International Journal of Entrepreneurship and Small Business Management.
ISSN 2394-160X Volume 2, Number 1 (2015), pp. 15-22
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The Sorting-Out Process: Excellence vs. Average[1]

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As capitalist doctrine has evolved, people are by nature unequal. Those who take risks, prove their ability and take responsibility, compete and excel, overcome obstacles and get ahead—are thus entitled to the rewards that may come from their efforts. Two classes of workers emerge within the capitalist system: *Performers* and *executives* who entertain the public and/or generate *profits* or *revenues* for a business or corporation and *salaried employees* such as professionals (teachers, engineers, and accountants) and laborers (plumbers, hotel workers, and janitors) who are considered a *cost factor* or *expense item* in determining annual budgets. The goal of an organization is to keep costs down and maximize profits. For those workers who increase costs, the idea is to trim their salaries by considering supply-demand trends and eliminating jobs. Those who can bolster revenues or increase the asset column are paid handsomely for their efforts; they are profit units as opposed to cost units.

According to *Forbes,* in 2012, entertainers such as Taylor Swift earned $57 million, Roger Waters of Pink Floyd made $88 million and Hip Hop producer Dr. Dre made $110 million. Ball players such as Roger Federer (tennis), Tiger Woods (golf) and LeBron James (basketball) each earned more than $50 million, while Kobe Bryant signed a three year contract for $83.5 million; endorsements amounted to another $42 million for James and another $34 million for Bryant. Tom Cruise and Sylvester Stallone each earn $15 to $25 million per movie. All of these people are brand names who perform for the public and realize profits for corporations.

In 2012 the average worker, a *cost factor,* earned approximately $44,300, while the average teacher earned $52,000 and the average civil engineer was compensated with $80,500. Now compare these salaries with CEO's from the 200 largest companies who for the same year averaged $11.7 million, and those from the

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top 50 companies who averaged $20 million. On the top of the list, according to *Forbes*, was Stephen Hemsley (United Health) at $102 million, Ed Mueller (Quest) at $66 million and Robert Iger (Disney) at $53 million. Ironically, the runaway salaries of top executives have little to do with performance, since many of the companies that paid the highest salaries often lost money that year. You also have to ask if someone is worth more than 1,000 times another human being, a worker earning $44,300 vs a CEO (such as Hemsley, Mueller, or Iger) earning more than $44 million.

The problem of the often overpaid, incompetent executive is especially upsetting when the rewards are subsidized by the U.S. taxpayer, including the single mother or typical laborer who works multiple jobs to make ends meet. It doesn't only occur when the feds bailout Wall Street. It occurs every day, every week, ever year because capital is favored over labor in the U.S. and around the world; money derived from investments and capital gains is taxed at a lower rate than money derived from wages. In the U.S., the difference is apparently twice the tax for labor than capital. If executives, entertainers, and athletes are making millions of dollars, it has to come from someone's pocket; this is reflected in inflated prices for rock concerts and baseball tickets and depressed salaries for the average worker in the organization which pays top executives top salaries. If we start adding up the ramifications of all these overpaid executives, there is more than a whisper of public frustration, not yet a shout, to put a lid on executive compensation and to improve the links between pay and performance.

What these kind of disparities create is a new group of "haves" and "have nots," based on a flawed capitalist model that rewards those who make money for an organization and penalizes those who cost money for an organization. There is little reason to promote or defend this system of rewards other than some illogical reasoning based on greed and “the law of the jungle” or some quaint notion that capitalists (now including brand name performers) are “job creators” and receive their fair compensation from corporate profits while wage earners should be thankful for their job and can enjoy a day at the beach on Sunday for free or a fishing vacation in some remote part of the country.

