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PROFESSOR ROGER BROWN

HIGHER EDUCATION AND ECONOMIC INEQUALITY – VICTIM OR VILLAIN?

Rising income inequality creates economic, social and political challenges. It can stifle upward social mobility, making it harder for talented and hard-working people to get the rewards they deserve. Intergenerational earnings mobility is low in countries such as Italy, the United Kingdom and the United States, and much higher in the Nordic countries, where income is distributed more evenly (OECD, 2008). The resulting inequality of opportunity will inevitably impact economic performance as a whole, even if the relationship is not straightforward. Inequality also raises political challenges because it breeds social resentment and generates political instability. It can also fuel populist, protectionist and anti-globalisation sentiments. People will no longer support open trade and free markets if they feel that they are losing out while a small group of winners is getting richer and richer. (OECD, 2011, p. 40).

Introduction

Like Julius Caesar's Gaul, this lecture will be in three parts.

In Part 1, the longest part, I shall be discussing the general issue of rising within-country economic inequality in the West. I shall be asking:

1. What do we know about rising economic inequality?
2. What do we understand about its impacts?
3. What do we think are the causes?
4. What should we be doing about it?

In Part 2, I want to look at the part played by higher education in all this. I shall be trying to show that higher education reflects the problem, and contributes to it, but could also be part of the solution.

In Part 3, the final part, I should like to pay a short tribute to the University with which I have been very agreeably associated, in various guises, for the past six years.

Let us start by exploring the general issue of increasing within-country economic inequality.

What do we know about rising economic inequality?

In general, the definition of inequality that I am using here is an economic one, to refer to significant variances in the distribution of income and wealth. These are often linked to other differences, such as gender, ethnic group, disability, location, etc. The issue is not the existence of inequality of economic resources – hardly anyone argues that everyone should be completely equal – but the extent of such inequality, and whether this can be justified, for example by the relative contributions that different groups make to society. What we are talking about in fact is a severe and increasing imbalance between the contributions that various groups and individuals are making to society, on the one hand, and the benefits they derive from it, on the other.

The commonest measure of economic inequality is the Gini coefficient (named after an Italian statistician, Corrado Gini). This measures inequality across the whole of a society (rather than simply comparing different income groups). If all of the income in a society went to a single person, and everyone else got nothing, the Gini coefficient would be 1. If it was shared equally, and everyone got exactly the same, the Gini would be 0. The lower the Gini value, the more equal a society. **Table 1** shows changes in the values of the OECD member countries' Gini coefficients between the mid-1980s and the late 2000s. As can be seen, individual countries' values range from .48 (Mexico) to .25 (Denmark). The great majority of countries have seen rises over the period, although these have been most marked amongst the Anglophone countries: the US and the UK are amongst the highest 'scorers'.[1]

In both the US and the UK there have been particularly large increases in the shares of total income being taken by the very top incomes: the top 1 per cent and, even more, the top 0.1 per cent. **Tables 2a** and **2b** set this out**.** In the UK, the share of income taken by the top 1 per cent rose from 5.93 per cent in 1977 to10.36 per cent in 1993 and 12.70 in 2012; the US percentages at the same dates were 7.9, 12.82 and 18.88. For the top 0.1 per cent, the share in the UK rose from 1.27 per cent in 1977 to 3.09 per cent in 1993 and 4.6 per cent in 2012; the US percentages were 2.04, 4.72 and 8.36. These changes matter because they are likely to affect the entire income distribution. In particular, an increased income share to top earners will increase overall inequality, at least in terms of income before taxes (the source is the Top Incomes Database http://topincomes.g-mond.parisschoolofeconomics.eu/#Database). The recent surge in top incomes, especially labour incomes, is also a major cause of the increased concentration of wealth in the US which is the counterpart to increased income inequality.

The impacts of inequality

Inequality is not necessarily bad in itself, the key question is to decide whether it is justified, whether there are reasons for it (Piketty, 2014, p. 19)

The literature refers to five main sets of impacts:

1. Social
2. Educational
3. Environmental
4. Political
5. Economic

Let's review them briefly. There is also, of course, a moral dimension. The greater the amount of inequality, the harder it is to achieve equality of opportunity, the ability to achieve something through your own ambition and efforts (Barry, 2005).

One influential survey of the **social** effects of increased inequality is that of Wilkinson and Pickett (2009). They identified associations between within-country inequality and a wide range of social problems: levels of trust (essential not only for social cohesion but also for efficient market transactions), mental illness (including drug and alcohol addiction), life expectancy and infant mortality, obesity, children's educational performance, teenage births, homicides, imprisonment rates, and (last but by no means least) intergenerational social mobility. **Table 3** shows the association between changes in inequality and changes in social mobility. Wilkinson and Pickett combined all the health and social problem data for each major developed country and each US state to make an Index of Health and Social Problems. They found that for each dataset (i.e., country and state) a higher score on the Index was strongly related to income inequality (but weakly related to average incomes). The UNICEF index of child wellbeing in rich countries was also related to income inequality (Wilkinson and Pickett, 2009, pp. 19-26).

