

# The Vanishing Middle Class: The Growth of a Dual Economy

Peter Temin

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Growing income inequality is threatening the American middle class, and the middle class is vanishing before our eyes. We are still one country, but the stretch of incomes is fraying the unity of our nation.

That is from the first paragraph of my book, *The Vanishing Middle Class: Prejudice and Power in a Dual Economy*. I illustrate the point of the book in a brief tale of two janitors and a description of the book in the first part of this paper. Since the book was completed before the 2016 presidential election, I then describe where we are now in a few important areas in the second part. And I speculate on where we are going in the last part of the paper.

A September, 2017, story in the *New York Times* contrasted the experiences of two janitors in large companies at in the early 1980s and now. Ms. Evans worked for Kodak 30 years ago, and Ms. Ramos works at Apple today. The earnings adjusted for inflation are the same despite the passage of many years and are shown to be typical of low-wage workers in figure 2. But that is only part of the difference between the two janitors' employment.

Ms. Evans was an employee of Kodak and received a month's paid vacation and reimbursement for the tuition of college classes. A manager learned of Ms. Evans' classes and promoted her to a professional-track job on her college graduation in 1987. Ms. Ramos is employed by a contractor that Apple employs to keep its premises clean. She has not had a vacation in years and cannot see any path open to her for promotion to a better job.

Ms. Evans was as an employee of Kodak; Ms. Ramos works for a sub-contractor that contracts with Apple for cleaning services. Financial pressure had been placed on companies to specialize on their “core” activities in the meantime. The employment of other workers had been outsourced, and the core firm faced a contracting purchase instead of an employment decision. It is not surprising that the opportunities open to janitors are much greater as employees of a major company than to employees of a cost-minimizing cleaning company. Wages have stagnated, and the opportunities for advancement have decreased (Irwin, 2017).<sup>1</sup>

This example shows how the effects of finance over the past generation have altered the lives of the most humble members of our society. It shows how the unitary society of our parents has been replaced by a two-tier structure with limited opportunities for rising from the poorer to the richer sector. And it shows in the pictures accompanying the newspaper story how racial segregation has increased—further fragmenting our society.

This process is described in my book and summarized here in a series of graphs. They show that this transition started in the 1970s and continues today. Figure 1 shows the proportion of national income captured by the wealthiest one percent. The data come from Thomas Piketty and his colleagues, and we all are grateful to them for exposing this shift from stability before 1970 to increasing share after then. An increasing share of income by one group must be offset by a decreasing share by another. Figure 2 shows that wages stopped growing at the same time as rich people began to claim an ever larger share of the whole, and workers claimed an ever smaller share. It shows that the tale of two janitors just recounted is typical in over half the economy. Figure 3 reveals another change that underlies the previous graphs. It shows the incarceration rate in the United States, and it began to increase at the same time as the income shares began to change. This graph appears strikingly similar to the others, and it points to one

of the primary causes of these epochal changes. Since one-third of African American men are likely to go to prison during their lives, mass incarceration has become a force for social repression, a new Jim Crow.

The middle class was critical to the success of the United States in the twentieth century. It provided the manpower that enabled the nation to turn the corner to victory in two world wars in the first half of the century, and it was the backbone of American economic dominance of the world in the second half. But now the average worker has trouble finding a job, and the earnings of median-income workers have not risen for forty years. (The median income was about \$60,000 in 2014 for a family of three.) If America is to remain strong in the twenty-first century, something has to be done.<sup>2</sup>

This problem is complicated by the influence of American history. Slavery was an integral part of the United States at its beginning, and it took a protracted and bloody Civil War to eliminate it. Too many African Americans still are not fully integrated into the mainstream of American society. While progress has been made, our neighborhoods and schools remain largely segregated by race, and African Americans as a whole are poorer than white Americans. These problems are intensified by the War on Drugs that sent so many African Americans to prison.

The combination of inequality and racial segregation is problematic for the health of our democracy. For example, it should be the right of any citizen to vote in a democracy. Slaves of course did not vote, and attempts continue to this day to keep African Americans from voting, including a number of high-profile recent cases of alleged illegal obstruction that have gone to the courts. Black people are far more likely than white people to be arrested and sent to prison in the American War on Drugs.

Poor whites also have suffered in various ways, but they have remained mostly quiescent and invisible in political debates and decisions. Traditionally, poor white Americans have not voted much, due to the restrictions used to discourage black voting like requiring picture IDs, and widespread beliefs that political parties are all the same and politicians do not care about them. Their frustration and despair at being left out of recent economic growth has resulted in an array of stresses and self-destructive behaviors that have raised the death rates for middle-aged white Americans. Anger at their circumstances was channeled into politics in 2016, and it is likely to affect American politics for a long time (Confessore and Wakabayashi, 2017).

