So far, the travails of the California Idea of higher education have been explained in terms of the declining authority of government and of the idea of the public interest, the rise of a libertarian individualism in which self-interest is untroubled by care for others, and a tax revolt by grassroots activists, joined to high-income earners and powerful financial interests, that has crippled state budget capacity. Yet the question remains: why? Why was the democratic compact in higher education allowed to deteriorate?

The larger answer, beyond education or policy, lies in the changing nature of California and U.S. society. Politics and policy are conditioned by underlying social and economic evolutions, even while they also contribute to the pattern of change, and can turn it or shape it at key moments, such as the Reagan ascendancy. Policy can set itself against the trend of the times, but this is difficult to sustain. Policy has greater potency when it taps into the mood and augments the ongoing flow of events. In the United States there has been a clear symbiosis—clear because it is visible in the economic data—between on one hand, the 1980 policy turn to diminished public goals and lower taxes for the rich and, on the other hand, rising inequality in the country. Since 1980 the growth in inequality of incomes and wealth has been remarkable, with major implications for the conditions, character, and potentials of public higher education. The rapidly growing inequality of the last thirty years, as much as anything, has pulled higher education away from the post–New Deal world, the world of Kennedy and Johnson, that Clark Kerr and his colleagues inhabited and served.

Trends in inequality are readily quantified only in relation to incomes and wealth. It is true that social mobility can be understood in other terms: for ex-
ample, intergenerational patterns of occupational status or education. Status and income do not always coincide. For example, a successful public service career is more likely to bring high status than high income. Nevertheless, it is difficult to define status in generic terms or to quantify status patterns over time. Income and wealth are easier to monitor. Income inequality is the aggregation of inequality of income from labor, at every level from the shop floor to the managing director’s office, and inequality of income from capital in the form of financial holdings and property. More than 99 percent of people earn the majority of their incomes from labor. Both labor and capital incomes are affected by tax policy, which can both decrease and increase inequality.

The measurement of trends in income has become an active branch of economics. Thomas Piketty and others have shown that in the Anglo-American countries, the concentration of wealth and income in hands of the top 10 percent (one person in ten), the top 1 percent, the top 0.1 percent, and the top 0.01 percent (one in every ten thousand persons) has risen very considerably since 1980. The increase in income and wealth is particularly concentrated at the very top. There is no debate on the empirical trend to greater inequality in the United States. It is clear, dramatic, and unabated. Between 1980 and 2010 in the United States, the income share held by the top 0.1 percent of the income distribution rose from 2 percent to nearly 10 percent. Thomas Piketty finds that income from labor in the United States is now “about as unequally distributed as has ever been observed anywhere.” At the same time the inequality of wealth in the form of property and capital is “less extreme than the levels observed in traditional societies or in Europe in the period 1900–1910.” American earned incomes are now more unequal than in apartheid South Africa, or colonial India, or the slave-owning Southern states before the Civil War. This is a stunning development and one that explains much else that has happened in the country.

The analysis by Saez (2013) notes that the top 1 percent of income earners in the United States captured just over two-thirds of the total increase in incomes between 1993 and 2012, and 95 percent of the income gains made in the recovery after the recession, in 2009–2012. In 2012 the income share of the top 10 percent, at more than 50 percent, was at its highest level since 1913; the income share of the top 1 percent, at 22.5 percent, had almost returned to its prerecession level of 2007, which was the highest level since 1928; the income share of the top 0.01 percent excluding capital gains was at its highest level since 1916, and its income share including capital gains was 5.5 percent, the second highest level on record, behind only the prerecession in 2007. Since the 2008–2010 recession, capital incomes have only partly recovered but the salaries received by the top income earners have soared, reaching even higher levels than before the recession. At the same time, according to the 2014 OECD report United States: Tackling High Inequalities, between 2000 and 2010, the average income of the poorest 10 percent of Americans fell by 15 percent in real terms.
In the United States the average income of the richest 10 percent is sixteen times the average income of the poorest 10 percent. This is the third highest ratio at those income levels among the OECD group of countries, behind only Mexico and Chile. The OECD average for that income ratio is 9.6. While the United States is third in average income in the OECD, it ranks only eighteenth in average income for people in the bottom 10 percent of the income distribution. Piketty expects that by 2030, the top 1 percent income receivers in the United States will receive 25 percent of all income, compared to 20 percent in 2010, and the bottom 50 percent’s share will fall from 20 to 15 percent, greater inequality than today.