Turning to **education:**

One major systemic failing in the UK education system is the 'long tail' of poorly performing schools and pupils compared with other countries, particularly at the secondary level. A significant part of the explanation for this is the stubborn link between pupils' socio-economic background and their educational attainment. For example, a fifth of children in England on free school meals (a common measure of disadvantage) do not reach the expected maths level at age 7 (Key Stage 1) and this proportion rises to a third by age 11 (Key Stage 2). The correlation between disadvantage and poor academic attainment is particularly strong in the UK. (Aghion et al., 2013, pp. 16-17).

It seems clear that as income inequality rises, there is a greater disparity in the resources that rich and poor families are able to invest in their children's education. There is indeed ample evidence of the association between family poverty and educational attainment, what has been termed the 'attainment gap' or the 'achievement gap'(e.g., Clifton and Cook, 2013). Moreover, this association becomes clear even before children start school (for example, Government Equalities Office, 2010; Crawford et al., 2014; Fair Education Alliance, 2014). So increasing economic inequality almost inevitably means a growing difference in the educational experiences and achievements of students from different socio-economic backgrounds.

In a more recent report for the Fabian Society, Wilkinson and Pickett (2014) argue that reducing inequality is also necessary for **environmental sustainability**. The main barrier to such sustainability, and especially to reducing carbon emissions, is consumerism (not only found in the West of course). This in turn is created or exacerbated by the increased status anxieties and status competition that are some of the main concomitants of increased inequality. The authors also make the point that, in general, more equal societies have a much better record on development aid and recycling; indeed, lowering within-country inequality in rich countries will help to improve understanding of poorer countries, which may in turn lead to less between-country inequality as well.

Now as to **politics**:

It is the next big scandal waiting to happen. It's an issue that crosses party lines and has tainted our politics for too long, an issue that exposes the far-too-cosy relationship between politics, government, business and money. (David Cameron, then Leader of the Opposition, quoted in the *Telegraph,* 8 February 2010).

A number of authors (e.g., Stiglitz, 2013) point to the way in which big money donations to the two main American political parties are turning the US into a plutocracy rather than a democracy. The Prime Minister's former special adviser Steve Hilton has recently issued a similar warning about party funding here (Shipman, 2015).

So it seems clear that rising inequality has a wide range of negative impacts on our society. Historically, these detriments have been justified, or at least defended, on the basis that they are the price we have to pay for **economic efficiency and growth**. To quote the current Mayor of London:

Some measure of inequality is essential for the spirit of envy and keeping up with the Joneses that is, like greed, a valuable spur to economic activity. (Johnson, 2013).

However, recent work by economists at the OECD (Cingano, 2014) and the IMF (Ostry et al., 2014) finds that income inequality is actually harmful to economic growth, and this has been endorsed by the main organisations.

The OECD has produced several major studies of inequality (2008, 2011, 2015a). According to its latest survey, had inequality not changed between 1985 and 2005, the average OECD country would have grown by nearly 33 per cent (OECD, 2015a, p. 67). One of the main ways in which this occurs is through raising the relative cost of education of an increasing fraction of families in the bottom half of the income distribution: note again, not just the bottom ten per cent, this is not simply about poverty.

The analysis looks at three sets of indicators:

1. The quantity of human capital accumulated by the individual, including the probability of attaining tertiary education, and the number of completed years of formal education.
2. Skill proficiency, capturing cognitive ability and therefore also accounting for the quality of the education completed.
3. Probability of employment.

To quote:

The results of all three approaches indicate that widening income disparities lowers the outcomes of individuals from low socio-economic backgrounds, but does not affect those of individuals from medium and high backgrounds...the results strongly support the idea that higher inequality lowers opportunities for education (and social mobility) for disadvantaged individuals in the society, an effect that dominates the potentially positive impacts [on economic growth] *through incentives*. (OECD, 2015a, p. 74).

The latest IMF analysis examines how individuals' income shares at various points in the distribution matter for growth. A higher net Gini coefficient – a measure of inequality that nets out taxes and transfers, i.e., disposable income – is associated with lower output growth over the medium term.

More importantly, we find an inverse relationship between the income share accruing to the rich (top 20 per cent) and economic growth. If the income share of the top 20 percent increases by 1 percentage point, GDP growth is actually 0.8 percentage point ***lower*** *in the following five years, suggesting that the benefits do not trickle down. Instead, a similar increase in the income share of the bottom 20 percent (the poor) is associated with 0.38 percentage point* ***higher*** *growth. This positive relationship between disposable income shares and higher growth continues to hold for the second and third quintiles (the middle class).*(Dabla-Norris et al., 2015, pp. 6-7; original authors' emphases. See also, Lagarde, 2015).

What is perhaps of particular interest in the present context is or are the means through which rising inequality reduces growth:

1. It deprives the ability of lower-income households to stay healthy and accumulate physical and human capital, for example by investing in education or training .
2. It dampens investment by fuelling economic, financial and political instability.
3. It can lead to a backlash against market-based policies to promote growth.
4. It hampers poverty reduction (Dabla-Norris et al., 2015, pp. 8-9).