I employ an economic model that was created over sixty years ago—and continues to be taught in economics classes today—to integrate the various strands of this narrative into a coherent story. This model continues to provide insights into the process of economic development even though it is clear enough to be understood by those who are not students of economics.

Economists identify this model by its creator, W. Arthur Lewis; it also is known as the original model of a *dual economy*. A dual economy exists when there are two separate economic sectors within one country, divided by different levels of development, technology, and patterns of demand. This definition reflects the use of the Lewis model in the field of economic development, and I adapted it in my book to describe current conditions in the United States, the richest large country in the world.

Lewis argued that wages in the capitalist sector were linked to the farmers' earnings because capitalists needed to attract workers to their sector by offering a premium over farming wages to induce farmers and farm workers to leave their familiar homes and activities. He said, "The fact that the wage level in the capitalist sector depends upon earnings in the subsistence

sector is sometimes of immense political importance, since its effect is that capitalists have a direct interest in holding down the productivity of the subsistence workers.” Going further and equating capitalists with imperialists, he continued, “The imperialists invest capital and hire workers; it is to their advantage to keep wages low, and even in those cases where they do not actually go out of their way to impoverish the subsistence economy, they will at least very seldom be found doing anything to make it more productive (Lewis, 1954).”

This use of the Lewis model is less paradoxical than it sounds because the political policies that grow out of our dual economy have made the United States appear more and more like a developing country. Anyone who stirs out of his or her house knows about the problems of deteriorating roads and bridges in our country. And if you are not rich enough to send your children to private schools or to live in an expensive suburb known for having good public schools, you may know also about the current crisis in education.

I equate Lewis’ capitalists with what I call the FTE sector for the role of finance, technology and electronics in separating themselves from the rest of the economy. This group consists of the richest twenty percent of the population, and it corresponds loosely to college graduates. They have been increasing their share of the national income since the 1970s as shown in figure 1. I call the remaining eighty percent the low-wage sector as the middle class is absorbed into workers whose wages have been flat as the economy has grown since the 1970s as shown in figure 2. Education is the path from the low-wage sector to the FTE sector (Pew, 2015).

Education was the key to American prosperity in the twentieth century. It is not too much to claim that we lived through an “American Century” because we had a long tradition of education that was the envy of the world. Education is doubly important in the story told here.

First, education is the key path for people to move from the poorer sector of the dual economy to the richer. And second, anyone interested in the continued economic success of the United States in the twenty-first century must want to fix our schools to preserve the prosperity of the country and its growth over time (Goldin and Katz, 2008).

While this seems compelling to most people, the politics that emerge from our dual economy prevent us from acting sensibly to reconstruct our ailing educational system. As we will see, we now have two systems of education, one for each sector of the dual economy. Schools for the richer sector vary in quality, and the best of them are well within the American historical experience. By contrast, schools for the poorer sector are failing. Attempts to fix them have been known primarily for their spectacular failures.

The legacy of slavery hangs over attempts to provide every child with an education. It was illegal to educate black people under slavery, and politicians today neglect education of the poor by implicitly invoking this racist history. Urban pockets of poverty are deprived of good education by coded messages that invoke race to justify neglect or worse toward them. African Americans are condemned for violent actions, but these actions are largely the result—not the cause—of educational failure. Local school-district control was the key to good education during American expansion, but it has become a barrier to good education in recent decades.

Even when black students get a good education, they often have trouble finding jobs that will move them up in the economy. Factory jobs have been disappearing for a generation; that is the main driver of the stable line in figure 2. The implication is that an educated black graduate in today's American economy has to make a leap to get into the higher-income group—a leap that is doubly hard. It typically requires even more education, and there is resistance to hiring bright young black people for high-paying jobs. The changing shape of the economy appears to

have locked a large percentage of African Americans into a subordinate position, from which only the best and the brightest can hope to escape. Latinos who came to the United States seeking good jobs, like African Americans who left the post-Civil War South in the Great Migration, are in similar trouble.

The first part of *The Vanishing Middle Class* explains a dual economy and how the United States divided in two over the last forty years. The growing gap between total earnings and wage incomes was captured by well-educated rich people, with the greatest gains going to the very richest. The FTE sector, focusing on finance, technology and electronics that form the core of this sector, separated further and further from the low-wage sector. The middle class that was the pride of the United States in the 20<sup>th</sup> century is vanishing. The path from a janitor in the low-wage sector to a professional job in the FTE sector has become far more difficult.