The broad trend lines in California resemble those in the nation, except that income inequality in California has become more extreme than in the nation as a whole, in contrast to the state’s relatively egalitarian income distribution at earlier times. California now has the nation’s largest concentration of wealth and its highest incidence of poverty. In the year 1928, the top 1 percent of income recipients in California held 20.0 percent of all income, compared to 23.4 percent in the nation as a whole. At that time the West was more egalitarian than the country. In 1979 in California, after two decades of the Master Plan, only 10.2 percent of income accrued to the top 1 percent, just above the national level of 9.9 percent. But in 2007, just before the recession, the level in California had jumped to 22.7 percent compared to a national level of 21.8 percent. The gap between California and the whole nation has now increased further. In the three years after 2009, following the recession triggered in 2008, all income growth in California accrued to the top 1 percent of persons in income distribution terms; this was also the case in sixteen other states. The incomes of the top 1 percent in California rose by 49.6 percent in the recession years 2009–2012, which was the fourth largest such increase in the nation. Meanwhile, the incomes of the bottom 99 percent dropped by 3.0 percent. Overall, between 1979 and 2012, which were the years of growing inequality in the country as a whole, the top 1 percent in California increased their incomes by 189.5 percent, while the income of the bottom 99 percent fell by 6.3 percent.

In 2008–2011 in California the ratio between the average household income for the richest 20 percent of households and the poorest 20 percent was 9.5, the third highest ratio after New Mexico and Arizona. Over the three-year period 2011 to 2013, California included 8.871 million persons with an income below the U.S. Census Bureau’s Supplemental Poverty Line, one sixth of all such Americans, constituting 23.4 percent of persons in the state—the highest poverty level of any state in the nation. Tami Luhby compares California’s Silicon Valley, where residents have “the highest level of well-being in the nation,” with average incomes almost double the national average and nearly triple the average number of graduate degrees, with the state’s Central Valley less than a hundred miles away, where residents have the nation’s lowest level of well-being. Average incomes for single parents with two children are close to the poverty line, and nearly four in ten persons fail to graduate from high school.
How do the trends in the California and the United States compare with those in other countries? In the United Kingdom between 1980 and 2010, the income share of the top 1 percent moved from 6 to 15 percent, the highest level since the 1930s. In Canada it was 12 percent in 2010; in Australia it was 10 percent. The other English-speaking countries have also seen the growth of high salaries and a concentration of wealth at the top, but the top American salaries are extreme in comparative terms.

As this suggests, it is helpful to place American inequality in the larger historical and geographic contexts. In the Nordic countries in the 1970s, the most equal modern societies, the top 1 percent received about 7 percent of all income. In Europe in 2010, the top 1 percent received 10 percent of income. In the United States in 2010 the top 1 percent received 20 percent, the same level as in the aristocrat-led societies of late-nineteenth-century Europe (table 19.1). However, in 2010 the top 1 percent in the United States achieved its 20 percent of income more through labor income and less through capital than was the case in old Europe. The more modern form of salary-based inequality is legitimated by an element of merit: it is the product of hard work, not just property and capital, though as elite graduate recruitment shows (see chapter 20), competition for top labor incomes is not a level playing field.

At present, measured economic inequality is increasing in about two-thirds of countries around the world. The most striking changes have been the explosive growth of managerial salaries in the United States and United Kingdom, and to a lesser degree in other English-speaking countries, Western Europe, and Japan. In Japan the maintenance of traditional work-based relativities has been a partial brake on increased inequality. The average Japanese chief executive officer is paid sixteen times the average worker in the same corporation, whereas in the United States this ratio is now about 200 times.

