

# **Higher Education: A Solution to, or Problem in, Rising Social Inequalities?**

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## Introduction

When Thomas Piketty's book on *Capital in the 21<sup>st</sup> Century* was released in 2014, it became an overnight success, making the list of best sellers for months. It was not light reading, and not the kind of book to be found prominently displayed in airport bookstores amongst the volumes of 'get rich quick' promise.

Piketty's work focused attention not only on the concentration of massive wealth in a tiny elite in countries such as the UK and the USA, but how the wealth of this elite had increased following the financial crisis of 2008.

Piketty was not alone in drawing this kind of conclusion; he joined a body of work by leading scholars and commentators on rising income and wealth inequalities in the developed world (see Wilkinson and Pickett, 2009; Amin, 2013; Stiglitz, 2013; Dorling, 2014; Sayer, 2014; Streeck, 2014; amongst others). But this was an economist saying these things, and this distinction mattered.

Piketty's analysis has been hugely welcomed within the academy and beyond; as an economist he is not describing the social and political with terminology that economists like to use when the model does not quite match up to what is out there, such as 'the extra-economic' or 'spill-overs'.

In *Capital*, Piketty points to the relationship between the long-run evolution of income and wealth in capitalist economies, and the importance of politics and policy in shaping governance frameworks, institutional arrangements (tax, labour laws) and of social norms in mediating outcomes.

Yet despite his insights, Piketty's solution to the problem of inequality is to argue that; "...the best way to reduce inequalities with respect to labor...is to invest in education" (Piketty, 2014: 306-7).

In this lecture I suggest there are major problems with this proposed solution which I will explore in detail. I conclude with a practical, and political agenda which I believe we need to get behind if we are to curb the excess of pressures on the sector that I have been describing apply more generally.

### **So what are Piketty and Colleagues Main Claims?**

Using income and wealth data, Piketty and colleagues were able to measure the stock of national wealth (includes, land, industrial and finance capital) over a long period of time, including the number of years it takes to amass this wealth. And though there are limits to national wealth figures in that they are not sensitive to individual differences, it does help to build a picture of the importance of capital as a whole to any particular society (Piketty, 2014: 19).

What are Piketty's core arguments and conclusions? It is useful to start with his main conclusions:

...we should be wary of any economic determinism in regard to inequalities in wealth and income. The history of the distribution of wealth has always been deeply political and it cannot be reduced to purely economic mechanisms. The reduction that took place in most developed countries between 1910 and 1950 was above all a consequence of war and of policies adopted to cope with the shocks of war.

Similarly the resurgence of inequality after 1980 is due largely to the political shifts of the past several decades especially in regard to taxation and finance. The history of inequality is shaped by the way economic, social and political actors view what is just and what is not, as well as the relative power of those actors and the collective choices that result. *It is the product of all relevant actors combined* [emphasis mine] (Piketty, 2014: 20).

This is an important conclusion, and one that I return to in the second half of this presentation.

Piketty's work represents a welcome point of departure from mainstream economic analyses. For the most part, the dominance of mainstream economists in policy and political circles – nationally and globally – has shored up, and reinforced, social inequalities, because their assumptions are drawn from a potent combination of liberal theory and neoclassical economics.

Letting the market 'self-regulate' by reducing the role of the state in managing the market, and promoting individualism and consumerism, has been a powerful ideology advanced in the heartlands of developed world from the 1980s onward (Leys, 2001; Harvey, 2005; Streeck, 2014b).

One outcome of such policies was the decision to lower taxes to corporations, beginning in the 1980s under Reagan in the US, and Thatcher in the UK. These decisions were promoted by influential advisors, including Nobel Laureate, Joseph Stiglitz, former chief economist of the World Bank, and economic advisor to the US's Clinton Administration in the 1990s. Stiglitz recently observed of inequalities in the USA in 2015:

I trace the inequalities to a particular set of decisions that we took when we lowered the tax rate from 91% down to very low levels at the top, where we stripped away regulations. So the result of that was not a more dynamic economy, but a more unequal society. We tried the experiment of trickle down. A third of a century later, we can fairly definitively say it was a failure (Fisher, 2015: 1).

If we turn to Piketty and colleagues' core findings, the following are key. First, they show that it is a myth that inequality will 'naturally' decrease with industrialization and economic growth. They refer to this as 'the myth of Kuznet's curve'.

