Meritocracy (1958). The book was conceived as a satirical critique of what the author viewed as a malicious way of justifying inequality. He depicted adystopianworldin which intelligence and merit had become the central tenet, creating a society stratified between a worthy elite that held the power and a marginalized less deservingunderclass that had no chance of influencing policy makers. The scenario he depicted was actually prophetic: the world today does not seem so different from that envisioned byYoung. The ideological paradigm changed with the rise of neoliberalism and the term “meritocracy” took on a positive connotation. The myth of meritocracy coupled with that of the market – the market selectsthe best and the best are those selectedby the market – spread quite uncritically all over the world. According to Merriam Webster, “meritocracy is a system in which the talented are chosen and moved ahead on the basis of their achievement”. The central idea is simple and in a certain sense it can appear indisputable: a society works better if it is led by the talented and free markets are the best way to select them. In my opinion, this argument is very weak and can be criticized from at least two points of view.

First of all, the argument is merely tautological, being the result of circular reasoning. If we take it literally,we should not complain if the physician appointed Head ofOphthalmologyin a hospital ofthe national health systemis not the best clinician but the one with the most political clout. The substantive rules of the "market for head of ophthalmology” require contestants to compete more on the basis of political connections than medical skill. Thematerial rulestherefore paradoxically appoint thebestcompetitor in meritocratic terms.There is no deficit of"meritocracy",but rather aninstitutional and political deficit: a problem of cronyism. A group of powerful individuals – colluding politicians and physicians – bend the institutional mechanism to meetprivate instead of public interest. The problem is not a lack of competition buttoo much competition.Competition is too free becausethe system is unable to enforce formal rules.More in general, if we only consider the result of the competition, taking for granted that the winner is the best person for the job, we risk justifying and approving any possible leadership.

The argument is also logically fallacious.It would be true if merit were completely exogenous and did not depend on social rules and policy variables,but we have just seen thatthe opposite is true.Humankind’s progress has been significantly different fromthat of other animals because we harnessed competition with rules and decided cooperatively which human behaviors to reward and stimulate or discourage. The only exogenous merit we share with other animals is physical strength and the ability to use it. All the other "merits"are politically and culturally defined. I have already pointed out that markets are not neutral and exogenous. Markets are institutions defined and governed by rules; they have a historical dimension and are affected by the market power of different individuals, organizations and political parties. The result of any competitiontherefore depends on the rulesof the competition.

In an interesting paper written for Oxfam, Didier Jacobs examines a thought-provoking question: Is extreme wealth really meritocratic? Put differently, isthe wealth of the extremely rich compensation for their talent, effort and risk-taking,as the mainstream justification of extreme inequality suggests(Jacobs, 2015)? He concentrates on just over 2000 peoplewho can be defined as extreme wealthy on the basis of the fact that they owe more than a billion dollars. Hescrutinizes the source of their wealth, how they became so rich.Empirical evidence, drawn largely from the Forbes list of billionaires, provides a tentative indication of the relative importance of different sources. He finds that 50% of the wealth of the world’s billionaires is non-meritocratic, either being inherited or a likely productof cronyism. Another 15% is not meritocratic because it depends on a presumed monopoly. Theextreme wealth of the world’s billionaires does not seem a result of talent, effort and willingness to take risks. It can partly be ascribed to the talent and effort of their parents or grandparents.

A not entirely negligible part of their wealth depends on cronyism, that is, the ability of powerful private interests to manipulate public policy in order to defend existing monopolies and create new ones. Inheritance, monopoly and cronyism have nothing to do with merit in itself and are all political variables. It is up to the rules to define meritand who is meritorious.

4 The short circuit merit-incentive-performance

Another modern myth regards incentives. Without incentives, it is said,nobody does anything, or everyone does as little as possible. We must therefore create a correct grid of incentives in order to encourage people to give the best of themselves. Actually, this is an essential part of the capitalist economy.