A Cape Cod (MA) plumber explained how this division affected his activities as he replaced a corroded faucet for me last summer. He used to buy and install new faucets for customers, but now the two parts of this demand have been separated. Customers now call the plumber to install faucets they already have purchased on EBay. Only half the demand is directed at him; the other half goes to companies over the internet. The income of this skilled worker consequently declined sharply over the last decades (Pechonis, 2017).

The second part of my book explains how the dual economy affects politics. It begins with a review of the role of race in American history, starting in the 17<sup>th</sup> century. Slavery was an integral part of the United States for close to a century until the Civil War eliminated it. But while slavery became illegal, white Southerners approximated it through Jim Crow laws and voting repression. When the Civil Rights Movement of the 1960s, a century after the Civil War, tried to eliminate the subjugation of African Americans, the reaction against full equality set in

motion the disintegration of American society described in my book. The FTE sector still employs racism and sexism to inflict its will on the low-wage sector.

The FTE sector justifies cutting off government programs that helped low-wage workers to advance into the middle class by claiming that blacks and women are using those programs to displace white male workers. This racism and sexism may be easier to understand if, “as opposed to the Republican capture of the white South, we ... speak of a Southern capture of the Republican Party.” An even more recent author observed, “One cultural contribution the South has made to the modern national right may be its persistent legacy of secession.” We know how secession worked in the mid-nineteenth century; nostalgia for it indicates a level of white rage that is hard for others to even imagine. The FTE sector has little contact with the low-wage sector and is not interested in helping working men and women of all colors get ahead (Lowndes, 2008, 6; Hochschild, 2016, 219; Anderson, 2016).

The third part describes the impact of forces described earlier on many government activities. We have a dual justice system; the FTE sector pays fines for illegal activities while the low-wage sector goes to prison. The War on Drugs filled our prisons and caused us to build more as we became a world leader in mass incarceration. The War on Drugs focuses on blacks, and our mass incarceration became a new Jim Crow oppression. We have a dual education system; the FTE sector has adequate public schools in suburbs while public schools in cities are denied needed funds and fail low-wage children—particularly black children with incarcerated parents. We have a dual infrastructure; interstate highways and airports for the FTE sector, and decaying urban streets, bridges, and public transport for low-wage folks. And we have a dual financial system where the FTE sector lives in tax-subsidized housing, and the low-wage sector suffers under the growing weight of educational debt.



I described these dual activities in my book as they existed in mid-2016. I take the opportunity here to describe what has happened in the last year. The short summary is that the dual nature of our economy and society has become even starker than it was before. The implications of the Lewis model are even more apparent than they were before in mass incarceration, public education, American cities, personal and public debt, and healthcare.

Mass incarceration has mushroomed to the point where we look more like the autocratic regimes of Eastern Europe and the Middle East than the democracies of Western Europe. Yet it vanished from political discussions in campaigns in the 2016 election. The recent stability in the number of American prisoners indicates that we have settled into a new equilibrium of mass incarceration, and it will be hard to dislodge ourselves from this apparent equilibrium.

Mass incarceration started from Nixon's War on Drugs, in a process described vividly by John Ehrlichman, Nixon's domestic-policy adviser, in 1994: "The Nixon campaign in 1968, and the Nixon White House after that, had two enemies: the antiwar left and black people. You understand what I'm saying? We knew we couldn't make it illegal to be either against the war or black, but by getting the public to associate the hippies with marijuana and blacks with heroin, and then criminalizing both heavily, we could disrupt those communities. We could arrest their leaders, raid their homes, break up their meetings, and vilify them night after night on the evening news. Did we know we were lying about the drugs? Of course we did." This was the origin of mass incarceration in the United States, which has been directed at African Americans from Nixon's time to today (Baum, 2016; Alexander, 2010).

Federal laws were expanded in state laws that ranged from three-strike laws to harsh penalties for possession of small amounts of marijuana. The laws also shifted the judicial process from judges to public prosecutors, from the courtroom to offices where prosecutors

pressured accused people to plea-bargain. The threat of harsh minimum sentences gives prosecutors the option of reducing the charge to a lesser one if the accused is reluctant to languish in jail awaiting trial—if he or she is unable to make bail—and then face the possibility of long years in prison. And the shift of power was eased by the pattern of financing. Public prosecutors are paid by localities, while the costs of prisons are borne by states. The trip to the penitentiary does not cost prosecutor at all. “Instead of juries and trial judges deciding whether this or that defendant merits punishing, prosecutors decide who deserves a trip to the nearest penitentiary (Stuntz, 2011, 286).”

This new judicial system raised convictions and entries into prison. Releases also rose. While these processes grew in tandem, the rise to mass incarceration was caused far more by the increase in criminal convictions than by increasing the length of incarceration. The increase in minimum sentences served as threats used by prosecutors to convince suspects to plead guilty to a lesser crime—and a shorter prison stay. The number of inmates grew primarily from the increase in convictions rather than the length of sentences. “Few people in the criminal justice system are as powerful, or as central to prison growth, as the prosecutor (Pfaff, 2017, 127).”