The earlier argument that growing wage inequality in the United States is primarily driven by technological change has fallen from favor. Most industrialized countries have undergone similar technological change, but they have divergent income patterns. In the United States the main incidence of inequality is at the top end of the wage structure and centered on managers, especially in certain industries. Piketty calls the United States a “hypermeritocratic society,” or at least, “a society that the people at the top like to describe as hypermeritocratic. . . . This is a very inequitable society, but one in which the peak of the income hierarchy is dominated by very high incomes from labor rather than by inherited wealth.” Almost two-thirds of the top 0.1 percent of income earners are managers. Only about 5 percent are actors, artists, or athletes.

Much of “supersalary” development is taking place in the finance sector. Finance has double the proportion of very high salaries that its growing share of economic production would suggest. Managers often set their own performance-related
remuneration, including bonuses, or negotiate that remuneration with boards of like-minded folk and on which they themselves may sit.\textsuperscript{24} Again, this is inequality in a more modern, quasi-meritocratic form, centered on control over work rather than on property and inheritance, legitimated by the performance pay concept,\textsuperscript{25} and normatively grounded in the “shareholder value conception of the firm” in which managers are seen to contribute disproportionately to value.\textsuperscript{26} With part of their remuneration usually tied to stock options, cementing the association between management and shareholder value, supermanagers can be both supermanagers and medium rentiers at the same time.\textsuperscript{27} In the next generation, when today’s supermanager salary and managerial stock holdings have metamorphosed into tomorrow’s inheritance, more traditional forms of inequality will return to front rank. The 1960s vision of the educated-selected meritocracy will recede further. Inherited inequality is more difficult to challenge and change.

In the United States, salary inequality is partly balanced by the patrimonial middle class, especially by widespread middle-class home ownership. However, the middle-class share of wage and salary income is down, savings ratios have fallen, and debt has risen;\textsuperscript{28} moreover, the market value of many homes fell sharply in the 2008–2010 recession. Joseph Stiglitz states that average value declined by more than one-third as a result of the recession, and between 2005–2009 the average African American household lost 53 percent of its wealth, while the average Hispanic household lost 66 percent.\textsuperscript{29} The overall position of the “middle-middle” and lower-middle classes seems to be declining, with implications also for social mobility. This decline reduces the number of positions in the middle of society that the upwardly mobile can occupy, and with less opportunity in the middle of society, it is harder to move through to the top. Socially, the United States is

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<th>Table 19.1. Income shares of top 1 percent and bottom 50 percent, United States and Europe</th>
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<td><strong>Top 1% by Income</strong></td>
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<tr>
<td><strong>Bottom 50% by Income</strong></td>
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<td>share of labor income</td>
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Source: Adapted by author from data from Piketty 2014, pp. 247–249.

n.a. = data not available.
now less democratic than Europe. “The chances that a poor, or even middle class American will make it to the top in America are smaller than in many countries of Europe,” says Stiglitz.30 In the future, American society will almost certainly become more closed at the top, with less mobility into and within the elite, while income shares continue to decline at the middle and bottom of the pyramid.

Piketty’s argument is that inequality is not self-correcting. The tendencies to inequality and to the attenuation of social mobility are endogenous to the capitalist economy, so that inequality increases over time—unless the state uses education policy, income distribution and taxation policy, welfare and spending on social programs, and infrastructure to sustain a democratic balance, as in the Nordic world:

A market economy based on private property, if left to itself, contains powerful forces of convergence, associated in particular with the diffusion of knowledge and skills, but it also contains powerful forces of divergence, which are potentially threatening to democratic societies and to the values of social justice on which they are based.31

PLUTOCRATIC CAPTURE

In the Ronald Reagan years and after, instead of maintaining a balance between the endogenous trend to inequality and the state-protected value of each individual, U.S. policy allowed inequality to let rip. The trend was political as well as economic. The two aspects reinforced each other. Government not only stopped compensating, through its tax and spending policies, for the natural tendency to inequality, but it deliberately nurtured the high-income earners, moving policy and regulation decisively in their favor. In turn, by deregulating financial management and cutting taxation, government more fully released endogenous market forces. These processes became self-reproducing. The resulting lopsided accumulation of wealth further strengthened the constituencies that supported deregulation, low tax, and the lesser expectations about government.