In a world where information is scarce and incomplete, and some people tend to behave opportunistically, we cannot adopt the fair allocative principle to assign tasks according to people capabilities and to distribute resources according to their needs.[7] The indisputable comparative advantage of capitalism is that it does not need this information. A system of flexible prices can endogenouslymake capabilities and needs to emerge without any necessity of knowing them in advance. However, the information failure that makes a decentralized system based on price flexibility better than a planned economic system makes caution necessary when designinga widespread system of incentives based on merit. These limits and cautions have recently been ignored.

In a world with imperfect information, worthiness initselfobviouslycannot be observed. Sometimes ability and effort can be deduced from the results ofindividual behaviorby suitable algorithms, which may be sophisticated but willalways be imperfect. In some cases, the result itself is difficult to observe because it has a qualitative component that is difficult to measure. How can the activity of a school teacher, physician orscientific researcher be completely evaluated? This does not mean that it is impossible to distinguish between a good and a poor teacher, but it is difficult to do so "objectively", as onewould weigh a dog.

There is now a lot of empirical evidence suggesting that large performance-related incentives do not work for complex tasksrequiring creativity and cooperation. For example, Dan Ariely and colleagues found that variable pay can substantially improve people's performance on repetitive tasks, but in the case of creative tasks, where groundbreaking and creative solutions are required, a large percentage of variable pay discouraged performance(Ariely et al., 2009).

We have just shown thatalgorithmsused to evaluate and reward individual meritare politically and historically determined, and therefore anything but objective. However, there is also a different and perhaps more important concern. If the identification of worthiness is linked to a reward, as often suggested, and if the algorithm used is inthe public domain, this could even change the behavior of well-motivated individuals. Before anyrewardsystem, an individual can strive to be good at his job and is rewarded by feeling satisfied with his workand with social recognition.With introduction of a rule, she now wants to be*strategically*capable of obtaininghigher pay by exploiting the algorithm.In some ways this is the expected result: a different incentive pattern induces different behavior, a basic principle ofeconomics. However, since we live in a world with imperfect information where the algorithm is imperfect and political biased, the final result can be different from what we expect and far from optimal, at least from a social point of view, for the reason we already know: people change theirbehaviorwhen a new rule is introduced. The result may be suboptimal for several reasons.

The first concerns the motivation inspiring individual behavior. Psychologists and behavioral economists suggest that human actions can have two kinds of motivation (Deci and Flaste, 1995, Frey, 1997): intrinsic motivation prompts people to do things because they find them interesting and rewarding in themselves. In this case the reward is intangible or psychological (self-esteem, a sense of achievement, the appreciation and gratitude of others). Extrinsic motivation prompts people to do things for an external reward. In this case satisfaction doesnot come from the action itself but from its consequences (monetary remuneration, career advancement, materialistic benefits, power). Extrinsic remuneration can often crowd out intrinsic motivation, reducing overall effort and the aggregate result (Frey, 2012).

Clearly, then, a strong reward mechanismis more likely to selectsubjects who pay greaterattention to extrinsic remuneration, and who are on average more opportunistic and materialistic. Thisselection process may thereforenot be the most suitable to ensure good average performance, which seems quite reasonable, for example, in the case of teachers. In theory, the best teachers are more empathic and "love" their job (they ascribe greater importance to intrinsic remuneration). A strongly opportunistic selection mechanism can end up selecting and rewarding less empathicteachers who are less interested in their job.

A strong individual reward mechanism can also impair horizontal cooperation between workers, with negative effects on aggregate output, particularly when workers have to coordinate (as in the case of teachers).

Moreover, if the algorithm is not perfectly calibrated, an often impossible task, it can promote behaviors that conflict with general interests in the long run. Let's takethe exampleof a public prosecutor. Everyone would agree that the most capable and brilliant among them should be rewarded and appointed to leading positions. However, we have no way of measuring the skill of a public prosecutor. You can create algorithms to estimate it, for example, we may say that the percentage of court cases won would be a good indicator, and it would becertainlytrue, *ceteris paribus*. But if the rule is in the public domain, this could change lawyers' behavior, or at least the behavior of those who want to be identified as worthy (those driven more by extrinsic motivation) who could be tempted to take a shortcut.

