Professions without Pride

The things we buy bring us, at best, only limited satisfaction. The work we do, by contrast, can add enormous and lasting satisfaction to our lives.

Unfortunately, only some among us spend our lives working at jobs that bring us significant pleasure. These fortunate souls stand out. We recognize them immediately. These are people who have studied and practiced and mastered a body of knowledge and skill. They perform their work at high levels. They take great pride in it. In fact, they take such great pride in the work they do that they cannot bear to watch this work performed poorly by others around them. Within their trade, they correct the beginner who may not know better. They rebuke the sloppy who do.

The people who approach their work in this spirit, the people who practice and perfect and protect their trade, whatever that trade may be, we call professionals. Over time, in any modern society, professionals tend to unite with like-minded colleagues. They create professions. These organized professions, the British social thinker R. H. Tawney once noted, typically take on two noble missions. Within them, professionals strive to maintain the quality of the services they provide and prevent the frustration of that quality by "the undue influence of the motive of pecuniary gain."[1]

Professions, Tawney argued in 1920, differ markedly from ordinary business operations. Ordinary businesses seek to maximize financial return. Professions do not. True professionals, Tawney contended, measure their success by the service they perform, "not the gains which they amass." Professionals do certainly owe their incomes to their professional positions, but "they do not consider that any conduct which increases their income is on that account good."[2] Professions, agrees a more contemporary observer, journalist Stephen Metcalf, "encourage in the good professional a certain gentility regarding money, an old-fashioned prudishness."

"Professionals aren't supposed to haggle: they set standard fees, then bill you," adds Metcalf. "They're allowed to be very well-off, but not very rich."[3]

Historically, in return for this genteel moderation, professionals have expected from society the power to control the conduct of their profession. They value this control enormously, not because they thirst for power, but because they relish the autonomy, the ability to make informed and independent judgments, that makes professional practice so pleasurable. This autonomy

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thrives best within self-governing professions. Where societies deny autonomy to professions, individual professionals must practice their professions as outsiders see fit — and that practice brings no great joy.

Societies, for their part, will grant professions the autonomy they seek, but only if they trust the professions that seek it. To gain this trust, and keep it, wise professions police themselves. They deliberately prohibit, as R. H. Tawney observed, conduct that, though "profitable to the individual," would bring the profession "into disrepute."[4] If a profession succeeds in this self-policing effort, if a profession is able, in other words, to consistently prevent disreputable behavior within its own ranks, everyone benefits. The public is shielded from professionals who choose to abuse their expertise.[5] Honest professionals get to freely practice the work that brings them pleasure.

These sorts of mutually beneficial arrangements can endure only so long as professionals keep their professional balance. Should they lose that balance, should they let private self-interest trump professional responsibility, all bets are off. If a public senses that professionals are prospering extravagantly at public expense, that public will no longer trust professionals to set their own rules. Exit autonomy — and the professional pleasures autonomy brings.

In the closing decades of the twentieth century, America's most influential professionals would put these pleasures at risk. They would look away as individuals within their professions abused the public trust. They would look away because great wealth beckoned. They would find that great wealth. They would lose everything else.

BEHIND EVERY SIGNIFICANT CORPORATE DECISION made in the United States today stands a lawyer. Lawyers advise and lawyers bless. Their nods give go-aheads. Their thumbs down can give even the most determined chief executive pause.

Attorneys who practice corporate law have constituted, ever since the rise of the modern corporation, the elite of the legal profession. Their rewards have always been ample. Still, until recent times, attorneys in corporate law did not earn terribly more than lawyers practicing in less lucrative fields. In 1954, the year that future Harvard president Derek Bok graduated from law school, he could have taken a job with a top Wall Street law firm for $4,200 a year. He also could have gone to work in the Justice Department "for almost as large a salary as private law firms were offering."[6] Attorneys a half-century ago could live comfortably working in or out of corporate law. Top lawyers at the biggest corporate law firms collected impressive, but not staggering, rewards.

The same could be said for the top corporate executives that top corporate attorneys advised. A half-century ago, they collected impressive, but not staggering, rewards. That would change, as we have seen. Executive pay would explode upwards over the last quarter of the twentieth century. Corporate lawyers watched the explosion. Actually, they did more than just watch. They lit the fuse. With every regulation and tax they helped corporations sidestep, with every merger they packaged, with every workplace they kept "union-free," these attorneys helped inflate corporate earnings — and executive incomes.

These rising executive incomes, in turn, raised pay expectations within America's top corporate law firms. Senior partners at these firms saw no reason why pay for executives should far outpace their own compensation. These attorneys considered themselves every bit as sharp and savvy as the executives they advised. Why shouldn't fortune smile just as sweetly on them as on corporate executives?

Executives, these lawyers understood, did hold one specific compensation advantage. Simply by manipulating shares of stock, executives could fashion for themselves enormous fortunes. Law firms, as private partnerships, could engage in no such lucrative stock maneuvers. Top partners in these firms, to keep pace with the pay of their corporate executive counterparts, would have to develop a different set of wealth-amassing techniques. And so they did. Over the last quarter of the twentieth century, America's elite attorneys would redefine and restructure how private law firms operate.

Law practices in the United States, even the most prestigious, had traditionally been modest in size. But modestly sized operations, in law as in business, can support at the top only modest compensation. Law firms would now shed their historic size limitations. In 1978, only fifteen law firms in the entire nation could claim as many as two hundred attorneys. A decade later, over seven times as many firms sported two hundred or more lawyers.[7] By 1997, just one law firm alone, the New York-based Skadden, Arps, Slate, Meagher & Flom, employed twelve hundred lawyers in twenty-one cities.[8]

These new supersized law firms did not "practice" law. They manufactured it, factory style. Legions of young attorneys staffed the new legal assembly lines. These "associates" labored sixty, seventy, even over eighty hours a week. They would be paid handsomely for these hours — associates at Skadden, Arps, Slate, Meagher & Flom, for instance, started at $101,000 in 1998 — but their employers, the partners in America's top law firms, could afford to be generous. Associate labor was making them rich.[9]

Between 1970 and 1990, after adjusting for inflation, per-partner profits at the nation's elite law firms leaped by 75 percent and more.[10] The profits would keep flowing in the 1990s. Midway through the decade, the 360 partners at New York's Cravath, Swaine & Moore were averaging more than $1 million each.[11] In 2001, Cravath's per-partner profits totaled twice that, $2.14 million. That same year, at Wachtell, Lipton, Rosen & Katz, partners averaged $3.17 million.[12]

By century's end, any "gentility regarding money" had been thoroughly purged from America's top law firms. A new money culture had taken root. Top attorneys no longer served their clients. They scrambled to squeeze them. In this scramble, notes Derek Bok, who would serve as the dean of the Harvard Law School before becoming the university's president, nothing would matter more than the billable hour.