It's like the Roman Empire—with highly paid gladiators who entertain the audience— coupled with the "robber baron" era with all sensible restraints vanished. The key question is whether Roger Waters is worth 1600 times more than what a teacher earns or whether LeBron James is worth 625 times more than what a civil engineer earns, or whether the average large company CEO is worth 264 to 452 times (based on $11.7 or $20 million average salary) more than the average worker, (based on $44,300 average salary). Your answer probably depends on whether you believe in the free market system or some form of government regulation. It also reflects your views on human capital and the value you place on talent vs. labor. It also considers whether you believe in a fair or just society, and whether you believe there should be a floor and ceiling in money earned and wealth accumulated over more than one generation.

Allow me to frame the economic issues in moral tones. Consider that the average salary for the top 25 hedge fund managers was $1 billion in 2009, sometimes only with single digit returns. The total, $25 billion, was equal to what 500,000 of the nation's 2.8 million teachers earned the same year. Here is a pop quiz! Should 25 people who move money around with a mouse and produce nothing, and at worse played some role in the economic meltdown of 2008 (which cost tens of millions of Americans to lose their jobs and/or homes), earn the same amount as a half million teachers who perform an essential service for the nation. Is one person worth 50,000 times more than another person?

Or, consider the following. In 1939 Judy Garland earned $125 per week for her role in *The Wizard of Oz*. The movie took five months to produce, resulting in total compensation (for 22 weeks) of $2,750. That year the average salary was $1,730 (or $721 for five months). In 1964, Julie Andrews earned $125,000 for her role in *Mary Poppins*. A year later in *The Sound of Music*, she was paid $225,000. The average salary in 1964 was $6,000; in 1965 it was $6,450. By 2013, Sandra Bullock had earned $20 million for her role in *Gravity*, plus 15 percent of the movie's revenue, for a total of $70 million. That year the average salary was $45,000. Note the multiplying effect paid for talent compared to labor. Garland was paid less than twice the average U.S. salary. Julie Andrews was paid 21 times more than a person's salary in 1964 and 35 times more in 1965. By 2013, Sandra Bullock was paid 1,522 times more than the average worker. And that was for only one movie!

Now consider leading actors. Fred MacMurray was the highest paid actor in 1943, with a salary of $420,000, equivalent to $5.8 million in 2014. By 1998, Tom Hanks was the top paid actor, earning $40 million, equivalent to $57.8 million in 2014. In 2013, depending on the list you read, Tom Cruise and Robert Downey were the top paid actors, each earning $75 million. As entertainers go, Beyoncé made $115 million. Hence, all these trends reveal the multiplying effect and growing demand for talent – at the expense of labor.

Then there is supermodel Gisele Bündchen who earned $47 million or $128,000 per day in 2013. Her husband, quarterback star Tom Brady, made a "measly" $33 million or $90,000 a day during the same year. Compare that salary to Otto Graham, often called the greatest quarterback in history. He led the Cleveland Browns to the league championship for 10 straight years (1946 – 1955). As quarterback for the Browns, the team's win-loss record was 114 – 20, plus 4 ties. Graham was the highest paid football star in the 1950s. He earned $22,000 a year. Brady's $33 million is more than 1,500 times Graham's salary, indicating how the pay for talent has multiplied and how the market for certain kinds of talent is very much in demand and has nothing to do with the needs of society.

Another way to illustrate the rise of this new money class is to compare two household baseball names. In the mid 1950s, Mickey Mantle of the New York Yankees was in his prime earning $100,000 a year. Compared to the average working man's salary (few women worked) of $3,300, his salary was 30 times greater. By 2013, Alex Rodriguez of the same Yankee Organization was earning $32 million, not counting additional monies from endorsements, while the average working person's salary was $45,000 – more than 711 times what the average American earned.

For those who are boxing fans you may recall Rocky Marciano, the undefeated heavy weight champ (with 49 wins, 43 KOs, and no losses) in the 1950s. He had a lifetime earnings of $30 million, most of it siphoned off by his promoter and trainer. (He netted $5 million). Although $5 million was considered a hefty amount for that period, Floyd Mayweather, the current Light/Welter weight champ, earned $85 million for two fights in 2012. In 2015, he earned more than $150 million for one fight." as the last sentence of the first paragraph on this page.