Kuznet posited that income inequality first rises with economic development when new, higher productivity, sectors emerge (e.g. manufacturing industry during the industrial revolution) but then decreases as more and more workers join the higher paying sectors of the economy. Our data shows that equality declined in developed

countries during the first half of the 20<sup>th</sup> century....because of the fall of top capital incomes...there was no structural decline in the inequality of labor income (Piketty and Saez 2014: 842).

However, and this is the punchline, the dip in inequality between 1914 and 1945 was the result of political shocks—specifically two World Wars—and not market mechanisms. In other words, increasingly wealth equality was **not** shaped by the effects of economic development and its maturing (Kuznet's curve), but by wars where wealth accumulation was simply wiped out.

Piketty goes in to develop what he calls the 'first' and 'second' laws of capitalism. The first law of capitalism concerns the relationship between the "capital/income ratio" (p. 164-98); if the capital/income ratio is high, then the owners of capital will necessarily earn a larger piece of the total pie than workers.

But, how is the capital/income ratio determined? This is where Piketty's second law of capitalism emerges. High savings and slow growth will result in an enormous amount of capital, relative to income. This will automatically increase the importance of capital in the overall distribution of wealth.

Piketty concludes that, if left to its own devices (weak institutional arrangements for redistribution through progressive taxation; pressure for high wages, high taxes and high skill arrangements), wealth distribution will tend toward the concentration in wealth accumulation, in turn producing inequalities. In other words, inequality is produced by both inequality from labour (wages differences) and inequality from capital (previously owned wealth).

Looking at the USA versus Europe, it can be shown that 'income inequality' was larger in Europe than in the United States a century ago, but is now currently larger in the US than in most of Europe, and this is true for every inequality measure – including the share of total income going to the top 1%.

Why? Inequality in the US is derived from the sharp rise in top labour incomes than on the extremes of wealth that characterised the patrimonial societies of Europe the past – where inherited wealth enabled concentrations of net private wealth income.

Drawing on similar data, a recent OECD report also points out that the rising gap between the rich and the poor is at its highest level in most OECD countries in 30 years, though some countries have remained relative stable and in others there have been reductions in inequalities.

However the US, UK, New Zealand, and Mexico, amongst others, all show a marked climb in inequalities; these are also countries who have bought into neoliberal policies in the 1980s and 1990s.

The effects have been devastating on income and other social inequalities. The OECD has now come to argue that income inequality has a negative and statistically significant impact on medium term growth. The biggest factor in impacting on inequality and growth was the gap between the lower income households and the rest of the population – especially the lowest four deciles, or bottom 40%.

They argue that the policy agenda has to address, not just the issue of poverty, which might be the outcome of redistribution policies - such as tax credits, but more importantly, the issue of lower incomes more generally. In relation to lower incomes - the issue here is paying a living wage in exchange for labour.

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What role does education more generally, and higher education in particular, play in this? And equally important, is higher education part of the solution, as Piketty proposes?

In *Capital*, Piketty argue; "...the best way to reduce inequalities with respect to labour as well as to increase the average productivity of the labor force and the overall growth of the economy is to invest in education" (Piketty, 2014: 306-7).

In the following I argue that Piketty and colleagues fails to understand the ways in which education systems have exacerbated divergence rather than being forces that tend toward convergence. My arguments are developed around three lacunae.

*Lacuna 1: Education is a technical rather than a social and political process*

Piketty and colleagues view education as a technical rather than social and political process. This can be seen in the claim made below where they argue that labour income inequality in the long-run is determined by a race between skills and technology.

They argue when education expands faster, and there is a rise in the supply of skills – this is not matched by demand, and thus income inequality falls. Conversely, when technological changes occur rapidly, and education does not keep up with these processes in terms of the production of skills, the limited supply of those with skills will result in a higher price for such skilled labour, and thus greater income inequality.

This argument draws on work advanced by Goldin and Katz (2008) in their book *The Race between Education and Technology*. According to Piketty, there has been an under-investment in education in countries like the USA, so that there are not sufficient numbers of skilled workers. The result is that skilled labour is able to command a much higher income relative to those without skills – an argument Goldin and Katz (2008) also advance.