In other words, policies that limit or reverse the long rise in inequality would not only make societies less unfair, but they would also make them richer. When you bear in mind the fact that both the OECD and the IMF have long been cheerleaders for free markets and deregulation, this is quite a policy turnaround. But what should those policies be?[2]

The causes of rising inequality

Clearly, the policies you choose to tackle inequality will be determined by what you think the causes of rising inequality are. And here there is little agreement. In the literature I have been reading over the past year or so, I have found at least seven competing theories:

1. Rising inequality is due to globalisation, not only the increased mobility of jobs and labour but also of goods, knowledge and capital.
2. It is due to technological changes that put a premium on the skills needed for non-routine tasks and reduce the value placed on low skill, routine tasks: what has been termed 'skill-biased technological change'.
3. It is due to the rise of 'winner-take-all markets', where small differences in performance translate into large differences in economic reward.
4. Inequality is an inherent property of capitalism, and in particular its relentless drive to extend production and cut costs through technological innovation, something only kept in check when capital is destroyed by, typically, war and its attendant policies.
5. Inequality is the result of the Neoliberal policies of privatisation, deregulation, welfare cutbacks and tax reductions pursued especially in the larger Anglophone countries since the early 1980s, and for long espoused by such influential international organisations as the IMF, the World Bank and the OECD. An important part of this set of reforms was the weakening of the trades unions and other social institutions and norms that may have kept inequality in check.
6. It is the result of the increasingly important role played by the financial sector in most Western countries: what is called 'financialisation', together with increased rent seeking by companies and wealthy individuals.
7. It reflects changes in macroeconomic policy and international financial governance.

Let us unpack these a bit.

Globalisation

Richard Freeman (2006) estimated that the global labour pool doubled in the early 1990s following the fall of communism, China's move towards market capitalism, and India's decision to undertake market reforms and enter the global trading system. However the world's capital stock did not increase to the same extent. This meant that the ratio of capital to labour fell, shifting the global balance of power towards capitalism and away from labour. This has had three main impacts on the well-being of workers in the US and other advanced countries. First, it created downward pressures on the employment and earnings of less skilled workers. Second, where developing countries are becoming competitive in technologically advanced industries - as China is in nanotechnology, for instance - it reduces the advanced countries' comparative advantage, and may mean that displaced workers have to shift to less desirable sectors. Third, the development of computers and the web enhances the ability of firms to move work to low-cost operations abroad. In a further paper, Freeman emphasised that trade is only part of the story, and that international capital flows, immigration and technology transfer - all of which increased substantially after 1970 – also affect incomes around the world, in most cases in the same direction as trade. But whilst within-country inequalities were increasing, between-country differentials are diminishing:

Inequality measured in relative terms decreased in the era of rapid globalization due to the improved economic performance of developing countries, notably India and China, who together make up one third of the world's population. (Freeman, 2009, p. 589).

Skill-biased technological change

The view that changes in technology are the main cause of increased inequality goes back many years (Bound and Johnson, 1989). A recent statement of the case is *The Second Machine Age: Work, Progress and Prosperity in a Time of Brilliant Technologies* (Brynjolfsson and McAfee, 2014). The authors argue that a second machine age – through digital hardware, software and networks – is doing for brains what the steam engine did for production in the Industrial Revolution (the first machine age). As a result, we now have real, useful Artificial Intelligence and connections through common digital networks. This has come in parallel with increased investment in 'organisational capital' – investments in training, hiring and business process redesign - to eliminate more routine tasks, including routine cognitive tasks. Together, these changes are 'exponential, digital and combinatorial' in character.

There are clear benefits in productivity, in an increased 'consumer surplus', and in the quality and range of goods and services available. But there is also a downside: less demand for less skilled workers, leading to a 'polarisation' of the labour market between 'lovely' and 'lousy' jobs (Goos and Manning, 2003; Autor et al., 2006); the substitution of technological capital for workers (increasing the profits of the owners of capital and reducing the share of income going to labour); and an increasing gap between the 'superstars' in each field and the rest. This takes us to the next theory, 'winner-take-all markets'.

Winner-take-all markets

In the preface to the revised and updated edition of their 1995 book *The Winner-Take-All-Society: Why the Few at the Top Get So Much More Than the Rest of Us,* Robert Frank and Philip Cook (2010) continue to argue that the main cause of rising income inequality, at least towards the top of the earnings distribution, is the emergence and intensification of 'winner-take-all markets'. These are markets where small differences in performance, often assisted by luck, can lead to large differences in economic reward, together with a concentration of such rewards in the hands of a few top performers. Previously confined to sectors like entertainment, sports and the arts, these are now ubiquitous across the professions (see also, Rosen, 1981).