For older readers who golf, Ben Hogan's top annual earnings was $90,000 in 1948, compared to Jack Nichlaus' $320,000 in 1972 and Tiger Woods' $122 million in 2007. In 1948 the average working wage was $2,300; in 1972 it was $7,100; and in 2007 it was $40,400. Whereas Hogan earned 39 more than the average worker, Woods earned 3,020 times more. Hence the price of talent vs. labor has skyrocketed. To be sure, wealth vs. work has become increasingly skewed because of mass media and globalization, as well as a U.S. tax structure that has increasingly favored the rich since the Reagan administration.

The issue can also be stated in terms of pricing seats for sporting events. In the past twenty-five years, the average baseball ticket increased 300 to 500 percent during the same period when the average blue-collar wage (after considering inflation) remained flat at $16 per hour. Add in parking, burgers and cokes, and a family of four at the ball game spends a few hundred dollars to sit in the bleachers. What used to cost $1 to $2 per seat to sit in center field now costs $30 to $35 per seat. And, what used to cost $5 to $7 for a box seat now cost $100 to $250 per seat. What used to cost ($125 to $175 per ticket) a days wage for a mechanic or carpenter to take two children to the baseball game and sit over third base in reserved seats now costs a weeks net salary, that is after taxes are deducted. The main reason is competition for scarce seats which corporate business people can write off as a tax deduction. The bidding process by the rich for good seats has not only driven up luxury skyboxes from $500 to $2,500 (in Yankee Stadium) per seat, but also the box seats behind home plate which are second-choice seats.

The same situation holds true for center-court seats at basketball games and fifty-yard line seats at football games, which during the season cost several hundreds of dollars per ticket, depending on what arena or stadium we are discussing, and during a playoff game will be scalped for several thousand dollars. The endless-demand by the rich in the sports market, fueled by entertainment deductions for big business and the wealthy distorts the market and cheats the public of tax revenue. Of course, in the grand scheme of things this coincides with American capitalist system. One solution would be to limit the amount of deductions for expensive tickets. Another solution would be to cap salaries of modern-day athletes and actors who make nothing of worth for the common good and merely entertain the masses in the way gladiators did for Rome while it was declining and Medieval court jesters with their ornamental costumes did for European monarchs.

As a point of comparison, up to the 1980s, women had slim pickings for a professional career. The best they could hope for was a career in teaching or nursing. We continue to hear from their respective professional organizations they are underpaid, especially when salaries are adjusted for inflation. A sixty-year history of teacher and registered nurse pay vis-a-vie the average price of a home reveals a different story. A house is chosen as a yardstick because it is the most important purchase and number-one asset for many Americans.

In 1950, the average salary for a teacher was $2992; in 1970 $9729; in 1990 $32,880; and in 2010 $50,000. During this sixty-year period, their salaries increased 18.7 fold. For registered nurses, the average salary in 1950 was $2600; by 2010 it was $65,218, a multiplying factor of 25.1. (In both cases, the high range in salary for both occupations in 2010 was about $125,000, depending on education, years of experience, specialization and geographical region.)

Now compare these averages with rising home prices in the U.S. In 1950 the average cost was $14,500. In 1970 it was $26,600. By 1990 $149,800, and by 2010 the price was $272,900, that is an 18.8 fold. In short teachers' salaries kept up with the inflationary price of an average home and registered nurses' salaries outperformed the rising price of a home. This is not to say that their pay is competitive with other professional groups. Conventional wisdom, along with the teaching and nursing associations, tell us otherwise. Looking at the average 2010 salaries of CPAs ($52,900), attorney ($69,139) and computer software personnel ($69,986); surprisingly, it is comparable.