"The more associates a firm could maintain for every partner, and the more hours they worked," explains Bok, "the larger the pool of profits would become."[13]

And that pool seemed limitless. If corporate clients balked at excessively high hourly rates, their law firms could simply smile, moderate the rate, and bill more hours. Two-minute phone calls could be rounded up to billable quarter-hours. Extra witnesses could be interviewed. Extra lawyers could be brought into meetings.[14] In this environment, inefficiency paid. The more time spent on a task, the more hours to be billed.[15]

Billable hours, as lucrative as they could be, would actually constitute only one prime revenue stream for America's top firms. In the 1980s and 1990s, they would start exploiting another, equally lucrative source of fortune, the contingent fee.

Lawyers had started practicing contingency fee law, years before, as a strategy to help people of limited means. Through a contingency arrangement, a litigant with a good case but no money could secure an attorney's services. That attorney would typically receive, instead of standard hourly fees, a third of whatever settlement the case produced. These contingency arrangements could make sense for both litigant and lawyer. They could also invite abuse. Lawyers who came to specialize in contingency fee law had to "win" to be paid. Some attorneys, under this pressure, would start to do anything to win. They might "harass defendants with endless requests for documents and interrogatories to extract a settlement" or "even manufacture evidence to inflate the amount of damages."[16]

Such tactics could be profitable. Contingent fee settlements and judgments could total tens of millions of dollars, a fact that did not go unnoticed in the plush offices of America's most prestigious law firms. Why should these contingent fee fortunes, top partners wondered, be left to ambulance chasers? In the 1980s, these top partners moved to cut their firms into the contingent fee action.[17] Litigants who could afford to pay standard legal fees would now have their cases handled on a contingent fee basis.

America's top firms would have, in contingent fee law, a promising new revenue stream. The general public would be no better served. Observers would be struck by "how few individuals with deserving claims receive anything at all." One major investigation of malpractice cases found that "only one in eight or ten meritorious claims ever reaches a lawyer, and only half of these result in any payment of money to the victim."[18]

In this client-be-squeezed, public-be-damned legal environment, America's biggest and best law firms found themselves, not surprisingly, stumbling to keep their moral bearings. The professionals America trusted to uphold the law would, at the height of the boom years, work diligently to subvert it — and then even flaunt their subversion.

In 2001, for instance, the Houston-based firm of Vinson & Elkins openly boasted, on its Web site, about the firm's pivotal role in creating off-balance-sheet partnerships for the nation's most innovative company — and its biggest client. That client was Enron. In 2001 alone, the Enron account earned Vinson & Elkins $36 million. By year's end, the off-balance-sheet partnerships that Vinson & Elkins had helped create, partnerships "structured to enrich a few Enron insiders at the expense of company shareholders," had sunk the energy giant into bankruptcy.[19] Unhappy Enron shareholders would later charge that Vinson & Elkins, with its work at Enron, had engaged in outright racketeering.

In earlier generations, few young people had gone into the law expecting to practice racketeering — or amass multimillions. The law offered other, more professional satisfactions, the opportunity to practice an honorable trade, to build lifelong, collegial relationships. These pleasures would all erode in the 1980s and 1990s. Inside the profession's huge new law firms, young associates working eighty-hour weeks made "good" money, but had little time to enjoy it. That time, they told themselves, would come when they "made" partner. The pleasures of the profession would then be theirs. But partnership, once made, would turn out to bring no great pleasure either.

The profession had changed. In years past, partners could and did take great pride from their practice. The hours they spent mentoring young colleagues and sharing insights with fellow partners they respected and esteemed kept their careers professionally satisfying. Partners seldom squabbled about money. Seniority rules determined the shares each partner took from the firm profit pool.

In the late twentieth century, with hundreds of millions of dollars filling law firm profit pools, ambitious partners would come to see these traditional rules as silly and unfair. They demanded that firms shift to "performance" distributions. Let the most rewards go to the partners who brought in the most business. Partners who didn't spend their time bringing in new business, who wasted potential billable hours mentoring colleagues, now came across as fools. And if you were a partner who asked colleagues for their insights about a case, you would be seen as an even bigger fool. Any insights those partners might give you, after all, would entitle them to a share of what should have been your profits.

Professional pleasures could not endure in an atmosphere this strained. Fewer partners mentored, fewer partners collaborated. Partners, instead, hoarded clients. And if those clients, as a result, didn't receive the best possible representation, then so be it. The practice of law was now about profits, not clients, about selfishness, not service.[20]

Meanwhile, outside the exquisitely paneled confines of America's largest law firms, in small practices and legal clinics, individual lawyers would also be working long hours, but not to get rich.[21] They would be working their long hours to pay back their enormous student loans. By century's end, over half of America's law school graduates would be starting their careers more than $75,000 in debt, with one in every five over $105,000.[22] Some young lawyers, those who signed on with high-profile private firms, could handle these debt loads. Half of all new private-practice lawyers, after all, would be taking home starting salaries over $90,000 a year by the late 1990s. And law schools knew that. By century's end, notes economist Dean Baker, the high salaries available in elite private practice had become "the driving force behind rising tuition."[23] Law schools would charge what the market would bear. In the 1990s, tuitions would soar 140 percent.[24]

Salaries for government and public-interest lawyers, over those same years, would rise 37 percent. By decade's end, the typical attorney for a public interest group would only be earning $35,000. Median incomes for government lawyers would go somewhat higher, but not enough to offset six-figure student debt loads. With salaries outside elite private-practice law so limited, the national association of public interest lawyers would charge in 2003, two-thirds of law school graduates could not afford to even consider a job in the government or public interest sector.[25]

Those young lawyers who did go into public interest work would do the best they could in understaffed and underbudgeted legal offices. They would, on a regular basis, have to say no to people who needed legal help. And they would be resented for it. Lawyers, increasing numbers of Americans were convinced, were just out for themselves.