The 1980s triumph of the rich in the political sphere turned into something more permanent. Societies that are relatively static in terms of social mobility, in which social elites are concentrating their economic power, are vulnerable to the plutocratic capture of politics. Plutocratic capture brings with it the more permanent adoption of political ideologies and fiscal and monetary policies that are crafted to advance the interests of the elite. Arguably, this is what has happened in the United States, as also in the United Kingdom.32

The effects of the 1980s transformation of polity and policy have continued to accumulate. The mid 2010s United States is radically different from the country in which Clark Kerr did his work and higher education was unequivocally defined as a public good. The problem of plutocratic capture of the American polity is now routinely discussed in scholarship and research on inequality.33 It is noted
by mainstream global policy agencies such as the OECD,\textsuperscript{34} which seek a reduction in inequality on the grounds that high levels of inequality undermine economic growth and also social cohesion.\textsuperscript{35} Plutocratic capture also preoccupies global non-governmental agencies, such as Oxfam, whose work is focused on development and poverty reduction:

A recent study presents compelling statistical evidence that the preferences of wealthy Americans are overwhelmingly represented in their government, compared with those of the middle classes. By contrast, the preferences of the poorest people demonstrate no statistical impact on the voting patterns of their elected officials. If this trend continues, public policies will most likely reproduce the conditions that are worsening economic inequality and political marginalization.\textsuperscript{36} . . .

Oxfam notes that in 2010, President Obama signed into law the Wall Street Reform and Consumer Protection Act (known as the Dodd-Frank Bill). The objective was to regulate financial markets to protect the economy from a future crash. “However, the financial industry has spent more than $1 billion on hundreds of lobbyists to weaken and delay the Act’s full implementation. In fact, in 2012 the top five consumer protection groups sent 20 lobbyists to defend Dodd-Frank, while the top five finance industry groups sent 406 to defeat it.” By 2014 only 148 of the 398 Dodd-Frank rules had been finalized, and the financial system remained just as vulnerable to crash as it was in 2008.\textsuperscript{37}

Plutocratic capture explains why economic outcomes and economic policies that are deeply unpopular are maintained. Stiglitz cites poll evidence which suggests that “there are large discrepancies between what most people want and what the political system delivers”;\textsuperscript{38} that 61 percent of Americans believe the economic system favors the wealthy, and only 36 percent think it is fair;\textsuperscript{39} and that while few have a clear picture of the current extent of economic inequality, when offered a range of differing descriptions of the economy, people overwhelmingly prefer the Swedish income distribution to that of the United States, by a ratio of 92 percent to 8 percent.\textsuperscript{40} Research by Jeremy Reynolds and He Xian on attitudes towards the social order in the United States found that young upper-class whites were the most likely to see the nation as a place where meritocratic relationships determine social outcomes. Older people from low-SES ethnic minorities were more likely than others to believe that family and social networks determine outcomes, rather than study and hard work. Between the 2009 and 2011 surveys, faith in the meritocratic domain declined.\textsuperscript{41} It can be confidently predicted that such faith will decline further in future.

The process of plutocratic capture has been linked to financial deregulation and the reciprocally associated “financialization” of the economy, meaning the quantitative and qualitative increase in the economic weight of the finance sector.\textsuperscript{42} According to Jon Wisman, “financial stocks grew from six percent of the stock markets’ total value in the early 1980s to 23 percent by 2006.”\textsuperscript{43} Finance received
40 percent of total profit in the United States just before the 2008 crash.\textsuperscript{44} The political sway and regulatory role of private banks and other financial organizations have been advanced in a symbiosis between central government regulation and private finance. Stiglitz argues that the Fed and parallel regulatory agencies such as the Bank of England are too close to the private banks.\textsuperscript{45} With a handful of exceptions, such as Lehman's in 2008, the leading financial players are protected at almost any cost. This neatly encapsulates the social priorities of the post-Reagan public authorities. Stiglitz notes that the $180 billion used to bail out AIG during the recession was greater than the total federal allocation to the welfare of the poor for the whole period 1990–2006.\textsuperscript{46}