The main causes are (a) the expansion and intensification of competition, including through globalisation, the lowering of trade barriers, deregulation, and reductions in transport costs, and (b) the information revolution that has transformed our ability to collect, process and transmit information, including information about performance. Another important contributor to winner-take-all markets is the tendency to value many goods not just according to their absolute properties but to how they compare with those acquired and consumed by others: 'status' or 'positional' goods (Hirsch, 1976). As prosperity grows, such goods assume greater importance. However:

By its very nature, the demand for top rank can be satisfied by only a limited number of products in any category. And this, together with the fact that people are often willing to pay substantial premiums for top-ranked products, often gives rise to intense winner-take-all competitions between the aspiring suppliers of those products. (Frank and Cook, 2010, p. 41; see also, Frank, 1985, Chapter 2).

We shall see later that this theory is of particular relevance to higher education.

The nature of capitalism

Thomas Piketty must wait in the wings no longer. His 2014 book *Capital in the Twenty First Century* has been a best seller. It is indeed a 'must read' for anyone with a serious interest in the relationship between capitalist economies and the distribution of income and wealth.

Using tax records, Piketty argues that, historically, capital – traditionally, land and buildings; more recently, financial and business capital in addition to physical property – has always dominated income. This is because the return on capital - by definition, wealth accumulated in the past – usually exceeds the growth rate of the economy. Because the ownership of capital is always less widely distributed than labour income, this leads inevitably to greater and greater concentrations of wealth. The only period when this was **not** the case was between the first decade of the twentieth century and about 1950. Since then, the longer term relationship, where the ratio of the total capital stock to a year's national income was six or seven to one in Europe (somewhat lower in the US), has reasserted itself, albeit to somewhat lower levels because of the ability of what Piketty calls the 'patrimonial middle class' after 1945 to begin to share some of the rewards of capital:

The entrepreneur inevitably tends to become a rentier, more and more dominant over those who own nothing but their labour. Once constituted, capital reproduces itself faster than output increases. The past devours the future. (Piketty, 2014a, p. 571).

The main reasons for the twentieth century weakening in the dominance of capital were the two world wars that both destroyed capital and necessitated policies to control capital: rent controls, more stringent financial regulation, and the taxation of dividends and profits, as well as higher rates of progressive taxation. The loss of capital overseas (Britain and France) was another factor, together with the many bankruptcies that accompanied the Great Depression. Only through a combination of (much) higher economic growth and a depression of the returns to capital, ideally through some sort of global wealth tax applied steadily over time, as well as much higher rates of income tax, can we begin to unwind the position.

Neoliberal reforms

Each of the explanations considered so far has pointed to underlying features of the economy and society that go wider and deeper than any individual country or set of social or political arrangements: they are what have been characterised as **'market-based'** theories (Piketty et al., 2011). By contrast, the next theory takes us into **institution-based** accounts that emphasise the choices made by particular polities at particular times, and especially the Neoliberal policies pursued by governments in the major Anglophone countries since the early 1980s, and also espoused, at least until very recently, by major international organisations such as the OECD, the IMF and the World Bank: the so called 'Washington Consensus'. Under these policies, freer markets, smaller government and lower taxes have replaced full employment, progressive taxation and inclusive welfare as state priorities. Together, the resultant squeeze on wages, the boost to corporate profits, and booming fortunes at the top have upset the equilibrium needed for economic stability. Increased debt (both public and private) has been the inevitable response, alongside huge and mobile financial surpluses (corporate and personal) that are also a consequence of increased inequality (Lansley, 2011).

On this view, labour market deregulation weakened the trades unions and the share of wages in the economy. There was a fundamental shift in macroeconomic policy from reducing unemployment to preventing inflation - something that can still be seen in the Bank of England's and the City's attitude to interest rates - together with an attempt to restructure the economy around services, and especially financial services. The outcomes were higher unemployment (in spite of the assumed trade-off between wage levels and employment); a shift from manufacturing to finance ('de-industrialisation'); and a polarisation of the labour market, with a growth in high- and low-skilled jobs at the expense of the middle. Whilst the richest have pulled away, the rest of society has become increasingly bunched in the bottom half of the income distribution, with increased downward occupational and social mobility, what one American commentator described as a rowing boat chasing a speedboat (in Bartels?).

Financialisation

It seems to be generally accepted that, together, globalisation and rising productivity through technological innovation have contributed to major structural shifts in the main Western economies, away from manufacturing to services, and especially financial services: 'financialisation'. One authoritative estimate (Haldane et al., 2010) is that in the UK, financial intermediation accounted for more than 8 per cent of GVA – Gross Valued Added or the value of the gross output of a sector or industry less the value of intermediate consumption (goods and services used in production) – in 2007, compared with only 5 per cent in 1970; in the US it quadrupled from 2 per cent of total GDP in the 1950s to about 8 per cent today. The financial sector's share of profits - gross operating surpluses - is even higher (one commonly quoted estimate is 40 per cent of corporate profits). Peet (2011, p. 392) estimated that US financial corporate profits exceeded manufacturing companies' profits every year since 1999 apart from 2008. According to Kotkin (2015) whereas in 1995 the assets of the six largest bank holding companies accounted for 15 per cent of US GDP, by 2011 this share had risen to 64 per cent (aided of course by the massive bailouts of the biggest banks after 2008). In the UK, because of the scale of the bailout, the banks' balance sheets are five times GDP (Wolf, 2015). Financialisation has contributed to rising inequality in various ways, in particular by being largely responsible for the huge increases in income and wealth at the top of the income distribution that we noted earlier. This in turn reflects not only the growing scale of finance but also its monopoly rents.[3]