Both political parties were engaged at different times in legislation that gave rise to mass incarceration. It would seem likely that they could get together to try to reduce the rate of incarceration and its considerable costs, but the prospects are not good in a dual economy. The reduction of incarceration always has some risks, and political figures are very risk averse. Some people want to reduce the cost of prisons to help fund other government programs, but they have not produced many proposals to accomplish this goal or how to allocate the gains.

As criminologist Todd Clear stated: “Imprisonment in America is concentrated among young, poor—dominantly minority—men and (to a lesser extent) women who come from

impoverished communities. The way these young people cycle through our system of prisons and jails, then back into the community, leaves considerable collateral damage in its wake. Families are disrupted, social networks and other forms of social support are weakened, health is endangered, labor markets are thinned, and—more important than anything else—children are put at risk of the depleted human and social capital that promotes delinquency. After a certain point, the collateral effects of these high rates of incarceration seem to contribute to more crime in these places. Crime fuels a public call for ever-tougher responses to crime. The increasing way in which the face of criminality is the face of person of color contributes to an unarticulated public sense that race and crime are closely linked. The politics of race and justice coexist malignantly, sustaining an ever-growing policy base that guarantees new supplies of penal subjects in a self-sustaining and self-justifying manner (Clear, 2007, 175).”

We seem to be in a new equilibrium, as shown in figure 3. It took forty years to get to this point, and it may take at least that long to get back to what we can consider a normal incarceration rate typical of advanced economies. We have not yet started down that road.

Turn now to the problems of public education, which is the next chapter in *The Vanishing Middle Class*. I reiterate the interaction between public education and mass incarceration stated there. The low-wage judicial system takes many males out of poor communities, leaving single-parent families headed by women who are poor and can only afford to live in poor neighborhoods. Public schools in those areas need more resources than suburban schools to compensate for the poverty and the negative effect on student motivation of mass incarceration. Yet the FTE sector allocates fewer resources to these schools. These effects are most intense in poor black neighborhoods, since African Americans are the primary targets of mass incarceration. Latinos suffer almost as much relative to poor white neighborhoods.

In addition, the FTE sector increasingly has expected young people in the low-wage sector to pay for their own education. Parents previously supported children while they went to school both directly and indirectly through property taxes for schools. As the government reduced spending for schools at all levels, low-wage families found it hard to increase their contribution. The students themselves then have to finance their own education. This is most noticeable in college education, but it is present at lower levels as well.

Secretary of Education Betsy DeVos was confirmed as Education Secretary by a single vote, delivered by Vice President Mike Pence who was brought in to break the first tie on a cabinet nomination. DeVos's support for charter schools and vouchers that can be used at private, religious and for-profit schools was well known, as was her antipathy toward public schools. Senator Jeff Sessions was confirmed as Attorney General only after the vote on DeVos so that he could create the Senate tie that the vice president broke (Huetteman and Alcindor, 2017).

DeVos is an ideologue for hands-off competition in education, despite her statements that she relies on verified information. She, like many in the Trump Administration, follows the teachings of Friedrich Hayek and Ayn Rand that glorify markets and individual entrepreneurs. But these authors do not consider the differences between various components of the economy. One reason for government activity is to fulfill needs where competition does not work well. Kenneth Arrow, a Nobel Laureate in Economics, wrote a classic paper many years ago showing that competition in health care does not work well because there is so much uncertainty in healthcare that consumers cannot know enough to make rational choices. Arrow's reasoning

applies also to education, which is hard for people to understand because the results of education are equally uncertain (Hayek, 1944; Rand, 1957; Arrow, 1963).<sup>3</sup>

Trump's first education budget confirmed the worst views of Congress as it argued over DeVos' confirmation. The budget cut over ten billion dollars from federal education initiatives, including work-study programs, loan forgiveness, and mental health. Instead the budget spends more money to expand charter schools, education vouchers and public-school activities to promote choice-friendly policies. Ironically, the Trump budget use of federal dollars to promote school choice is similar to the way President Obama used federal dollars to promote policies in his Race to the Top program, despite Trump's and DeVos' scorn for federal control. As DeVos said, "It's time for us to break out of the confines of the federal government's arcane approach to education. Washington has been in the driver's seat for over 50 years with very little to show for its efforts (Brown, et al. 2017; Green, 2017)."