The ongoing effects of plutocratic capture of the polity are well illustrated by tax policy. As noted, the dominant aspect of tax policy since 1980 has been to advance and protect the position of higher-income earners. The debate has not been about whether to do this; it has been about how far to go. The top marginal income tax rate in the United States moved from 70 percent under President Jimmy Carter to 28 percent under Ronald Reagan, back to 39.6 percent under Bill Clinton, and down to 35 percent under George W. Bush. It rose again under Barack Obama but only to the Clinton level of 39.6 percent. The lion's share of the Reagan reduction in the top rate remained in place. Nor have all the tax reductions taken place under Republican administrations. Clinton's tuition tax credits, which were maintained by all his successors, are socially regressive. As a proportion of income, they benefit high-income earners more than low-income earners. In addition, the tax rate on unearned income such as property and equity, once greater than the tax rate on earned income, has been reduced below the income tax rate. This is another gift for the wealthiest 0.1 percent, who draw the majority of income from this source.\textsuperscript{47} Capital gains tax was taken down to 20 percent under Clinton and 15 percent under Bush.\textsuperscript{48} Across the world, countries are competing for capital by lowering taxes on capital income or exempting it altogether,\textsuperscript{49} separating the wealthy from the tax/spend/services economy that engages other citizens. The objective is to stem the flow of monies into the offshore havens that now absorb at least 10 percent of the world's wealth, and probably much more.\textsuperscript{50} However, the procapital stance has been taken further in the United States than in many nations. For one year, George W. Bush even abolished the estate tax.

In the United States, market-generated inequality as such is not appreciably greater than in many other OECD countries. It is only when taxation and government transfers are included in the comparison that the full extent of comparative American inequality is revealed.\textsuperscript{51} The change is manifest not just in income distribution but in the political culture. Since 1980 the Republican Party has been closely shaped by an antistatist and antitaxation position, with candidates for office differing only in the extremes to which they will take that position. Though the Democrats are seen as the party of government and maintain a formal commitment to
ideas of redistribution and welfare, the parties are not as far apart as this would suggest. Both sides of politics are disciplined by lobbyists, campaign funding, and the potential for capital flight. A less aggressive version of the antitax posture of public choice theory and the tax revolt is mandatory in mainstream American politics. It would seem exceptionally difficult for any political party to take government without conforming to the finance-sector policy template, including continued financial deregulation and low taxation.

Given the elite capture of the polity, the main directions of education policy are easier to understand. Social elites mostly do not use common public services and have no intrinsic interest in their improvement, still less in paying for those services (unless members of the elite are altruistic, contradicting public choice theory). Genuine equality of opportunity would broaden the pool of competitors for position. Elite families have an intrinsic interest in a controlled form of educational competition and the ranking of educational institutions, providing that this competition rewards families with starting advantages. When higher education is a positional competition, wealthy families can better protect their interests within a segmented hierarchy in which the direct competitors are limited. They can advance their position though tailored and selective investments while protecting their children from all-inclusive mixing. The downward pressure on state spending and neglect of public schools in poor districts; the federal subsidization of for-profit colleges despite low quality and poor student completion rates and the support for the for-profit corporations on both sides of the aisle while community colleges are neglected (the exception is the Obama presidency, which struggled with Congress to promote community colleges and limit for-profit subsidies); the student loan policies tailored to the interests of commercial lenders, not students or access objectives; the tuition tax breaks; the legislative protection of Ivy League universities that service the richest 0.1 percent—these are all minor aspects of the much larger elite political project.

Yet these developments in higher education not only violate the goal of equality of opportunity, they undermine the meritocratic potential of 1960s human capital theory. Part I reflected on the important part played by higher education in American society in the more meritocratic 1950s–1970s era, when relatively open social structures were combined with growing social opportunities. Since 1980, amid the conditions of a reduced role of government, an increasingly cynical and commercialized polity, and a more unequal social order, the economic and social potentials of public higher education have been more limited.