Yet Piketty and colleagues also sees something else at work, but they can't explain it. They argue that whilst inequality has increased in recent decades as a result of a rise in the global competition for skills driven by globalisation and skill-based technical change, this is not sufficient to explain important variations between countries – for instance, the difference between Europe, Japan and the United States, with Europe

and Japan having lower income inequality despite being caught in the technological race (Piketty and Saez, 2014: 842).

The problem Piketty and his colleagues face here is that they conceive of education as human capital, with productivity and wages simply **functions** of education and technology. In essence they view education as a technical, and not a social and political process, and this is despite their insight; that politics, institutions and social norms matter.

In essence a worker – with a particular set of knowledge and skills – is regarded as a capital good, and every worker a capitalist in that they own their own means of production. Yet there are major problems with this view (Bowles and Gintis, 1975: 74) and these problems are not simply ideological – but empirical (as Piketty and Saez themselves observe in the ‘facts’, but lack the theoretical resources to open up a level of understanding about the processes at work).

In short, whilst clearly enhanced levels of education can enhance worker productivity and economic growth, it is not *causal*. If this were the case, those countries with highly educated workforces would have high growth economies. Instead we see high skill-low growth economies – for example, Spain, Portugal, the UK and the USA - with many of the unemployed having graduate credentials (OECD, 2014).

This is not to say that qualifications do not matter; they do. But qualifications serve a **more** important purpose; they are a means for staying in the race, or if possible, getting ahead, rather than (necessarily) getting the job done. Indeed for the most part “...a college education has failed to deliver any additional premium on investments in human capital compared to those in the job market in the 1970s” (Brown et al. 2011: 117).

Human capital theory – like neo-classical liberal theory – invokes assumptions about perfect information, and the role of the market in price-setting and wages, and that returns on individual investments on education can be calculated. Yet markets are



imperfect, there are information asymmetries, monopolies can limit productivity, unions and bosses can negotiate wages, and particular social groups can demand higher salaries, whilst others are not able to exercise power in this way (Streeck, 2014).

In short, politics and power matter, and in sectors like education – having the right credential from the right institution matters more and more, as getting a secure, even modestly-paid job, has become more and more competitive (Sennett, 2006). Having the right CV can now mean working as an intern for no wages, rather than even a pittance.

This is not a race between training and technology; rather, this is a race between competing social groups with unequal resources. The outcomes are shaped by social and political processes and relations (class/gender/race; a range of status marks of distinction that might include private education, private tutoring, exclusive higher education institutions, and so on) unless these are mediated by policies and programmes aimed at ameliorating these inequalities.

Getting ahead via education in a highly competitive world is an expensive business, as it means increasingly significant amounts of resources being assembled and invested in those cultural, social and political capitals that will make a difference to your position in the status hierarchy and competition for talent. But in a world that has come to link ‘talent’ to very high salaries, and justify very high salaries as the reward for talent, winning that race is worth the investment (Brown et al. 2011; Newfield, 2010).

Like any race, however, there are winners and losers, though the size of the pool of losers is widening as the ‘winner takes all’. Like all races too, the rules for engagement are always strategically selective of some over others. This is power that matters, with bite! As Brown et al observe: “...if the capitalist system has no loyalty to American workers, much the same can be said of American corporate elites. They

have not simply played a game of winner takes all; they have created one” (2011: 115).

This is the exact effect of inequality that Piketty and colleagues have outlined; unfortunately, they have simultaneously failed to identify how the technical/human capital view of education that they recommend as a panacea actually reproduces the competitive foundation of inequality.

Viewing education in technical terms depoliticises education; as a result human capital theory contributes to inequalities as it formally excludes the relevance of class and class conflict in their account of labour markets and how they work. Yet as Bowles and Gintis point out; “...the wage structure, the individual attributes valued on the labour market, and the social relations of the educational process can only be accounted for through an explicit class analysis” (1975: 75). Human capital theory, by making invisible the question of social class and its role in mediating labour markets, income and wealth, also makes invisible class interests, projects and outcomes.