Macroeconomic policy

Finally, a number of writers, notably Jamie Galbraith, emphasise changes in macroeconomic policy, including changes in world financial governance:

Up until 1973, the world lived under the globally stabilizing financial order of the Bretton Woods system, created in 1944 to provide a framework within which countries could pursue reconstruction and development, with short-term financial assistance from the IMF and long-term development aid from the World Bank. Capital movements between countries were generally controlled, and international commercial banking played a minor role in global finance. This system began to break down when Richard Nixon ceased to exchange dollars for gold in central bank settlements in 1971, and it fell apart altogether in 1973.

This in turn points to the need for some degree of international consensus and action if rising inequality is to be checked.

Causes – Conclusions

By now your brains are probably hurting! My provisional conclusion – and my bibliography is now well over 8,000 words – is that whilst there is no single cause, and although wider phenomena such as globalisation and technological change have certainly played their parts, the key to the problem of rising inequality lies in the nexus between capitalism, Neoliberalism (especially, deregulation), and financialisation, with the market-based approaches that have been adopted in many economies since the 1980s uncovering the - possibly inherent - concentrationist tendencies within capitalism, and giving a stimulus to, or facilitating, financialisation and winner-take-all markets (as well, ironically, as various forms of rent seeking). It is this interrelationship that links, or is the common factor between, the two main components of inequality: the disproportionate rises at the top and the weakening of the bottom 40 per cent. The deflationary macroeconomic policies associated with these reforms may have reinforced these effects, as may an associated concentration of political power, at least in the US and, to a lesser extent so far, Britain.

My main reason for reaching this conclusion is that whilst all the major Western countries have faced similar challenges from globalisation, technological change, etc, it is the economies where the Neoliberal reforms have gone furthest – and especially the US and the UK – that have the highest levels of inequality, at least amongst the more prosperous states (those with the highest per capita GDP). This is supported by what has been happening in some of the Nordic countries. As you will have seen from Table 1, although the overall levels of inequality here are still quite moderate, Finland and Sweden have seen some of the greatest increases. As a recently published and very valuable set of country case studies (Nolan et al., 2014) makes clear, these increases have been largely due to the Neoliberal reforms introduced in both countries in the late 90s/early 2000s, such as a dual tax system where capital income is taxed more lightly than labour income as well as cutbacks in welfare and a less aggressive approach to redistribution.

So what should we do about it (rising inequality)?

In the time available I can only summarise my reform programme:

- More **information and greater transparency** would increase awareness of the extent and impact of greater inequality, and would prompt a better-informed discussion and debate about possible responses. Just as with child poverty, it should be a national policy objective to reduce economic inequality and the Government should report annually to Parliament on the progress made. Incidentally, neither the Conservative election manifesto nor the subsequent Queen's Speech mentions the word 'inequality'.
- Reducing **tax avoidance and rent seeking** would reduce inequality since almost by definition it is mainly the wealthy and the better off who benefit from these activities. It would also increase the resources available for the social expenditure that is needed to reduce or limit inequality and its effects.
- All **exemptions and tax reliefs that disproportionately favour the better off** should be withdrawn. Increasing marginal income tax rates and introducing heavier taxes on wealth, preferably through a recurrent tax on increases in the value of immovable property, would also have a positive effect on inequality, as would a shift from indirect to direct taxes. All this should and can be done without any serious damage to economic growth, motivation or innovation.

- A **basic, fixed minimum income** would reduce inequality and poverty, but by being linked to a proper contribution to society through work in the market and/or public service - it would also contribute to greater social cohesion.
- More use of **active labour market programmes and reforms to labour market institutions**, if carefully done, will reduce pre-distribution inequalities by creating a better and fairer balance between labour and capital.
- A **stronger state role in monitoring and regulating product and service markets** would also help to ensure a better balance between capital and labour factors, which would again assist with equality. But action will also need to be taken internationally to balance the responsibilities of debtor and creditor nations.
- Similarly, **reforms to corporate governance and incentives to align executives' decisions and remuneration with companies' long term interests** will reduce inequality towards the top of the income distribution, though they will need to be accompanied by tighter regulation of the financial markets if they are to be fully effective.
- **State funding of the political parties**, alongside subscriptions from individual members, as well as strict overall limits on campaign spending, would help to reduce inequality by limiting the extent to which the very wealthy can determine policies that create or facilitate greater inequality.
- Adopting **macroeconomic policies that focus on wage and employment growth**, as well as investment and productivity (rather than inflation and the public share in GDP) will create sustainable economic growth, as well as reducing the relative importance of capital that is a major contributor to inequality.
- Although existing educational inequalities are largely a reflection of wider economic and social disparities, policies can be adopted that reduce these disparities still further, the main ones being to **limit and reduce private funding of schooling and end or reduce all forms of segregation in primary and secondary education.**

So where does all this leave higher education?