"Has our profession," asked a 1986 American Bar Association report, "abandoned principle for profit, professionalism for commercialism?"[26]

By century's end, the answer would be in little doubt.

OUR SOCIETY'S SUSPICIONS ABOUT LAWYERS DO, of course, have roots that go deep into history. Let us first, as Shakespeare suggested, kill all the lawyers. Accountants carry none of this classic baggage. The founding fathers of accountancy, men like the legendary Arthur Andersen, left their successors a trade with an awesome aura of professional probity.

"Think straight and talk straight," Andersen would advise his colleagues in the early years of the accounting profession. He took his own advice to heart. In 1915, for instance, Andersen demanded that a steamship company formally acknowledge the sinking of a freighter that had sunk *after* the company's fiscal year had ended.[27] The investing public, Andersen insisted, had a right to the full story. Accountants had a responsibility to determine — and present — the unvarnished truth in every business situation.

The American people would come, after the stock market crash in 1929, to understand the importance of this honorable accountancy mission. In the 1930s, the federal government "gave the accounting industry the valuable franchise to audit companies that sell shares to the public."[28] Accountants, notes journalist David Hilzenrath, were expected "to do their best to make sure investors can trust corporate financial statements." That meant more than crunching numbers. That meant checking inventory and contacting customers. And that meant, most importantly, making judgments.

Any audit of a modern corporation demands thousands of judgment calls. Is an asset fairly valued? Is a liability understated? Is a revenue collectible? The best accountants have always taken great pride in making these judgments — and getting them right.

Those who do judging, of course, must be impartial and independent. Auditors, accounting's founding fathers agreed, could not objectively audit a company's books and, at the same time, participate actively in that same company's business operations. Honorable auditors must avoid any trace of conflict of interest.

Down through the years, in practice, this ethic of independence would prove difficult to sustain. In the late twentieth century, with corporate executive compensation escalating at record rates, sustaining this ethic would become impossible.

In the 1980s and 1990s, partners at America's top accounting firms would see the same executive pay extravagances that partners at America's top law firms saw. They would feel the same envy. And to keep their own personal rewards rising, at a corporate executive-like pace, partners at top accounting firms would take the same steps that partners at top law firms took. They would supersize their partnerships.

Accounting firms actually supersized considerably faster than their law firm counterparts. By the 1980s, just eight accounting firms were conducting virtually all the audits of companies listed on the New York Stock Exchange. In 1989, two megamergers brought this "Big Eight" down to the "Big Six," and eight years later still another merger left the accounting profession dominated by the "Big Five."[29]

But in accounting, unlike law, supersizing alone could not ensure the princely earnings that Big Five partners had come to see as their natural right. Corporations, after all, were merging, too, and each merger created fewer big companies to be audited. Accounting firms, in a consolidating corporate America, would need new revenue streams, and these new revenues, top accounting firm partners concluded, could only come from the hot new field of management consulting. That quaint old professional ethic — that auditing firms ought to keep at arm's length from the companies they audit — would simply have to go.

In the accounting profession that would emerge in the 1980s, auditing would fill a new and considerably less elevated role. Audits would no longer be about helping the investing public unearth business truth. Audits would now be "loss leaders," a strategic maneuver accounting firms could employ "to get their foot in a client's door and win consulting contracts."[30] Revenues from these contracts would come eventually to overshadow totally revenues from auditing. In 2001, PricewaterhouseCoopers would bill the Tyco International conglomerate $13 million for auditing services and nearly triple that total, $38 million, for consulting work on taxes, acquisitions, and technology. Raytheon, the military hardware company, paid PricewaterhouseCoopers $3 million for auditing that same year — and $48 million for consulting.[31]

All this consulting, notes corporate researcher Philip Mattera, "flew in the face of the accounting profession's independence rules." The guardians of the profession didn't seem to mind. Accounting professional groups actually lobbied hard *against* any moves that might reimpose traditional accounting values.[32] The profession's movers and shakers, now routinely averaging over $1 million each, had found a most lucrative niche in corporate America.[33] They were not about to let it go.

Accounting had finally become, at least at the top, a profession that paid. But making your way to that top still took time. Young accountants usually had to spend ten years at a Big Five firm before earning partner status — and the half-million dollars or so in annual compensation that typically came with it.[34] Not bad, but ambitious young partners found they could do considerably better by crossing over and crunching numbers *inside* the corporate world, as corporate financial officers. Corporate CFOs, by the 1990s, were routinely taking home $1.5 million in annual compensation.[35] Some were doing considerably better. Mark Swartz, for instance, left his professional home at one Big Five accounting firm, Deloitte & Touche, and became the chief financial officer at Tyco International. In 2001, Swartz earned nearly $35 million.[36]

Back in the accountant cubbyholes at Deloitte & Touche, Ernst & Young, and the rest of the Big Five, ambitious auditors watched this desk-swapping closely. They would come to see, naturally enough, each audit they conducted as a lucrative career-changing opportunity. Smart auditors, by making just the right impression on the company they were auditing, could end up hired to a cushy company executive slot. And smart auditors didn't need to be told how to make that right impression. To get along, they played along — with the sorts of corporate financial sleights-of-hand that old Arthur Andersen would have delighted in exposing.

The entire auditing process, from the corporate perspective, now worked beautifully. Accounting firms, the supposed corporate "watchdog," no longer had any interest in subjecting the companies they audited to searching, tough-minded audits. The senior partners at these firms saw every auditing relationship as a first step toward a lucrative consulting contract. Why spoil the chances for that contract by giving an audited company a hard time? The lowly accountants who did the actual auditing work, meanwhile, had little reason to blow the whistle on their solicitous superiors. Why make a scene and risk spoiling a corporate job opportunity? Why can't we all just be friends?