The budget reaches down into the details of local school funding to end many programs designed to help the poorest students. For example, it ends programs for Alaska and Hawaiian students, arts education, American history and civics academies, full-service community schools that provide academic, social and health services to students and families, library-based literacy programs, and "impact aid" for districts that lose revenue from military bases. The budget claims it maintains the traditional reliance on evidence-based policies, but it ignores the mixed reviews that charter schools have received (Ravitch, 2017).

DeVos champions the use of vouchers in addition to supporting charters. While charter schools maintain the fiction of not diminishing public school funding—although legislatures often do not follow through on this claim—vouchers for religious schools provide tax incentives

for individuals that diminish the tax revenues that could go to public schools. In many states, taxpayers can get a federal tax deduction for a charitable deduction plus a state tax credit for contribution to a religious educational organization; the sum of the deductions and credits may be larger than the original donation. While promoting choice, this use of tax advantages provides a subsidy for wealthy contributors and inhibits the choice of others (Pudelski and Davis, 2017).

Student debt is now second only to mortgage debt, although little is known about student debt as the Department of Education does not release much data. The Obama administration was making efforts to reform the process of obtaining student debt to clarify and perhaps correct some of the problems. It was on the verge of selecting a single vendor to create a government portal along the lines of HealthCare.gov. The Education Department had narrowed the field to three finalists when President Trump was inaugurated.

Secretary DeVos took the lead in rolling back the Obama efforts to organize the accumulation of educational debts. She started by rescinding key parts of the process creating a federal portal for student loans, delaying or eliminating the federal portal. She also weakened accountability for companies that administer student loans. The government took down the online IRS Data Retrieval Tool that allowed borrowers to direct their tax data to loan servicers, easing the way toward varied government programs for student debt, on the grounds that it was being used to file fraudulent tax returns. And she eliminated the limits on the penalties imposed on borrowers by loan companies to borrowers in default (Cowley and Silver-Greenberg, 2017; Dynarski, 2017).

The Education Department also administers loan debts by students who were cheated by fraudulent for-profit colleges. The Trump administration formally reconsidered rules that the Obama administration had proposed to crack down on predatory for-profit colleges. One rule erased student debts of fraudulent colleges; another cut off loans to colleges if their graduates did not earn enough pay off their student debt. Secretary DeVos said, “Fraud, especially fraud committed by a school, is simply unacceptable. Unfortunately, last year’s rule-making effort missed an opportunity to get it right. The result is a muddled process that’s unfair to students and schools, and puts taxpayers on the hook for significant costs.” And the Education Department cast doubt whether it would apply the Loan Forgiveness Program for graduates who work ten years for public-interest causes that is scheduled to begin in October, 2017 (Cowley and Cohen. 2017; Cowley, 2017).

As this discussion has shown, the FTE sector increasingly has expected young people in the low-wage sector to pay for their own education, a trend that dates to the period since the 1970s. Parents previously supported children while they went to school both directly and indirectly through property taxes for schools. As the government reduced spending for schools at all levels, low-wage families found it hard to increase their contribution. The students themselves then have to finance their own education. This is most noticeable in college education, but it is present at lower levels as well.

It is reminiscent of a justification of slavery made a generation ago. Robert Fogel and Stanley Engerman argued in a classic book that slaves were *not* exploited in the antebellum South. The low wages received by slaves were net of repayments for the slaves’ upbringing, not the effect of exploitation. In other words, slave owners charged slaves for the cost of their

upbringing once the slaves were old enough to work. I argued then and reiterate now that paying for your own upbringing is not an American pattern; parents typically supported their children while they were growing up, paying for some of their education. But this parental help breaks down for many young members of the low-wage sector who have imprisoned fathers or try to attend college. The latter group, like the slaves of yore, are expected to pay for their college education out of their future earnings. In the dual economy, paying for your own education and the growth of mass incarceration make us think of slavery all over again (Fogel and Engerman, 1974; David and Temin, 1974).

The last government program I follow is healthcare. This program was mentioned in my book but not given a separate chapter; I assumed that the Affordable Care Act known as Obamacare would continue in force even though the Republican House of Representatives had passed over fifty bills repealing it. Fantasy became reality when Republicans emerged from the 2016 election in possession of the Presidency and both houses of Congress.

Even though Republicans controlled both houses of Congress, they were unable to pass any major legislation for the first six months of President Trump's term. They tried mightily in the spring of 2017 to repeal and replace the Affordable Care Act. The House passed a bill narrowly after trying a few alternatives, and the Senate failed to pass its second try by one vote. All of these bills denied health care to over twenty million people in return for a small tax cut for rich people that came from eliminating the 3.8% ACA tax on investment earnings for those earning more than \$200,000 from finance (\$250K for couples). Some of them also repealed the mandate for all people to buy sponsored insurance policies by eliminating the penalty for



remaining uninsured, destroying the government program to attract as large an insurance pool as possible (Congressional Budget Office, 2017a, 2017b, 2017c).