[7] This echoes theMarx's famous statement (presumably drawn from Acts of the Apostles). In a society freedof capitalism you can write on the flag: "From each according to his ability, to each according to his needs!". But this is only concretely possible under perfect information, i.e. when both abilities and needs are public. Or when you exclude the possibility that individuals mayopportunistically misrepresent them. Otherwise it is just a very noble and ethical utopia.

For example, they could archivedifficult inquiries with limited chances of victoryand those defended by skillful lawyers, and only focus on simple cases, small-time thieves, possibly innocent, but with few chances of being acquitted due toinexperienced counsel. The behavior of at least some agentsis clear, theydeviate from pursuing the real and final target – the good and fair administration of justice –chasing an intermediate target, namely the rule. If the algorithm in its imperfectiondoes not align these two targets perfectly, the result may be suboptimal. The prosecutors rewarded by the mechanismmay not be the best equipped intellectually and the most conscientious but those with more materialistic preferences and with more opportunistic attitudes. This would not enhance the efficiency and impartiality of the judiciary.

The issue is not just theoretical, as shown by the problem of executive pay already mentioned.The owners of a company (shareholders) do not have the required information to assess the competence of an executive and the quality and reliability of his effort. They can only observe the result, mainly the market trend of stock, but this is a very imperfect indicator of the manager's competence.[8] In order to align executive actions with company performance, a complex compensation scheme has been implemented. Its three main parts are: base pay (the flat and quite often minorpart), a bonus (often depending on some index of performance, generally but not necessarilythe yearly profits of the firm), and stock options (often the major part of executive pay). Employee stock options carry the right, but not the obligation, to buy a certain amount of shares in the company at a predetermined (exercise) price. The idea is simple; the executive can exercise the option when the market price is above the exercise price, then he can re-sell to the market, pocketing a quick profit. Theexecutive's reward increases if the share price exceeds a fixed value and this mechanism should align the interests of the CEO with those of shareholders (both are interested in share prices).Today we can safely conclude that this policy has not been a success (Holmberg and Umbrecht, 2014,Cable & Vermeulen, 2016).

The algorithm used to remunerate senior executives ended up influencing their behavior in a strategic way. First of all, the stock option mechanism gave them a financial motivation for shortsighted and extremely high-risk behavior aimed at boosting the company's stock prices so as to increase their personal reward. The important thing was the immediate increase in share value; what would happen two or three years later was oflittle importance. Thus a rule, theoretically made to improve the efficiency of company governance, produced the opposite result.

It also had negative systemic effects, if we are to believe that the excessive risks taken by many managers of banks and financial companies were adeterminant of the global financialcrisis of 2007-2008 (e.g. Stiglitz 2010, Chapter VI).This hypothesis has lately found robust empirical confirmation by recent papers showing that managerial incentives do indeed matter: incentives generated by executive compensation programs are correlated with excessive risk-taking by banks, contributing to the ongoing financial crisis.Excessive risk-taking benefitted bank executives at the expense of long-term shareholders (Bhagat andBolton, 2014 and Bebchuket al., 2010). It is argued that stock options awarded to bank executives bound their payoffs to bets on the value of bank capital, inducing executives to take excessive risks and increasing the probability of bank failure (Bai and Elyasianib, 2013).More surprisingly, even deceitful behavior seems promoted by stock-option-based compensation. A significant positive association was found between the likelihood of securities fraud allegations and the measure of executive stock option incentives, supporting the view that stock options increase the incentive to engage in fraudulent activity (Denis et alia, 2006)[9].

In our language the merit-incentive-performance mechanism worked in such a perverse way that it can be charged with being a cause of the financial crisis: quite the contrary to sound meritocracy.Besidesmodifying the risk propensity of executives, the incentive may change other major company decisions strategically. An easy way fora company to raise share prices is to use part of its profits to repurchase shares, thus reducing thequantity availableon the market. This operation (called buyback) obviously increases share price because it reduces the number of shares on the market. This simple artificial strategy has been one of the main itemsof expenditure on corporate balance sheetsin the last 20 years. In the period 2003-2012, companies in the S&P 500 used 54% of their earnings—a total of $2.4 trillion—to buy back their own stock, almost all through purchases on the open market (Lazonick, 2014).