In this clubby environment, accountants no longer stood at arm's length from their clients. Indeed, auditors frequently found themselves interacting with corporate officials who used to be their supervisors or colleagues. Such incestuous relationships, one academic observer, the University of Richmond's Paul Clikeman, pointed out, practically invited shenanigans. Accountants doing audits, he explained, could hardly be expected to maintain "proper professional skepticism when questioning their friend and former colleague."[37] These former colleagues, in turn, knew all the tricks of the auditing trade.

"The former auditor's knowledge of the audit firm's testing techniques," Clikeman observed in 1998, "may allow the client to manipulate the financial statements in ways that are least likely to be detected."[38]

By the time Clikeman made that observation, corporations had plenty of reason to want their financial statements manipulated. Real corporate profits had soared between 1992 and 1997, and those soaring profits had kept share prices — and executive stock option jackpots — soaring, too. But real profit growth, by 1998, had stalled. In fact, as economist Paul Krugman notes, the after-tax profits of the S&P 500 grew barely at all over the last three years of the century. For corporate executives, now fully accustomed to option windfalls, this would not do. If real profits weren't rising, they would just have to find some fake profits. And they did. Between 1997 and 2000, the corporations that make up the S&P 500 were able to report out, thanks to creative accounting, a whopping 46 percent jump in corporate earnings. Accounting smoke and mirrors, explains Krugman, had created "the illusion of profit growth."[39] And that illusion drove executive earnings to all-time record levels.

This most helpful illusion came courtesy of the accounting profession.

At Xerox, for instance, executives created a $1.5 billion phony profit, between 1997 and 2000, by faking $3 billion in nonexistent revenues.[40] The gyrations Xerox went through to fake these revenues clearly violated standard accounting rules, and one brave auditor at KPMG, the accounting firm handling the Xerox audit, had the temerity to point this violation out. Xerox executives were displeased. They asked KPMG for a new auditor. KPMG supplied one. KPMG would receive $62 million in fees from Xerox over the century's last three years, over half from consulting.[41]

Not everyone would turn a blind eye to this rampant faking and fraud. Arthur Levitt Jr., the Securities and Exchange Commission chairman, charged at the start of the new century that auditors and corporate executives had joined "in a game of winks and nods." In corporate financial reports, Levitt asserted, "integrity may be losing out to illusion."[42] Nobody paid Levitt much mind. Congressional leaders shrugged. Who cared?

And then came the collapse of Enron. Within a year, the most noble accounting firm of them all, Arthur Andersen, the firm that embodied the heart and soul of the accounting profession, had ceased to exist as an auditing entity.[43] Enron and Arthur Andersen had been joined at the hip. Former Andersen employees filled Enron's executive offices, in slots ranging from treasurer to chief accounting officer. Andersen accountants and Enron executives, a report released by Enron's board of directors would later note, worked side-by-side to inflate revenues and conceal liabilities. Personnel who would not cooperate were shunted aside. For professional services rendered, over the course of this collaboration, Andersen would take in from Enron $1 million a week.[44]

In the wake of Enron's spectacular collapse and Andersen's equally spectacular professional misconduct, accounting industry flacks endeavored to dismiss Andersen as some foul rotten apple in an otherwise healthy barrel. The facesaving would not wash. Within months after Enron's crash, every giant accounting firm in the nation had come under suspicion and serious investigation. KPMG for work with Xerox. Deloitte & Touche for Adelphia. PricewaterhouseCoopers for MicroStrategy. Ernst & Young for PeopleSoft.[45] Accounting as a profession stood disgraced.

And humiliated. In Portland, Oregon, a minor league baseball team staged an "Arthur Andersen Appreciation Night." Fans were handed $10 receipts for $5 tickets.[46] In Congress, reformers rushed to snatch away from the accounting profession all regulatory autonomy. The resulting Public Company Accounting Reform and Investor Protection Act, enacted midway through 2002, created a powerful new board to oversee the auditors of public companies. The new board, Senator Paul Sarbanes proudly noted, would have "the authority to set standards" and "investigate and discipline accountants." It would be answerable to the Securities and Exchange Commission, not the accounting profession. The Public Company Accounting Reform and Investor Protection Act, Sarbanes summed up, "will mark the end of weak self-regulation on the part of public company auditors."[47]

Out across the nation, average Americans applauded the new legislation. Accountants, after all, could not be trusted. Accountants, meanwhile, wondered what had happened to their profession. The older the accountant, the deeper the shock.

"I'm heartbroken," one retired Arthur Andersen accountant, Albert Pollans, told a reporter. "We were the best of the best, and we took a great deal of pride in our work."[48]

BY THE EARLY YEARS OF THE TWENTY-FIRST CENTURY, many physicians felt the same distress, as professionals, as accountant Albert Pollans. These doctors labored in large institutions where basic decisions about patient care, decisions they had invested years of their lives to learn how to make, were now made by "bean-counters," financial analysts who had never ever taken a pulse or written out a prescription. Doctors in these institutions felt pressured and second-guessed, at every turn. They could be berated if they lingered with individual patients, scolded if they didn't empty out hospital beds rapidly enough. In short, they felt they could no longer practice as they saw professionally fit.

This humiliation would be, for doctors, an exceptionally bitter pill to swallow. No professionals in the entire United States, perhaps the entire world, had worked harder, or more successfully, to control the practice of their profession. American doctors, by the mid twentieth century, had achieved near total autonomy. Doctors themselves essentially determined how physicians were trained, how they were judged, even how they were paid. And lay Americans accepted these arrangements. They trusted doctors and valued their expertise. Politicians, for their part, feared doctors' collective clout. On medical matters, they largely let doctors, as a profession, determine public policy.

That, for American society overall, would prove to be a mistake. Doctors practice a profession that directly and regularly impacts everyone. In any modern society, as a consequence, everyone holds a vital, personal stake in basic decisions about medical care. No society should default this responsibility to doctors, or any one group.