Higher education

A University is the high protecting power of all knowledge and science, of fact and principle, of inquiry and discovery, of experiment and speculation; it maps out the territory of the intellect, and sees that...there is neither encroachment nor surrender on any side. (Cardinal Newman, *The Idea of a University*, 1947, p.129, quoted in Wernick, 1991, p. 154).

Membership of the Russell Group is a brand asset...so it is well worth the cost of joining. (Exeter University spokesman in response to a report in *Times Higher Education* that Exeter and the three other new members of the Russell Group in 2012 had each agreed to pay £500,000 for their membership over the first five years).

In the second part of this lecture I want to argue that:

1. Higher education - at least as it has developed in countries like Britain, America, and Australia - exemplifies much of the rising inequality about which I have been talking.

2. Current policies on higher education will exacerbate these trends.

3. But higher education could also be one of the means of combating them.

As Robert Frank pointed out as long ago as 1999, higher education is an excellent example of a winner-take-all market as previously defined. Indeed it can hardly be a coincidence that the increased stratification of higher education has proceeded in parallel with the economic stratification that has been the main topic of this lecture, and for many of the same reasons.

Now when people write about the functions of universities they usually refer to student education, academic research and scholarship, and services to third parties (variously called 'service', 'engagement', 'knowledge transfer', etc.). But universities also allocate status through the granting of credentials: this could even be described as the 'fourth function' of higher education: it is mainly done through student programmes and awards, but research plays an important role in generating the knowledge on which such credentialling is based.

Randall Collins (2002) described the enormous expansion of credentials that has taken place in American higher education, with students proceeding to higher and higher levels of education, so that a Masters degree today is 'worth' what a Baccalaureate degree was yesterday. Similarly, Wesley Shumar (1997) pointed out that whereas previously a PhD might have been sufficient qualification for an academic post, what is now needed is a PhD with publications.

In principle, it would be possible to restrict the numbers being credentialled at each level, but in practice this is difficult.

Our current period of credential inflation has gone along with several other kinds of inflation: Grade inflation, admissions inflation (students multiplying the number of schools to which they apply), recommendation inflation (as increasingly glowing rhetoric is used to install the merits of students and job candidates), CV inflation (as academic job candidates add more and more details to their official accomplishments). Our prevailing cultural ethos is for teachers to treat students sympathetically, to try to get them through what they recognise as a competitive grind. The ethos of democracy and equality fits with the structure of self-reinforcing inflation, and of course the students are paying handsomely for the privilege. The alternative of dealing with massive competition by raising standards is much more difficult in these circumstances (Collins, 2002, p. 38).

Competition for status – positional competition – may be unavoidable as increased economic activity leads to crowding and redundancy. It becomes socially significant when it takes place in an economic context: when the market becomes the medium for such competition through variable tuition fees and student aid, institutional competition for both public and private funding, the introduction of 'for profit' providers, and officially sponsored (or condoned) performance indicators and rankings.

Given (a) the difficulties in making valid and reliable comparisons of educational quality (Brown, 2007), and (b) the market and political power wielded by the top ranked institutions and the constituencies they serve (who of course include many in influential positions in government, the professions and the media), one seemingly inevitable corollary of marketisation is greater stratification as the elite institutions seek to differentiate themselves as 'world-class'. However:

At the bottom end of the market, the workings of status competition are different. Institutions must compete hard to attract students to fill their places and secure revenues: and their success is always provisional and contestable but these institutions do not receive full recognition of the quality of good programmes. In a status market, their attempts to improve the quality of their teaching are over-determined by their low status. Meanwhile, intermediate institutions, combining scarce high-value spaces with low-value access places, find it difficult to move up the ladder because of limits to the number of high-prestige producers (Marginson, 2004b: 190).

Incidentally, the Vice Chancellor of Exeter, Sir Steve Smith, recently set out in the *Times Higher* his concern that spending cuts and immigration policies could lead to an economic differentiation of the sector (Havergal, 2015). However I'm not aware of any attempt by Sir Steve, a former President of UniversitiesUK, or the Russell Group, to propose any policies to change the existing distribution of funds where the best-funded institution has more than two-and-a-half the funding for each full-time equivalent student of the least well funded, and where well over half the sector's assets are owned by the enlarged Russell Group.

As Dianne Reay and colleagues wrote in 2005:

Marketing and advertising of colleges threaten to produce a system of highly prestigious sought-after institutions in high demand, a second layer of less illustrious institutions doing their best to imagine themselves illustrious, and a huge number of institutions using all the marketing techniques they can get their hands on to sell their product to a consuming public (Reay et al., 2005, p. 140).