[8]In economic theory this is an agency problem that emerges when asubject (the agent) has to make decisions on behalf of another subject (the principal). The two may have different motivations and different information. Economics is interested in solving problems created by asymmetric information (the agent has an advantagein terms of information) by designing optimal contracts which align the different motivations and eliminate the chance of the agent opportunistically exploiting her advantage. Generally, this perfect contract only exists in the perfect world of economics textbooks.

[9] Backdating of stock was one deceitful mechanism. By retroactively changing the date when a stock option was granted, typically to a date when the share price was lower, companies changed the baseline relative to whichperformance was measured in order to boost executive pay.

Very persuasively, William Lazonickclaims that the main reason for this increase is that buyback is the fastest, safest and most direct way CEOs have to increase share prices and hence their pay (Lazonick, 2014). He explains that buyback has distorted economic choice by manipulating the market and depressing the well-being of most Americans. He describes this situation as *profits without prosperity*:

As a result, the very people we rely on to make investments in the productive capabilities that will increase our shared prosperity are instead devoting most of their companies' profits to uses that will increase their own prosperity—with unsurprising results (Lazonick, 2014).

Buyback strategies not only unfairly enrich top managers at the expense of small and medium shareholders, who do not have access to executiveinformation, but it deprives companies of resources that could be used to increase theircapacity to produce wealth through investment in research and development or staff education and training, or by increasing production capacity, or why not, by increasing wages:another example of how competition without rules between CEOs and other company stakeholders (mainly workers and small shareholders) distorts the market. It goes without saying that this redistribution of wealthhas nothing to do with intrinsic worthiness.

However, we should still ask whether these incentives, although questionable from an ethical point of view and with undesirable consequences for income distribution, could improve company performance in the long term. Could they be regarded as a necessary evil?Quite the opposite seems to be true. A recent study finds a negative correlation between CEO pay and future trends in shareholder wealth for up to five years (Cooper et al., 2014). For example, firms that pay their CEOs in the top ten percent have abnormallynegative returns (approx. -13%)over the next five years. The effect is stronger for CEOs who receive higher incentive pay than their peers and for CEOs with longer tenure.[10]An investor-led Executive Remuneration Working Group in the UK found that 'rising levels of executive pay over the last 15 years have not been in line with the performance of the FTSE over the same period'(Executive Remuneration Working Group, 2016).

Let me return now to teachers. In line with mainstream economic policy, new schemes of monetary incentivesfor teachers have been widely suggested for the purpose of improvingstudent performance. Roland Fryer of Harvard University has devoted particular attention to the study of these incentive schemes; his negative conclusions are quite clear. In a study that involved more than 200 schools in New York, he found no evidence that such incentives led to improvements in school results. If anything, the evidence suggests a worsening of student performance, at least in larger schools (Freyer, 2014). The OECD at least partly confirms these doubts: fairly predictably, the performance of students in different countries improves with increases inteachers' salary (which generally depends on the ratio of education expenditure to GDP), but teachers' performance pay schemes have modest, if any, effect and only when the initial remuneration of teachers is below average (OECD, 2009 and 2011).

Previous results obviously do not imply that individuals never react to monetary incentives or that equal pay for allis always preferable to remuneration linked to results. Rather, it means that not everyonereacts,or always reacts,to monetary incentivesas suggested by mainstream belief.People vary and not everyone reflects the perfectly rational *Homo economicus* described in economics text books, always maximizing his objective function according to known constraints, solely concerned with his (or his family's) material interests, and never questioning the means to this end.*Homo economicus*spurns intrinsic remuneration and is not bothered with the effects of his actions on the well-being of others.