Outside the United States, industrial nations have generally listened to doctors on matters of public policy, but not defaulted to them. Over time, these nations have all created health care systems that guarantee their citizens access to affordable medical care, usually through some form of national health care coverage. In the United States, by contrast, no national health coverage system would ever take hold. The United States, instead, would offer only Medicare and Medicaid, one program for the elderly, one for the poor. These two programs, both created in the 1960s, would not guarantee all Americans affordable health care. But they did guarantee doctors a wider paying clientele.

America's doctors, before Medicare and Medicaid, had practiced in an environment where some patients could afford to pay for services rendered and others, most notably the elderly and the poor, could not. In this America, a great deal of medical work either went uncompensated or compensated at less than the going rate. Medicare and Medicaid would modify these medical fee realities. Doctors would now be guaranteed, via tax dollars, "payments from millions of patients who previously were unable to afford the cost of their care."[49] These guarantees gushed new revenues into medicine — and gave doctors a powerful incentive to see as many patients, and perform as many procedures, as possible. The more "care" doctors could provide, the more they could earn.

In earlier ages, similar economic temptations had led to shockingly unprofessional medical messes. In the 1700s, for instance, authorities at the English Royal Hospital at St. Bartholomew famously decided to pay surgeons by the limb. The more limbs they amputated, the higher their total fees. This new pay-for-performance approach to compensation would not long endure. After a significant leap in the number of London limbless, hospital authorities changed course and required their suddenly saw-happy surgeons to obtain advance approval before moving ahead with any amputation.[50]

By the 1970s, American surgeons were no longer doing much amputating. But they did seem eager, especially after Medicare and Medicaid, to cut into patients at the slightest provocation. By the mid 1970s, researchers had begun keeping statistics on unnecessary operations. By the mid 1980s, an extensive academic literature was demonstrating "that perhaps 10 to 30 percent of diagnostic tests, procedures, and hospital admissions are unnecessary."[51] These procedures, necessary and unnecessary alike, were paying off handsomely. Top medical specialists could command, by the 1990s, $500,000 a year and more — and that for just performing three operations a week.[52]

Such stunning rewards would, not surprisingly, help swell the number of medical specialists in the United States. Why become a general practitioner when specialty practice could be so much more lucrative? Doctors in the United States, by the late 1980s, accounted for about the same percentage of the overall population as doctors in Canada. But specialists in the United States would make up a far greater percentage of the physician population. In Canada, 52 percent of doctors would engage in primary care general practice. In the United States, only 33 percent.[53]

American doctors who couldn't become famed specialists could still find fortune — by investing in clinical laboratories and other ancillary medical services, then referring their patients to these facilities. "Self-referrals," by the 1990s, had become a national scandal. A quarter of the nation's independent clinical labs, federal investigators found, "were owned at least in part by physicians who made referrals of items or services to them."[54] Florida doctors with an ownership interest in radiation therapy units, one federal investigation found, were referring patients to radiation at a rate 50 percent higher than the national radiation referral average — and their patients were paying, for therapy, over 40 percent more than average radiation patients elsewhere.[55]

"Not infrequently, when we find cases of abnormally high and questionable utilization," a top official in the Health and Human Services Department's Inspector General Office would later tell Congress, "there is a financial reward at work."[56]

Not all physicians, of course, were chasing recklessly after financial rewards, but enough were to keep incomes of physicians increasing far faster than the incomes of their patients. In 1973, private practice physicians earned four times the U.S. median income. Two decades later, in 1994, physicians averaged over eight times the national median.[57]

An angry public would lash back. Society had granted doctors autonomy. Doctors, the public felt, had abused it. Society, in moves big and small, would now start taking that autonomy away, telling doctors what they could and could not do. In 1989 and 1993, Congress would go after "self-referrals," enacting legislation that prohibited Medicare payments for lab services when the physician who ordered the services had a "financial relationship" with the lab.[58] The entities footing the bill for most of American health care, the federal government and large employers, also began implementing programs that subjected doctors to "case-by-case assessments" of the care they were providing.[59] These "utilization management" programs infuriated physicians. Case-by-case reviews, they charged, were squeezing professional judgment out of the practice of medicine.

"Conscious of being watched," noted Dr. George Dunea, a physician at Chicago's Cook County Hospital, "many doctors are beginning to practice an undesirable brand of defensive medicine, ordering tests with an eye on the reviewers, admitting or discharging patients merely because the criteria say so, calling in consultants to cover all bases."

All this, Dr. Dunea added, went totally against the grain of what the professional practice of medicine ought to be about.

"How can medicine be practiced by the book," he lamented, "when each new day calls for intuitive decisions, short cuts, compromises, strategies designed for this patient only and nobody else?"[60]

Physicians would soon face even greater pressures on their professionalism — from for-profit corporate medical empires. Medicine had become so intensely lucrative, by the 1980s, that entrepreneurs suddenly saw no reason to leave health to the nonprofits that had traditionally operated America's hospitals. These entrepreneurs quickly started buying up and privatizing community hospitals. Then, to shake profits out of hospitals that had always functioned on a nonprofit basis, the new investor-owned chains began standardizing medical care. What they couldn't standardize, they eliminated.

This standardizing and squeezing would work wonders for the bottom lines of the new health care corporate empires. Their imperial CEOs would be suitably rewarded. In 1994, the top executive at U.S. Healthcare, Leonard Abramson, would sit on a personal stash of company stock worth over $784 million.[61] Fortunes this imposing could often only be maintained via outright fraud. Columbia/HCA chief executive Richard Scott would resign in 1997 amid a massive federal probe into kickbacks and overbilling. By that time, he had accumulated $338 million worth of Columbia/HCA shares.[62]

Major employers did not smile upon all this health care profiteering. Their health care costs were spiraling totally out of control. They demanded relief. Health maintenance organizations — HMOs — promised to deliver it. HMOs rejected the traditional fee-for-service model of medical care in the United States. They charged large employers fixed lump sums for each employee. In return, they guaranteed employees all the care they needed. This approach to financing health care, HMO enthusiasts proclaimed, would give medical professionals an incentive to keep people well. The healthier people became, the fewer health services they would require, the lower overall medical spending.