This competitive advantage ultimately boils down to a new version of the 'Three Rs': resources (especially income from endowments and donations), reputation and research. The argument was well summarised some years ago by Gordon Winston:

Competition at the top is heavily positional...the bottom line for any school is its access to the donative wealth that buys quality and position. Several authors have described the conflict between individual and social rationality and the wasteful dynamics of positional markets. Essentially, the notion is that the players become trapped in a sort of upward spiral, an arms race, seeking relative position (Winston, 1999, p. 30).

This donative wealth of course not only gives certain institutions a direct advantage but also acts as a 'barrier to entry' to competition at that level. Roger Geiger (2002, p. 84) referred to this as a 'segmented hierarchy', where head to head competition occurs only between roughly comparable institutions. This process is of course both symbolised in, and reinforced by, institutional rankings and league tables. Finally, I need hardly emphasise the link between the increasing stratification of the institutions and the socio-economic stratification of the students they recruit.

So what should we be doing as higher education?

For a start, we can remind ourselves of Martin Trow's (1992) dictum that higher education is a process pretending to be an outcome. Higher education is about the intellectual and moral development of the individual through the development of knowledge. In spite of all the official rhetoric, there is plenty of evidence that many students reject the framing of them as consumers of a tradeable product (e.g., Streeting and Wise, 2009). We can also remind ourselves and others that higher education is not only about the benefits to the individual, and that there are wider public goods such as higher education's contribution to democracy, the formation of citizens, greater economic productivity, lower welfare, medical and crime costs, etc. – even if the current model for funding teaching does not reflect this. The fact that it is hard – though by no means impossible, as Walter McMahon (2009) has shown – to put a monetary value on these wider public benefits does not make them any less real, substantial or important.

There are then some more practical things we can do:

- We can refuse to have anything to do with the commercial league tables or with guides that use material from the rankings.
- We can explain the fundamental methodological problems and limitations of the institutional rankings, the National Student Survey, the Key Information Set, and other similar devices that purport to inform and guide student choices.
- We can show how we use our resources to provide the best possible education for our students, and how our investment in research and scholarship supports that objective, as well as contributing to the stock of knowledge and societal improvement more generally (including our knowledge of growing economic inequality and its effects).
- We can limit our expenditure on activities like marketing, advertising and branding, preferably through sector-wide agreements controlling such expenditure in relation to turnover.

But we cannot do this alone, as individuals or individual institutions. We also need sector-wide policies that limit or reduce the incentives to engage in the pursuit of status. I recently set these out in the first issue of the new UWL journal *New Vistas.* I make no apology for repeating them here:

1. *Market participation should be controlled through a system of institutional accreditation covering governance, management, finance, the allocation and use of resources as well as educational quality. Peer review should play a central role in this process. No provider that is not eligible for charitable status should be able to obtain degree awarding powers or university title.*
2. *Teaching should be funded through a mixture of institutional block grants and tuition fees, with the latter capped at 50 per cent of the cost. Institutional resourcing differentials should be controlled, with minimum and maximum levels of funding per student. Maintenance grants and national scholarships should be available for poorer students, with all students having access to subsidised loans for both tuition and maintenance.*
3. *Quality should be monitored by a single, system-wide regulatory agency accountable to Parliament. Institutional and departmental review processes supervised by the agency should ensure minimum standards of student learning achievement and academic practice. The agency should have the power to de-accredit any provider*

that consistently fails to meet good standards of governance, management or academic practice.

4. *Research should continue to be subsidised through the funding and research councils. It should only be funded selectively where there is a special case for doing so, for example, where it is relatively expensive to conduct. Research quality, and links between research, teaching and other university activities, should be monitored through the institutional and departmental reviews.*
5. *There needs to be a mechanism for monitoring the impact of market competition and taking action where needed to deal with market failure. This should include identifying providers or activities in need of subsidy or support because of their wider contribution to the benefits of higher education, and promoting and facilitating institutional collaboration both as a means of controlling costs and and as a way of extending educational opportunities (Brown, 2014).*

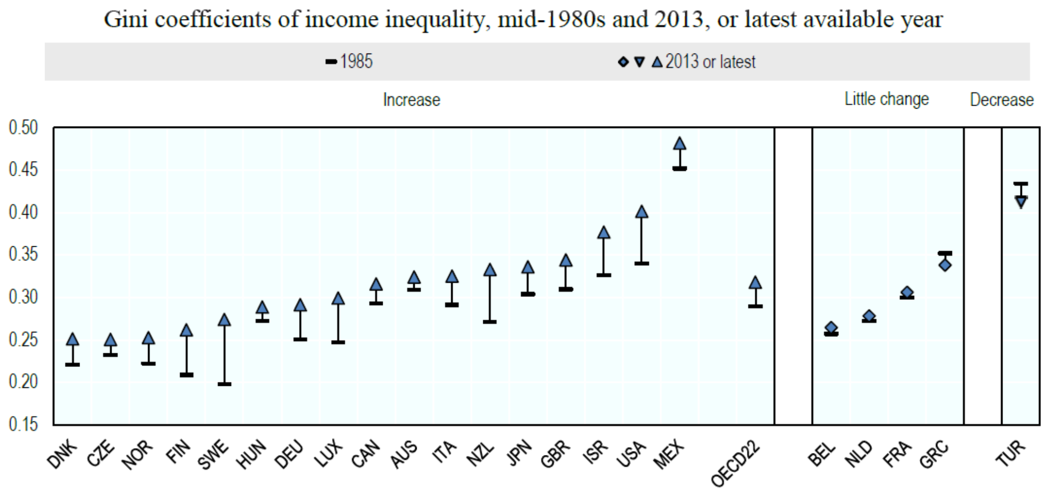
I invite you to compare these with the winner-take-all, let the Devil take the hindmost, policies for education, and not only higher education, currently being pursued by the Government. I leave you to decide which set of policies is most likely to keep rising inequality in check, or at least contribute to that objective, as well as creating or recreating a healthy higher education system that serves society rather than contributes to, and indeed reinforcing, its pathologies. If we truly believe that one of the core functions of higher education is to help society to understand itself better, then we have to resist the tendencies I have been describing that are so dangerous both to society and to higher education. Only we can do so.