The penultimate Senate bill changed Medicaid from an entitlement to a block grant. The federal government would give states money according to block grants, not according to the health care supplied. This was the fiscal federalism that Nixon introduced and Reagan implemented by reducing and eliminating the block grants. Now as then, it is a process to kill social programs slowly. Later, Trump attacked Senator McConnell for not passing any significant legislation (Flegenheimer, Martin and Steinhauer, 2017; Flegenheimer, 2017).

The last bill (so far) was introduced in September, 2017, to be passed in a great hurry before a deadline at the end of the month would raise the requirement to pass it from fifty to sixty. This bill was more extreme than the previous ones, designed to appeal to recalcitrant Republicans rather than any Democrats. It proposed to convert the entire Affordable Care Act to states in the form of state block grants. This allowed states to opt out of consumer protections in the existing program in the short run, and ended all federal support in a decade unless Congress has a change of heart and renews the block grants. As noted above, this was the not the fate of Nixon's New Federalism under Reagan.

The bill gave the states only two years to design their own programs, far less time than it had taken to construct previous healthcare systems. And the bill rejected mandated participation by healthy individuals, protection for people with pre-existing conditions and subsidized care for poor people by eliminating federal subsidies. Republicans could not muster enough votes for the quick vote that would be needed to pass the bill before the end of September, and it was

withdrawn (Kaplan and Pear, 2017; Krugman, 2017; Pear and Kaplan, 2017; Stolberg and Pear, 2017; Zernike, Abelson and Goodnough, 2017).

These extremes were the desires of large Republican donors. They were furious that the Senate could not pass the tax cuts that were implicit in these changes. As emphasized before, the FTE sector does not want to spend its money on behalf of the low-wage sector. They want the gains from killing Obamacare in addition to their planned \$1.5 billion tax cut. And if their over-optimistic predictions of economic growth from the latter tax are wrong, they still want almost all the income growth that happens to accrue to them (Bohlen, 2017; Hulse, 2017. Rappeport, 2017; Rappeport and Kaplan, 2017).

But while Republicans have no coherent idea how to replace the ACA, they continue to attack it in many ways, ranging from law suits to refusing to accept the expansion of Medicaid that was in the act and made optional by the Supreme Court and to withholding various payments in the act. States with Republican governors who refused to expand Medicaid have fewer people with access to competitive insurance companies. And the resulting uncertainty about the fate of the ACA in 2018 is leading insurance companies to raise premiums to insure themselves about future payments (Dew and Baker, 2017; Sanger-Katz, 2017; Norris, 2017).

President Trump also threatens repeatedly to cut the subsidies to poor recipients of health care from the ACA. He said the health care law would implode, and Democrats would have no choice but to negotiate a replacement plan. Democrats in Congress asked the CBO for the effects of cutting the subsidies, and they found that healthcare premiums would rise by twenty percent next year and federal budget deficits will increase by \$194 billion in the coming decade. Instead of reducing costs, this plan to starve the ACA will cost both individuals and the

government substantially. The Trump Administration slashed spending on advertising and enrollment promotions, which also will raise costs by reducing the insurance pool. Just weeks before the open enrollment period started, the Trump Administration announced a forty percent cut in the navigator program, which helps consumers compare different health plans and sign up for coverage. Cuts were more severe in several states that face cuts of sixty and seventy percent, and navigator organizations have quit the field (Pear, 2017; Pear and Kaplan, 2017; Congressional Budget Office, 2017d; Goodnough and Pear, 2017).

The Congressional fight over healthcare reveals the force of the dual economy model in America today. Unlike a democratic country that takes care of all its citizens, the FTE sector cares only for itself and typically gets its healthcare through its employers. The FTE sector wants to hurt the members of the low-wage sector in order to preserve access to a cheap labor force and voluntary army. And in the American dual economy, this pressure is used to keep African Americans in their subordinate place, although the repeal of the ACA would harm the white working class as well.

The reluctance of rich people to support the welfare of all members of society has doomed earlier complex societies. The FTE sector is supporting policies that reduce the share of the United States in the world economy and its influence abroad. And the low-wage sector keeps growing as skilled work disappears, wages stagnate and services like education and healthcare are degraded. We are becoming a developing country like Argentina—which was a promising nation a century ago (Tainter, 1988; della Paolera and Taylor, 2003).