The theory sounded fine. But, in an unequal America, the theory would not work. In America's traditional fee-for-service system, *unnecessary* services proliferated. Under HMOs, *necessary* services would simply not be performed. Big money for HMO kingpins, in a "managed care" environment, could only be made if expenditures for health care services were kept down as low as possible. And they would be kept down — by pressuring doctors to practice by the book and avoid any and all "intuitive decisions."

HMO executives, not practicing doctors, would reap the subsequent rewards. Dr. Malik Hasan, the neurologist who ran Health Systems International Inc., would end up Colorado's highest-paid executive in 1995. He took home $20.5 million that year.[63] He made, in effect, more in two days than average doctors could earn in an entire year.

Physicians who actually spent their days with patients noticed, and resented, these sorts of disparities. In 2002, *Medical Economics* magazine asked doctors in general practice if they were sorry they had gone into primary care. An astounding 73 percent said yes.[64]

Patients, one young doctor, Cynthia Howard, told *Medical Economics*, had little patience with her in the new medical marketplace. They would even balk, Dr. Howard explained, if she tried to collect a $10 Medicare copayment.

"You already make a million dollars a year," the patients would tell her, "so why do you need my money?"

Howard, a practitioner in Texas, didn't make a million dollars, or anything close.

"Where else but in medicine in 2002 can you find a job that has no vacation pay or sick time; no retirement benefits or health care coverage; and no certain paycheck?" Howard asked. "No wonder med school admissions are down."

For doctors who just wanted to be doctors, to enjoy the respect of their communities and make a decent living, the profession no longer worked. The concentration of the dollars Americans spend on health care had left a wound that medicine could not heal.

IN A THRIVING, VIBRANT CULTURE, talented young people follow their hearts. They seek out professions that catch their imaginations. Some choose to teach. Some become chemists. Some nurse. Some preach. Some raise cut flowers. Wise cultures encourage young people to choose professions that tickle their fancies. Economies only develop to their fullest, these cultures understand, when people are working at trades they enjoy.

In societies that tend toward equality, young people will naturally tend to gravitate to the professions that bring them the most satisfaction. If no one line of work offers *substantially* more compensation than any other, most talented young people will pick as their life's work the profession they find most personally appealing.

Professions themselves, in more equal societies, must always strive to remain appealing or risk watching talented young people go elsewhere. Equality, in effect, gives professions an extra incentive to manage their affairs professionally. Professions that let down their professional guard and fail to discipline misbehavior within their ranks will lose public respect — and the interest of young people who might otherwise have chosen to enter into them. And professions that neglect their responsibility to maintain a pleasant working environment for practitioners will also turn off young people. Only rare birds will willingly devote a career to a tense and distasteful daily grind. More equal societies, in short, keep professions on their toes, anxious to please both public and practitioners.

In less equal societies, the incentives all run in the opposite direction. In societies that tolerate significant gaps in compensation within and between professions, talented young people have a rational reason *not* to follow their hearts. If some lines of work can offer their practitioners five times more, or perhaps even fifty times more, than others, then monetary rewards will eventually dominate young people's career decisions.

Roy Smith made his life's work decision in 1966, right after graduating from the Harvard Business School. Smith chose to go into investment banking. Only one other graduate from his business school class made the same choice, a not particularly surprising statistic. Investment banking, at that time, offered rewards not appreciably higher than any other business field. Smith's starting salary at Goldman Sachs would be a mere $9,500, with no guaranteed bonus.[65]

Three decades later, graduates from top business schools could start an investment banking career at as much as $235,000 a year.[66] And almost all of them seemed to want to do so. Investment banking, once a yawner, had suddenly become a magnet. One investment house, in 1990, received thirty-six thousand applications.[67]

Only a handful of these applicants would, of course, ever manage to get a foot in the door. But investment banking and other professions that offered jackpot earnings would continue to lure America's "most talented young people to pass up careers in engineering, manufacturing, civil service, teaching and other occupations."[68] Societies, economists Robert Frank and Philip Cook argue, suffer mightily when young people are so tempted.

"The economic pie would be larger," the two explain, "if more bright students abandoned their quest to become multimillionaire personal-injury lawyers for the more modest paychecks of electrical engineers."[69]

Individual young people, not just societies, suffer when outsized rewards bias career choices. Those who choose work they don't relish for a paycheck they do can often end up stewing in affluence. And those who choose work that speaks to their hearts, not their wallets, can end up feeling devalued — by a society that rewards other professions at levels far higher than theirs.

No profession in the United States, by century's end, would count in its ranks more of these devalued professionals than education.

Education in America has never paid particularly well. Educators have always earned less than comparably educated professionals in other fields. For years, that didn't much matter to the nation at large. The schools could still attract significant numbers of talented young people, despite poor pay, simply because significant numbers of talented young people — women and people of color — were effectively barred from entering most other careers. American education enjoyed, in effect, a captive talent pool.

The great social struggles of the 1960s and 1970s would topple many of the barriers that kept minorities and women captive. In the new, more socially equal America, schools would now have to compete for talent with other professions. In this competition, they would prove unable to keep up. The gap between educator salaries and compensation in other fields would actually widen. Between 1990 and 2000, the average salary of a veteran New York City teacher would rise seven times slower than the compensation of a partner at a top New York law firm — and four times slower than the average salary of a computer science grad from a top university.[70] In the 1990s, years of low inflation, teaching salaries in New York would not even keep up with the cost of living.[71]

"If you don't have a competitive compensation program, talented people will not give you a second look," the *School Administrator* journal noted in 2001. "In the war for talented employees, organizations outside education seem to be winning all the battles."[72]

In the 1990s, elected leaders and education policy makers desperately searched for "work-arounds" that could somehow offset the impact of widening pay gaps. Early in the decade these policy makers would cheer when one recent Princeton grad suggested a bold new program to place talented young people into teaching. Her new "Teach for America" effort would invite grads from top universities to take two years off their march up the career ladder to teach in an impoverished public school. Those self-sacrificing, idealistic young grads who accepted the offer would then receive six weeks of summertime training to get them ready to enter the classroom and make a difference for kids.

Teach for America, the claim went, would bring into America's most hard-pressed schools the energy and enthusiasm of some of America's most talented young people. In return, the claim continued, these talented young people would receive a priceless, life-enriching experience. They could do good, in Teach for America, and then go on to do well — in some more financially fitting profession.