Of course, the real issue is all the professions are underpaid, compared to our modern-day gladiators, court jesters, and Wall Street barons. Without these professionals and others such as police, firefighters, physicians, etc., the fabric of society falls apart – and all the overpaid superstars and corporate titans lose their influence and/or earning power. As a group, the professionals represent the sustainable energy of society, the glue that keeps it all together. These so-called ordinary people transmit and perpetuate the culture of society; they teach our children, care for and maintain our health, protect our homes and streets, organize and maintain the flow of data, and interpret and uphold the law. You take away these people, and the superrich (the so-called job creators, entrepreneurs and entertainers) experience a significant loss of profit-making prowess. It's true that a few smart and ambitious people can change the economy and even the world, but without ordinary people opting to be teachers, nurses, CPAs, lawyers, etc. most of the people that can transform society fall to the wayside because the foundation of society is broken. There has to be a functioning society that gives two cheers to the likes of Tiger Woods, LeBron James and Lady Gaga and three cheers to Bill Gates, Steve Jobs and Elon Musk. Take away the professionals in society, along with its plumbers, carpenters and sanitation workers and all the grand visions, grand lifestyle, and grandiosity of the superrich are reduced or wither.

We need to wrestle with the issues of "profit" vs "cost" and the subsequent problem of inequality – and not pooh-pooh them away as part of the capitalist system, or simply that's how the "cookie crumbles." It is our teachers, nurses, scientists and engineers, and other knowledge and high-tech workers that will improve society worldwide, not the hip hoppers or rappers, not our athletes or entertainers, not our hedge-fund managers. In a fair or good society, if inequality of income persists, it should be based on how much value a person's work is valued by and for the common good. The question then arises whether a teacher's or engineer's service is more valuable than someone who can sing songs or hit a golf ball 500 feet. How can we motivate an MIT engineer student to pursue a job in engineering, where the starting salary is about $60,000 to $75,000, and not be seduced by Goldman Sachs or another

Wall Street firm, where the starting salary is $250,000? Who is more likely to serve the common good: the engineer or the Wall Street trader?

What we need to do is find ways to reduce existing inequality. There is a lot we can do that is easy to implement regarding education, social security and health care. Canada, Australia, and many Western European nations spend up to twice as much per person as the U.S. does on social programs and safety nets. Why should entertainers, sports figures or CEOs in the U.S. earn $50 to 100 million? Why should hedge fund managers earn a billion dollars or more? Why do the American people allow it? To be sure, there comes a point where financial rewards become irrational, based solely on profit or greed as opposed to the value for society and the planet we all share.

Despite the titans of industry, the wizards on Wall Street and the disciples of Ayn Rand who believe that "greed is good," in civilized society the test of restraint, balance and fairness are needed to protect all the "slow" and "average" runners of society. Here we are talking about welfare recipients, mentally challenged people, sick people, disabled people, unemployed people, retired people, elderly people, and the working poor – what was once called the "forgotten Americans," "disposable Americans," "silent majority" and now the "moochers." We are talking about millions of individuals and families in America living on the threshold of lost dreams. Charles Dickens in *Hard Times* used darker tones to describe this low-paid, industrialized work force. Indeed, today, the U.S. has the largest percent of low-paid workers within the industrialized world, about 25 percent, according to the International Labor Organization. In this connection, the rate of unionization continues to fall, from a high of 35 percent prior to 1980, when President Reagan crippled the air controllers union, to fewer than 7 percent in 2012, according to Eduardo Porter of the *New York Times.*

Proponents of the system rely on free-market and trickle down theories to defend this dark side of the economic system while rewarding "job creators," "innovators," and "risk-takers," and now "entertainers" and sports figures. Myself and other critics would interpret it as a rigged system extending thousands of years into history—a divide between 1 percent (originally called the monarchy and nobility class, now called the rich and super rich) and 99 percent (originally called slaves, serfs, peasants, and indentured servants, now called migrant farmers, miners, factory workers, service works) – in a nutshell who we refer to as working people, ordinary people, common people, etc.