This is not lost on the beneficiaries of class projects. Warren Buffett, the fourth wealthiest person in the world, stated to the New York Times in 2006: “...sure there is a class war, and it is my class, the rich, who are making it, and we are winning” (Stein, 2006: 1). In this case Buffett is describing the ways in which a particular elite have managed to secure for themselves salaries, and wealth generating opportunities (including lower or no tax) which have, in turn, have made them part of the super-rich. The failure of the very wealthy to pay their share of state taxes has resulted in major shortfalls in state revenues, that has in exacerbated social class inequalities, in that the state has limited financial resources to redistribute. I pick up these issues in the final section.

### *Lacuna 2: A methodological nationalist lens in a globalising world*

A second lacunae for consideration when reviewing Piketty’s skill-wages argument is that he sees economies through the lens of the national statistics. Yet as Brown,

Lauder and Ashton (2011) show in their book *The Global Auction*, national labour markets, production and wages have been transformed by global processes.

A key dynamic at work here is the way in which relatively low-cost locations around the world – India, China, Indonesia, Vietnam and so on – can reduce the market price of technological know-how. They point to the availability of a well-educated (often in the West) workforce available for outsourced and local operations who are willing to work for lower wages, relative to the centre, but which are higher relative to the wages of the other locals.

What has made this possible has been innovations – like digital technologies – which enable routine professional work (such as health, legal, educational) to be off-shored, completed, and returned around the clock for a fraction of the price. Brown et al refer to this process as ‘digital Taylorism’:

This involves translating the knowledge work of managers, professionals, and technicians into working knowledge by capturing, codifying and digitizing their work in software packages, templates and prescripts that can be transferred and manipulated by others, regardless of location. ... Unlike mechanical Taylorism, which required the concentration of labor in factories, digital Taylorism enables work activities to be dispersed and recombined from anywhere in the world in less than the time it takes to read a sentence (Brown et al, 2011: 72).

These global production work processes are, in turn, creating a middle class in countries like India and China. And whilst these employees; “...with a college education working in managerial and professional jobs for international companies may have to work long hours and constantly feel the pressure of tough financial targets, they are among the winners in a global auction” (Brown et al., 2011: 129).

One effect of digital Taylorism on education is that it challenges a key ideological underpinning of the ‘national’ social contract. Because national economies now exert less influence on the provision of jobs, they can no longer claim to provide a meritocracy and its promise of a secure job and earnings in return for self-discipline, hard work and learning. That link is broken, and with it a key mechanism of social

control, on the one hand, and legitimation for a system of social stratification suited to capitalist economies, on the other. The globalising of the capital-labour relation thus has huge implications for national education systems, including how best to ensure ongoing commitment to doing well, when the returns are so visibly meagre for some, and a veritable cornucopia for tiny group of highly privileged others.

### *Lacuna 3: The transformation of education and the culture of the new capitalism*

In this final section I want to direct attention to how the public nature of education itself has come under considerable pressure as a result of the social inequalities emerging as a result of the concentration of wealth and income over the past three decades. I focus on three issues in particular – as illustrations of the consequences of the transformation of capital in the 21<sup>st</sup> Century that Piketty (2014) has charted.

#### *....declining tax receipts and education*

Public education- from schooling to higher education - is funded through the redistribution of finances collected via tax receipts. Any decline in the value of tax receipts collected places pressure on governments to variously limit their outlays and to find new ways in which to legitimate these limits; borrow more money and find ways of creative ways of managing the debt; or to encourage households to take on this debt, with ideological inducements to do so. Streeck (2014b) describes this as a shift from the tax state to the debt state.

New challenges to the public purse are an outcome of a series of mechanisms that have resulted in lower tax receipts in countries like the USA and UK: these mechanisms have included 'reforms' that in essence lowered the top income and corporate rates – in turn benefitted the very wealthy (Streeck, 2014a: 43; Fisher, 2015), and corporations using the fast growing internationalisation of the economy to open up scope for corporations to shift their tax obligations to less demanding countries (for example, Amazon paid only 0.1% of tax on their UK earnings in 2012 – Garside, 2014; Streeck, 2014b: 67). In 2008, the USA and UK governments also

provided public funds to bail out the banks with the argument that they were too big to fail, whilst public assets have been sold to speculators at fire-sale prices benefitting.