Experimental economics confirm what common sense tells us: selfish individuals, so dear to economists, exist and are not uncommon, but they are not alone.There are altruists who put their fellows first and subjects who can be called reciprocantssince they reciprocate the behavior of others, cooperating if others cooperate and not cooperating otherwise (Camerer and Fehr, 2004). If this were not so, there would be no explanation for why people make anonymous donations, recycle waste, donate blood, vote in elections and volunteer.

Nor could we understand why some people, in some experimental game, are willing to pay to punish antisocial and opportunistic behavior (Helrich et al., 2006). All such activities have material costs without producing any individual material benefit: a rational self-interested person does not engage in them.But if not everyone is rational and self-interested all the time, it is difficult to design an optimal algorithm to reward merit. The algorithm can even be counterproductive.

[10]Interestingly, this result appears to be driven by CEO overconfidence that leads to shareholder wealth losses from activities such as overinvestment and value-destroying mergers and acquisitions.

6 Conclusion

If worthiness is determined by the rules used to define it, then merit is determined by policy and not *nature*or free competition.This raises interesting questions and hides a serious risk. Those who are particularly rewarded by the rules currently in force, rich people and large companies, are also better equipped to participate actively in writing the rules andhave more economic resources to influence political decisions(Stiglitz, 2012, Reich, 2015). Their reluctance to prevent new rules that will harm their interestsis understandable. The rules that define how merit is measured and how it is remuneratedend up being written by thosewhohave already receivedthe prizeand are happy to continue to do so.Jacob S. Hackers, lecturer in Political Science at Yale, and his colleague Paul Pierson at Berkeley reach a very similar conclusion. In their interesting book *Winner-Take-All Politics*they claim that *winner-take-all*rules in economics are the deliberate result of winner-take-allrules in politics(Hacker and Pierson, 2010). The real cause of the dramatic increase in income inequality is not the technological revolutionorglobalization, as economists used to say, butmainly political changes.Those at the very top of the economic ladder have had a hand in political decisions to dramatically cut their taxes, deregulate financial markets, keep corporate tax low and weaken trade unions.

The authors trace the rise of the winner-take-all economy to the late 1970s, when a major change in American politics took place under a Democratic president and a Democratic Congress. Big companies and neoliberal ideologues set out to undo regulations and progressive tax policies that ensured fairer income distribution. They succeeded: deregulation and tax cuts for the wealthy became acceptable, and business defeated organized labor in Washington and all over the world. The revolution continued under Reagan and the Bushes, as well as under Clinton, with the two parties vying to please those at the very top.

In a more recent book the same authors discussed an important cultural instruments used to induce these changes (Hacker and Pierson, 2016). Americans have been brainwashed by a powerful coalition of forces hostile to government: big companies, wealthy elites, right-wing politicians, mass media players, all spreading the idea that free markets are always good and government always bad.They persuasively argue that it induces a dangerous amnesia: to have forgotten the crucial role of good Government in making America a prosperous country.

A complementary study by twoother American political scholars, Martin GilensandBenjaminPage(of Princeton andNorthwestern, respectively) analyzednearly two thousand issues and olitical decisions from 1981 to 2002, comparing the preferences of American citizens, collected through opinion polls, with the political decisions adopted. They find that the preferences of the rich havehad a much greater impact on political decisions than the preferences of low and middle incomeAmericans (Gilensand Page, 2014). Economic elites and organized groups representing business interests have substantial independent impact on U.S. government policy, while mass-based interest groups and average citizens have little or no independent influence.At the endof the paper, the authorsremark:

"In the United States, our findings indicate, the majority does not rule—at least not in the causal sense of actually determining policy outcomes. When a majority of citizens disagrees with economic elites or with organized interests, they generally lose. Moreover, because of the strong status quo bias built into the U.S. political system, even when fairly large majorities of Americans favor policy change, they generally do not get it" (Gilens and Page, 2014, p. 576).
Concluding, the following syllogism may cast doubt on the myth of merit:"Merit is decided by political rules. Political rules are influenced by the rich and powerful. The rich and powerful are therefore merit worthy."It sounds more like plutocracy than meritocracy.

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