The claims would not pan out.[73] Many of Teach for America's young people would not stick out their two-year stints. Those who did left their assignments with mixed feelings.

"Did I change my school? No." noted one, who went on to attend Yale Law School. "Did I change the lives of some of my kids? I hope so. Is that enough? I don't know."[74]

Many career teachers, on the other hand, had no mixed feelings whatsoever about Teach for America. They considered the program an insult, plain and simple, to their profession. Few young people of talent, Teach for America assumed, could ever be expected to devote a career to a profession as unappealing as teaching. So schools ought to be grateful, ran the program's unspoken subtext, that at least some talented young ones were willing to give teaching two years of their valuable time, especially since these bright young folks have actually spent six whole weeks learning how to teach.

Most career educators at disadvantaged schools resented that subtext, but they swallowed hard and welcomed unprepared teachers into their schools anyway. What choice did they have? In an unequal America, efforts like Teach for America would be the best that public schools could realistically expect.

GROWING INEQUALITY, IN THE LATE TWENTIETH CENTURY, worked to devalue almost everyone who labored in the public sector, not just educators. Even the most highly rewarded of public sector professionals would end the century feeling distinctly second-class.

A number of these professionals worked at the federal Securities and Exchange Commission. These lawyers and accountants labored nobly to protect investors from stock market scams. They could have chosen careers on Wall Street. They chose public service instead. The Securities and Exchange Commission certainly did have its attractions. SEC service, as one proud staffer noted, offered "opportunities not easily found elsewhere: the chance to work on novel and important issues, the opportunity to collaborate with an unusually nice group of colleagues (especially rare for lawyers!) and, not least, the chance to feel good about what you do for a living."[75]

But these pleasures would be largely canceled out, in the boom years, by the vast pay gap that separated SEC staffers and their counterparts on Wall Street.

"Every day," SEC staffer Martin Kimel would later explain, "my colleagues and I speak with securities lawyers in the private sector who are earning two to three times our salaries (not counting bonuses and stock options)."

These exchanges, not surprisingly, left staffers like Kimel feeling like saps. Many would leave the SEC. And those who gritted their teeth and hung on anyway, because they valued the work they were doing too much to leave, came to be seen as losers. If they actually had anything on the ball, the industry scuttlebutt went, they would be working on Wall Street. Summed up Kimel: "It is as if those of us who stay too long — and I am talking years, not decades — risk being labeled as spoiled milk."[76]

The same pressures would bear down on the nation's judiciary in the 1990s. Over the course of the decade, fifty-four federal judges discarded their judicial robes for greener pastures in the private sector. In the 1960s, years of far smaller pay gaps between public and private service, only three federal judges left the bench to work elsewhere.[77]

"Something is horribly wrong," exclaimed one frustrated federal judge in Florida, Edward Davis, "when my law clerks can leave me, after serving two years, and go to New York and make more money than I made as a judge."[78]

A great deal more. In 1990, the sixty-odd partners at the law firm of Cravath, Swaine & Moore, on average, each earned "more than the nine justices of the U.S. Supreme Court combined."[79]

These sorts of discrepancies, Supreme Court Chief Justice William Rehnquist would argue early in the new century, endanger the very quality of justice in America. Judges needed to be totally independent, not beholden to litigants who might be their future employers. The "large and growing disparity" between public and private sector pay in the legal profession, Rehnquist would entreat, simply "must be decreased if we hope to continue to provide our nation a capable and effective federal judicial system."[80] The nation cannot afford to have a judiciary "limited to the wealthy or the inexperienced."[81]

Rehnquist delivered this lament in 2002 before a blue-ribbon National Commission on the Public Service chaired by Paul Volcker, the former Federal Reserve Board chairman. The panel's hearings actually attracted not just one, but two, Supreme Court justices. The judiciary, Associate Chief Justice Stephen Breyer asked the commission to remember, was by no means "the only sector of the government with problems."

"Salaries do matter," Breyer testified. "If you keep cutting and cutting and cutting, you will find the institutional strength sapped. You will find morale diminished. You will find it harder to attract and keep people."[82]

Breyer's answer: Professional salaries in the public sector needed to be raised. A most reasonable position. But salaries in the public sector, in a nation where compensation at the top of the private sector had leaped to stratospheric heights, could never be raised high enough to compete effectively. The taxpaying public would not stand for it. In a deeply unequal nation, Breyer failed to see, public sector professions would always have to beg for respect — and talent.

Or would they? In a 2001 column, a *Wall Street Journal* commentator, Holman W. Jenkins Jr., argued that great concentrations of wealth actually promote quality public service. The more wealthy families about in the land, Jenkins contended, the bigger the pool of financially secure sons and daughters who can afford to labor in worthwhile but low-paying public service positions. His policy prescription? Keep those fortunes growing and inheritances flowing!

"With sizable inheritances to supplement their earnings," Jenkins noted, "more people from privileged backgrounds might become policemen, teachers, botanists or park rangers without making a big sacrifice."[83]

Trickle-down with a professional face.

MANY MILLIONS OF PROFESSIONALS IN THE UNITED STATES, from scientists to social workers, practice their professions neither in the public sector, for the government, nor in the private sector, for profit-making enterprises. These millions of professionals work in America's nonprofit sector.

Organizations in this nonprofit "independent sector" in some ways mirror their for-profit counterparts. In the nonprofit world, for instance, boards of directors set compensation levels for top executives, just as in the for-profit world. These compensation decisions, over recent years, have become increasingly contentious, again just as in the for-profit world. The reason? With pay rising so rapidly in the executive suites of corporate America, many board members in the independent sector have begun to feel that nonprofits simply must discard their traditionally modest executive pay standards — or risk becoming unable to attract top-flight executive talent. If nonprofits do not significantly increase their upper-most compensation, these board members have argued, they would "become employers of last resort" and find themselves stuck with leadership unable to "juggle multiple tasks and motivate both professionals and volunteers."[84]

These arguments for higher executive pay resonate well on the boards of most big-time nonprofits. Many members of these boards, after all, are themselves corporate executives in the private sector. And these arguments also resonate, naturally, with the executives of big-time nonprofits. These executives are constantly rubbing shoulders with their corporate counterparts, at board meetings, at fundraising galas, on blue-ribbon commissions. They consider their jobs every bit as demanding as executive jobs in the for-profit sector. They feel they deserve comparable rewards.