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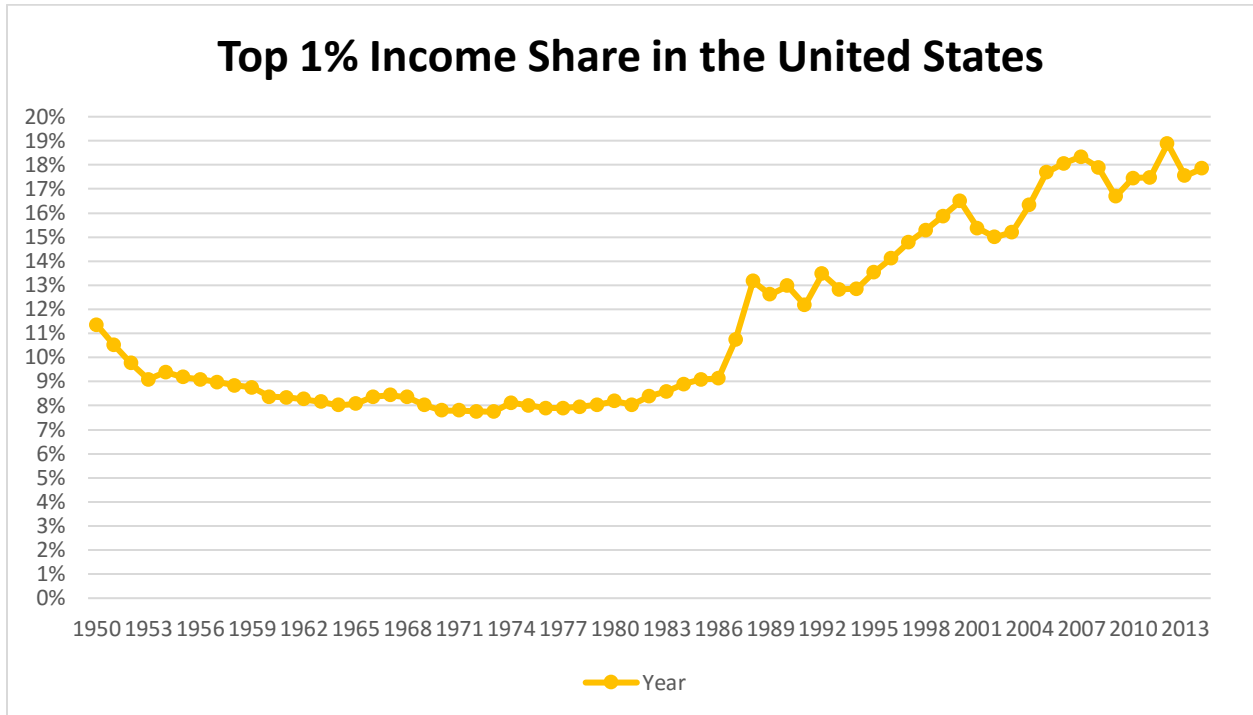
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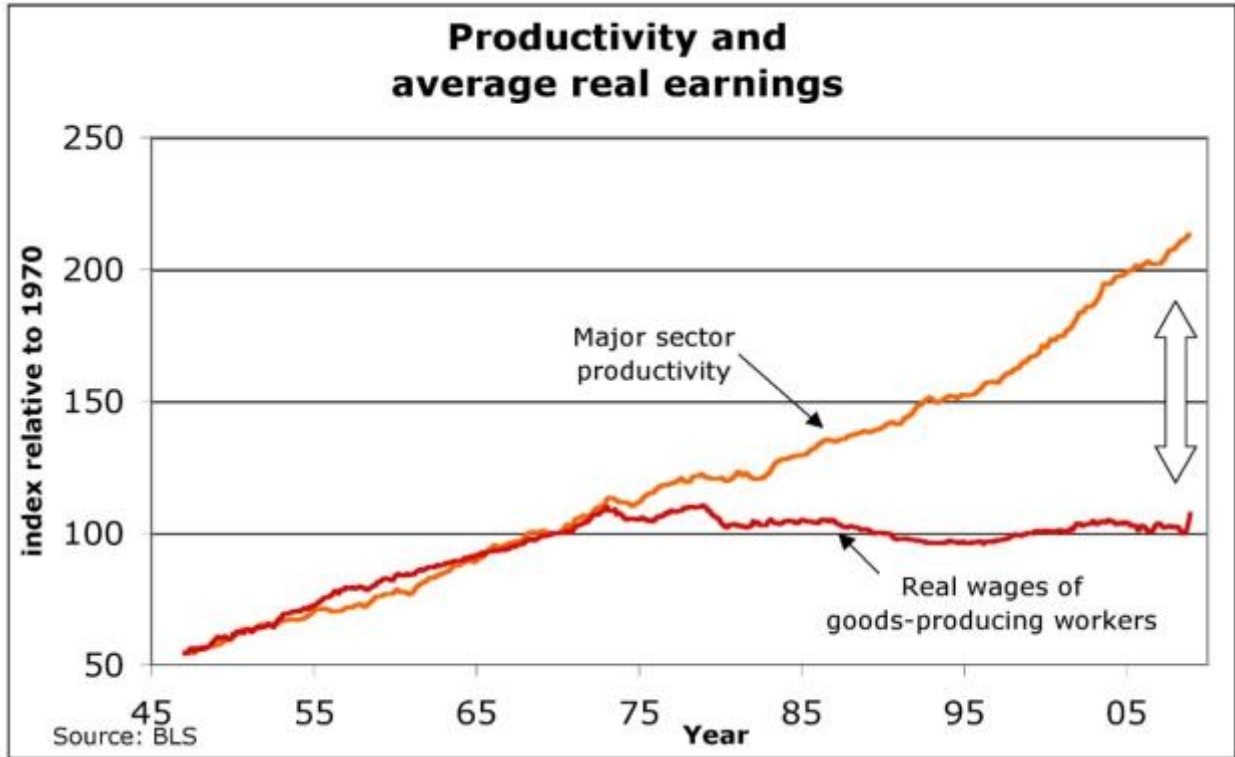
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Figure 1