Proponents of the system would also argue that people who are "profit" units are worth what they can earn; the sky is the limit; this is how the free market system is supposed to work. Well, there is nothing wrong with a profit; it is what encourages risk-taking and innovation. But there should be a limit on profit, simply for moral reasons, and it should bear some relationship to the overall common good. Profits without limitations do not grow the economy. If fiscally responsible measures are not taken, profits (1) result in growing inequality, (2) lead to producing stuff that people don't often need, (3) shrink the middle class – and together cause economic stagnation.

Every nation that professes to be democratic, humane, and/or just needs to implement a floor and ceiling regarding income and wealth. Where that floor and ceiling should be is beyond the scope of this author, but it should be worked out by members of society through political compromise. Failure to work out a balanced floor and ceiling can lead to the economic decline of any nation: first by choking and shrinking the working and middle class—the populace or base that a democracy needs in order to function—second by reducing opportunity for most citizens because the income/wealth gaps are too wide to permit a level playing field, and third by increasing the costs of goods and services which makes the nation less competitive with other nations.

Given the fact that we all have a different gene pool, and grew up in a different environment and our family heritages are varied by advantages and disadvantages, we should expect and accept some inequality. However, the major reason for economic inequality has less to do with ability or talent, and more to do with our roots. For some of us, our ancestors were slaves with no ability to accumulate and pass on wealth. Others are descendants of peasants and refugees who came to America with little more than the shirts on their back and a few suitcases of clothing and family trinkets. On the other side of the divide are descendants of wealthy parents and grandparents who have provided their children with investment trust funds and stocks, a legacy to Harvard or Yale, as well as fine art, a family business and large homes, including beach homes on the Cape, in the Hamptons, or along the Newport Beach coast.

Most of us in the U.S. are the children of parents who can be classified between rich and poor, with a mom and/or dad who managed to earn a living as a laborer, factory worker, or government bureaucrat. We grew up in apartments or row houses in the cities, and others grew up in steel towns and mining towns, or small suburban and rural towns. Our parents did not earn enough to accumulate wealth; rather they provided us with love, hope, and motivation to go to school and to work hard. As students, we grew up with our own dreams, and our own aptitude and ability were measured in school and predicted from early grades. Today, three fourths of us graduate from high school and one third of us go on to college. We should expect less imbalance and less stratification than what presently exists. The extremes at both ends of the financial continuum should be shaved and shortened.

Given the context of the times, some of us would argue for equal results (not equal opportunity), group rights (not individual rights), and even reparations (not saving or investing). Others, including most of my old friends from the schoolyard, along with their children, would still advocate for equality of opportunity, where individual perspiration and performance count and produce differences in outcomes. The commitment to provide a fair chance for everyone to develop their own talents remains central to the national creed for the vast majority of Americans; it has deep political roots, and, according to Isabel Sawhill from the Brookings Institution, is what distinguishes us from the history and philosophy of Europe. Virtually no one favors equal distribution of income, for it would discourage hard work, savings, investment, and risk taking. Some form of inequality, based on abilities and talent, is the price we pay for a dynamic economy and the right of each individual to retain the benefits of his or her own labor.

Although not all of us would agree to address the outcomes of inequality, the vast majority of us would agree to remedy the causes of inequality. For those on the Left who believe inequality is tied to lack of opportunity, or an unfair and tilted playfield, there is willingness to address the results of inequality. For those on the Right who believe that the market place and meritocracy drive earnings and wealth, there is little need for social and economic change or tax-related reform. A little tweaking, a nail here, a screw there, is all that is needed to ensure that all of us get up to bat and do our best. For those who live on Main Street and believe there is declining opportunity and mobility, and the growing risk of a government of the rich and for the rich, there is the need for raising the floor and lowering the ceiling – or shrinking the income/wealth gap.