These rewards would start coming in the late twentieth century. By the mid 1990s, America's most generous private universities were paying their top executives one-half million dollars a year.[85] Foundations, another category of big-time nonprofits, would keep pace.[86] One top foundation executive, the Lilly Endowment's Thomas Lofton, took home $450,000 in 1997 salary, plus another $163,648 in benefits.

"We have to compete," explained one Silicon Valley foundation official, Colburn Wilbur, "to get qualified people."[87]

This competition would soon drive top nonprofit salary packages over the million-dollar mark. The president of the Sloan Kettering Cancer Center would draw $1,077,500 to open the twenty-first century.[88]

The Internal Revenue Service, the nation's arbiter of which organizations qualify for tax-free, nonprofit status and which do not, did not find such paychecks unreasonable. Under IRS regulations, any compensation amount "as would ordinarily be paid for like services by like enterprises under like circumstances" could not be defined as "excessive." With executive compensation at "like enterprises" in the private sector soaring, nonprofits would have no problem justifying their bountiful executive rewards.[89]

But nonprofits would have problems footing the bill for this generosity. Nonprofits, unlike their for-profit counterparts, have no stock jackpots to award. Any generosity they opt to extend to executives has to come out of actual — and limited — budget dollars. Major nonprofits might have enough of these dollars to be able to significantly hike executive pay. Few have the dollars, or the inclination, to raise average employee pay at the same significant rate. The result: widening pay gaps between the executives at top nonprofits and their professional staffs.

These gaps can sometimes tear nonprofit institutions into warring camps. In 1995, at Long Island's Adelphi University, an angry faculty voted 131 to 14 to demand the firing of the college's president, Peter Diamandopoulos. Adelphi's board of trustees had made Diamandopoulos the country's second highest-paid college president — the first, Boston University's John Silber, sat on Adelphi's board — and supplemented his ample $523,636 salary by outfitting him with a $1.2 million apartment in New York City and a $401,000 condo closer to campus in Long Island's Garden City.[90]

Similar pay scandals would erupt throughout the nonprofit world in the 1990s, in organizations ranging from the United Way to the Baptist Church.[91] Each took a heavy organizational toll — and not just on the individual nonprofit in the headlines.

"The whole nonprofit sector suffers for the 'highly publicized' transgressions of a few," the lead association of the nonprofit world, the Independent Sector, would note in a report published in 2000. "The public holds the nonprofit sector to a 'higher standard.'"[92]

Astronomically high salaries for nonprofit executives, Harvard analyst Peter Frumkin would add, erode that "higher standard" in any number of ways. They weaken "a community's confidence in the motives of nonprofit workers." They shake "the confidence of clients." They undermine "the ability of donors to assume a link between the size of their gift and the amount of charitable services delivered."[93]

Without community, client, and donor confidence, nonprofits cannot thrive. Lower levels of confidence translate, inexorably, into lower revenues, into program cutbacks and salary freezes for the professional staffers who do the actual day-by-day work of every major nonprofit. These professionals didn't go into nonprofit work to become rich. But they also didn't expect to work under nonprofit executives who *are* getting rich — or with clients and donors upset by these executive riches. These professionals went into nonprofit work to do good and feel good about the work they are doing. In an America more and more unequal, this work would bring fewer and fewer of these good feelings.

WE TEND TO THINK ABOUT *THE* PROFESSIONS, in our everyday discourse, as medicine and law, as accounting and architecture, as teaching, the ministry, or nursing. We typically, on hearing *profession*, visualize fields of identifiable work with special schools and degrees, specific standards and certificates. But we also use *profession*, informally, to describe almost any body of skilled work. Law enforcement can be a profession, dressmaking a profession, child care a profession. And we recognize, as well, that people in every line of endeavor yearn to be considered — and treated — as professionals in the work they do, for good reason. To be treated as a professional, in our life's work, is to be respected, is to be given the autonomy to make basic decisions that affect our work. To be a professional is to make judgments, not just take orders. To be a professional is to take pride in what we do, to share our expertise, to insist on quality.

Wise societies welcome and nurture professional attitudes. Wise societies want the people who labor within them, all people, to approach their work as professionals. Indeed, the wisest of societies recognize that professionalism knows no collar color, that blue-collar work, or pink-collar work, can be every bit as professional as white-collar effort. In human labor, as the English social critic R. H. Tawney told us more than four score years ago, there is no distinctive difference "between building schools and teaching in them when built, between providing food and providing health."

"The work of making boots or building a house is in itself no more degrading than that of curing the sick or teaching the ignorant," Tawney explained. "It is as necessary and therefore as honorable. It should be at least equally bound by rules which have as their object to maintain the standards of professional service."[94]

A wiser America would, following Tawney, treat all workers as potential professionals.

Some, no doubt, will object to any characterization of all working people as potential professionals. How can workers on an auto assembly line, these skeptics might ask, ever be considered "professionals"? These workers, after all, just turn the same bolt day after day, year after year. They have no body of knowledge to master, no skill to perfect. They just turn bolts. They will never merit, in some people's minds, true professional status.

But these workers, if treated as just bolt-turners, will never perform truly good work either. Indeed, as the effective enterprise literature teaches us, any enterprise that keeps people endlessly engaged in mind-numbing repetitive work will never operate effectively. Effective enterprises don't treat autoworkers as bolt-turners. They treat them as automakers. They encourage them to collaborate with their fellow automakers to come up with new ways to make cars. In an empowered environment, workers do not turn bolts, they craft cars. They can take pride in their work. They can be professionals.

But few workers will ever behave professionally in a plant, in a company, in a nation, where inequality is rising. Few workers will behave professionally in situations where they are expected to be clever so someone else can become disproportionately richer.

Inequality, at every turn, subverts the professional spirit. Every worker, in every workplace, should be a professional. In a more equal world, and only in a more equal world, every worker could be.