Source: <http://topincomes.parisschoolofeconomics.eu/>

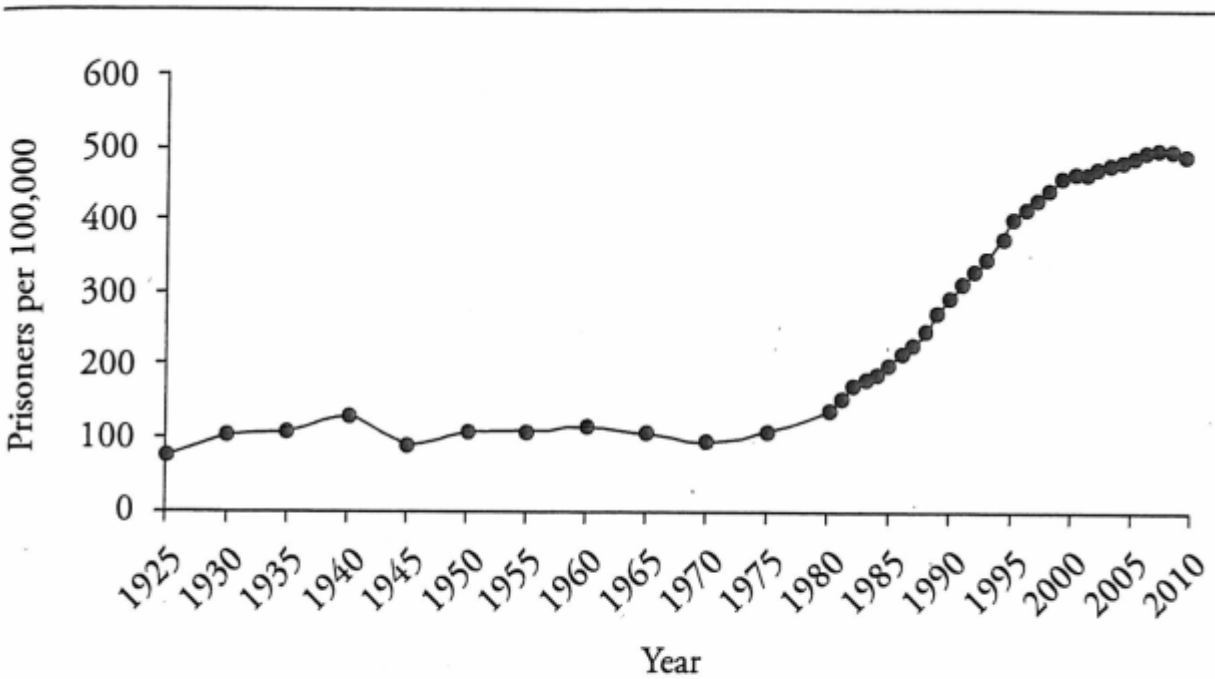
Figure 2



Source: Bickerton and Gourevitch, 2011, using BLS data.

Figure 3

Incarceration rate, 1925-2009



Source: Authors' compilation based on Bureau of Justice Statistics, *National Prisoner Statistics* (various years).

Source: Raphael and Stoll, 2013, p. 5.

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<sup>1</sup> Alternate work arrangements also increased from ten to fifteen percent of workers in the decade before 2015. Katz and Kreuger, 2016.

<sup>2</sup> The median income is the middle income, where as many people earn more as earn less.

<sup>3</sup> More detail about the most appropriate roles of governments in helping people can be found in Berliner, 1999.