Envoi

Finally – and I know I've already used that adverb several times this evening – I should just like to thank the University of West London and the Vice Chancellor , Peter John, the Chair of Governors, Chris Humphries, fellow Governors and senior colleagues for giving me this opportunity to play a part in its affairs as a Visiting Professor and Governor since 2009. It has been a great experience and a real Indian Summer for me. Many, many thanks. And thanks once again for listening to me today.

TABLE 1

Figure 1.3 Income inequality increased in most OECD countries
Gini coefficients of income inequality, mid-1980s and 2013, or latest available year



Note: "Little change" in inequality refers to changes of less than 1.5 percentage points. Data year for 2013 (or latest year): see
Figure 1.1. These values differ slightly from those in Figure 1.1 for some countries as they have been adjusted to be comparable
with 1985 values.
Source: OECD Income Distribution Database (IDD), www.oecd.org/social/income-distribution-database.htm.
(OECD, 2015)

TABLE 2A

Share of income of the Top 1%

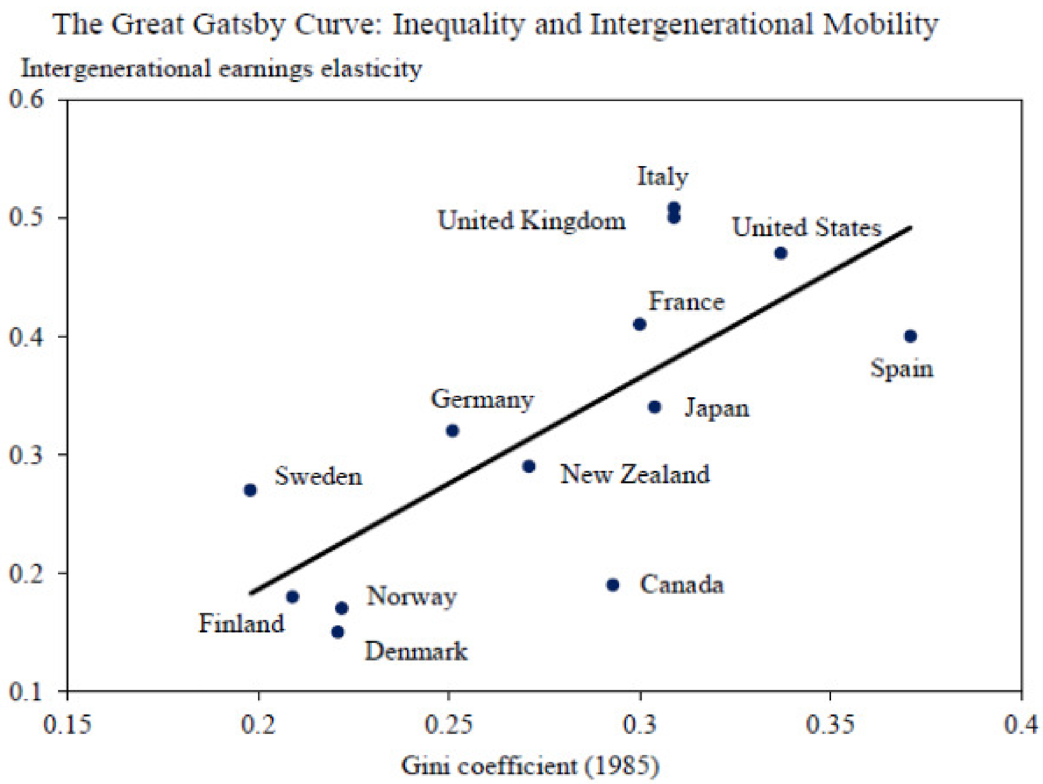
	1977	1993	2012
UK	5.93	10.36	12.7
US	7.9	12.82	18.88

TABLE 2B

Share of income of the Top 0.1%

UK	1.27	3.09	4.6
US	2.04	4.72	8.36

TABLE 3



Source: Economic Report to the President (2012: 177) quoted by Jerrim, J. and Macmillan, L. (2014: 32)