Taken together, these developments have created a fiscal crisis of the contemporary state reflected in an escalation in public debt since the 1970s. Streeck argues that by replacing tax revenue with debt:

...governments contributed further to inequality, in that they offered secure investment opportunities to those whose money they would or could no longer confiscate and had to borrow instead. Unlike taxpayers, buyers of government bonds continue to own what they pay to the state, and in fact collect interest on it, typically paid out of ever less progressive taxation; they can also pass it on to their children. Moreover, rising public debt can be and is being utilized politically to argue for cutbacks in state spending and for privatisation of public services, further constraining redistributive democratic intervention in the capitalist economy (Streeck, 2014a: 43).

The rise of public debt is closely bound to the victory of neoliberals and their class war, though typically it is represented as bloated or high spending government. Along with the skewing of income inequality, the rise in public debt is occurring not just in countries with historically higher degrees of inequality – such Italy, the US and the UK - but also in comparatively egalitarian countries, such as Sweden and Germany (Streeck, 2014b: 52). And as Streeck is quick to point out:

Not high spending but low receipts are the cause of the government debt, to be explained by economy and society, organised around the principle of possessive individualism, setting limits to their taxation, while at the same time making more and more demands on the state (2014b: 66).

As a public service, education has been a casualty of the debt state, with wages, investment in infrastructures, and redistribution to close inequality gaps, all under pressure.

Public Private Partnerships (PPPs) has been rolled in as a new mechanisms for raising funds; creative accounting techniques – such as off-balance sheet accounting have been used to hide long term mounting public debt; venture capitalists and education entrepreneurs have been welcomed into bidding for a share of the education pie, and households have been courted with ideas such as the ‘graduate premium’ in order to recalibrate ongoing challenges to the public purse. Yet the irony here is that many of these initiatives – such as PPPs – have created new opportunities for corporations to use public funds to cream off profits, but to also deliver in many instances inferior education outcomes.

Paralleling the rise of public debt is the rise in private debt, and this matters again for education equality, as more and more, households are asked to shoulder the cost of running the highly competitive education race. The ready availability of credit, coupled with downward pressure on wages, has led to what Colin Crouch calls ‘privatised Keynesianism’; the replacement of government debt with private debt as a mechanism for expanding the resource inventory in the national economy (Crouch, 2011: 97-124).

No-where is this more evident than in the higher education sector in the USA and the UK. Recent figures for the USA (2015) show that more than \$1.2 trillion is owed in student loan debt, involving 40 million borrowers, with an average balance of \$29,000 (Holland, 2015: 1). Year-on-year, tuition fees are hiking, with the result that not only are governments stepping up their lending, but so, too, are private lenders, offering new kinds of financial products, such as asset backed securities backed by student loans, or human capital loans.

*....education - a new frontier for commodification*

Education itself is a new frontier for commodification both for the state and for entrepreneurs bringing it directly into the sphere of production, profit making and wealth generation (Robertson, et al., 2012). As a frontier of commodification for the state, education is regarded as an important area of international trade and is represented in national GDP statistics.

Education is also being opened up to private sector investors and investment (Robertson and Komljenovic, 2016). In March 2014, investment advisors working for Merrill Lynch Bank of America on the estimated value of education – \$4.3 trillion (Hartnett, Leung and Marcus, 2014: 6). This was not idle speculation – much as we might imagine ourselves as landing the lottery. Large global publishing companies are identified as the beneficiaries of opening education up to whole-sale, and huge scale, corporate investors, including Pearson Education and Elsevier.

Pearson Education is the largest education corporation globally with a for-profit university in London. Similarly, Elsevier – a large publishing company – is linking testing with text production, and has expanded its academic publishing activities to situate itself as a knowledge services firm. Other large conglomerates include Laureate Education who now enrol around 1 million students worldwide and who operate in more than 27 countries, mostly low income and ‘emerging markets’.

Like many of the new for-profit edu-businesses, their CEOs are also handsomely rewarded. According to the *Chronicle of Higher Education* (2010) which tracks the for profit higher education industry, in 2010 the president and CEO of Bridgepoint Education, earned a \$20 million a year in total compensation, including stock awards, bonuses, option awards and non-equity incentives (Baker, 2010). The Co-CEO of Apollo Group, the largest publicly traded higher education company which offers online and on-campus degrees through the University of Phoenix, was paid \$11 million in total pay. High salaries have also been paid out to Presidents of US public universities and to Vice Chancellors in the UK.

It is clear that as education systems – from schools to universities - are confronted with funding shortfalls and/or governments willing to change the regulatory protections around education as a public good – they are also exposed to a predatory form of financial capital – including private equity firms, which in turn makes education vulnerable to the logics of profit, differentiation and social inequalities.

*....new social norms – individualism and entrepreneurship*

Corporate philanthropists are also increasingly targeting their contributions to education in areas of policymaking and programme intervention in ways that hugely shape the direction of the sector, on the one hand, and the social norms that they believe are more desirable for competitive economies, on the other (Scott, 2009).

Researchers argue that though philanthropic organisations are not new to funding education, in the past they tended to be more altruistic and liberal in their approach to education (Saltman, 2010). More recently, however, Foundations are interested in promoting particular governance models in education, such as charter schools, school vouchers, standards and testing – and are promoting a strong vision for education and for learners (as passionate entrepreneurs). In the schooling and the university sector, active Foundations include the Walmart Foundation, Lumina Foundation, Bill and Melinda Gates Foundation, the Robertson Foundation, the Broad Foundation, the William and Flora Hewlett Foundation, the list goes on. Their significant investments in education give corporations, via their Foundations, significant influence over the governance of education systems, and the social norms and outcomes that follow.

This kind of influence, shaping the hearts and minds of the next generation through their influence on education, has its alter-ego in the culture of the new capitalism that Sennett describes so well; a small slice of the economy that has a cultural influence far beyond its numbers (Sennett, 2006: 12). Work, talent and consumption are now the attributes for operating in the new ‘skills’ society. This excess of individualism and winner takes all approach feeds the greed machine that has normalised super-salaries and concentrations of wealth at the same time that we have seen the growth of poverty in a new working poor (Harrap and Reed, 2015).

## **Conclusions**



It is clear that whilst Piketty is able to name the problem of the age; the concentration of capital amongst a small elite, and challenge the assumptions of the neo-classical economists with evidence. However, his observations require more in-depth social and political analyses to broaden our understanding of the issue of rising inequality. I have also argued that Piketty and colleagues analysis of higher education – as part of the solution and not part of the problem - fails to engage with the role that education currently plays in furthering, rather than ameliorating, these inequalities.

What alternatives might we consider here for the reform of education that would ameliorate, rather than continue to exaggerate, the trends that Piketty has been able to delineate.

The first is that we look at strategies and other interventions where a tax rather than debt state ‘manages’ the race between competing social groups for education as a positional good through forms of redistribution. This in turn means challenging human capital accounts of education, and those interests who propagate these views; the unprecedented power that neo-classical economists of education have in shaping education policy, along with the growing power of key international organisations in advancing human capital arguments and projects. It also means challenging the ideological project that has normalised ideas like ‘choice’, ‘talent’, and ‘resilience’. These tropes have obscured the class-based nature of capital’s project. As Streeck (2014: 18, 19) so potently points out, “capital is treated as a factor in production, and not as a class...capital is a player and not a plaything”.

Second we need to develop new kinds of research tools that enable us to see beyond the limits of national data-sets to bring into view the ways in which global labour markets are developing and what this means for the organisation of national-located labour. This will demand the collection of data on flows of capital, the locatedness of workers, and the ways in which global space is used by capital to gain a competitive advantage. But this work is not impossible. Rather, it has tended to be

improbable as there are interests at work ensuring that as much as possible is obscured by using the global strategically and to the advantage of the capitalist class.

Finally, education must be extracted from the vortex that is rapidly sucking it up into the new culture of capitalism. For education to be recovered as human right, and the basis of what a new social contract, it must be viewed as a societal good funded by the state. This means the reform of societies and their regulatory mechanisms, including progressive forms of taxation, that in turn contribution to the collective wealth and health of any society. This is, in itself, a job of education, writ in its widest of senses – so that societal arrangements are built and judged fit for purpose, not because they benefit a tiny greedy elite, but because they take in, and care for, those who are most vulnerable.

Education is at its best when it creates those spaces, opportunities, and encounters where a next generation are helped to ask the kinds of questions and engage in the kinds of politics that will make a positive difference to their lives and the lives around them. An education system committed to social justice and not market justice would have a radical effect on politics. Only then might education become part of the solution and not the problem.

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