

America Beyond Justice:
Critical Review of Peter Temin, *The Vanishing Class: Prejudice and Power in a*
***Dual Economy*, MIT Press, 2017**
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Peter Temin's ambitious monograph on the recent political history of the USA combines economic data about inequality, a complementary theory of politics, and a consequent discussion of how those politics have produced, and sustain, various negative social effects. It is no accident that the book opens with the economic data. In Temin's view it is America's radical inequality, with its persistent inter-woven strand of racism, that explains much else about America's oligarchic form of government. [Gilens & Page, 2014; Temin, 2017, pp. 71–85, p. 115] (Temin gives his reasons for preferring the term "plutocracy" to "oligarchy". [Temin, 2017, p. 94]) He believes that the negative social effects of both inequality and oligarchic governance follow ineluctably from Thomas Ferguson's "investment theory of politics" that Temin endorses in the second part of this book. [Ferguson, 1995]

I will divide this Critical Review as follows: the first section describes some key economic data to provide a context for Temin's discussion; the second section describes his characterization of his "bi-sectoral" model of the US economy; the third section turns to the key problem of social mobility. The fourth section discusses Temin's account of the Investment Theory of Politics. Section five discusses the role of private debt in Temin's argument while while section six addresses some of the broader issues raised by the book.

First, then, the economic data: the facts about inequality in the USA are now widely known: the median income for a family of three in 2014 was \$60, 000 while for the individual worker the median was \$40, 000. This median figure has been largely stagnant, in real terms, for 40 years. [Temin, 2017, ix, p. 25] The most poorly paid 20% of the US population has a median individual income of \$18, 000. [Kenworthy, 2014, p. 19] By contrast, the upper decile of income earners starts at \$120, 136 (in a comparatively low wage economy).¹ The “1 percent” made prominent by Piketty and Saez’s research has an income that starts at \$388, 905. [Piketty and Saez,] (Although it is worth bearing in mind on this point Piketty’s observation that “income is often not a well-defined concept for very wealthy individuals”. [Piketty, 2014, p. 525; see also Temin, 2017, p. 78])

A useful complement to Temin’s analysis is a series of recent papers by Pavlina R. Tcherneva that tracks the spread of income *gains* from post-War economic expansion. [Tcherneva, 2014a, see also 2014b, 2015, 2017a] I think her data helps further to illuminate Temin’s central thesis so I will describe it here: from 1940–1970 the lowest 90% of the US population (by income) received between 80% and 50% of income growth – admittedly, at a steadily declining rate over these decades. But one might reasonably make the case that during these decades gains in prosperity were shared.

By the 1980s this had changed: from 1982–90 this share going to the lowest 90% had dropped to 20%; it “rallied” to 27% between 1991 and 2000. At this point there is an even more striking change: between 2000 and 2007 no less than 98% of income gains went to the upper decile in the lead up to the financial crisis of 2007–8. In the period immediately after it, 116% of income gains went to the upper decile; in Tcherneva’s words, this is an “absurd result” which “is possible because the bottom

90 percent actually saw their incomes fall, on average, during this growth period”. [Tcherneva, 2014].

Since this nadir, the weak post-Crisis “recovery” has seen the income gains from growth distributed to the bottom 90% (by income) return to the range between 18–22%.² [Tcherneva, 2017a] Soaring corporate profits have been combined with the disproportionate enrichment of America’s wealthy and very wealthy citizens: however one explains the paradox of that which William Lazonick has called “profits without prosperity” it is clear that whatever prosperity exists, it has not been shared since the Crisis, but monopolized by the comparatively wealthy. [Lazonick, 2014, 2015] That can be seen most clearly when Tcherneva further differentiates the gains from growth between the lowest 9% of the upper decile and the “1 percent”. During the period 2009–12, 95% of all gains in income went to the 1% – this is the reality of the post-Crisis “recovery for the rich”. So while we used to discuss the “squeezed middle”, the economic data shows why this discussion is rapidly evolving into one about the non-existent middle class in the USA. The USA may, in this respect, be a “bellwether” for other societies on the same trajectory, including the UK.³ Why this should be so is the central topic of Temin’s book and this data – some of which he details – is the background to his argument. I turn now to Part I of the book and its proposed “bi-sectoral” model of the US economy.

The book is distinctive amongst the plethora of new books on inequality in the USA because of its use of a central trope, namely, the adaptation of a model from development economics – the “Lewis Model” proposed by W. Arthur Lewis. [Lewis, 1954] I say “trope” advisedly as this model is a vehicle for a deeper thesis than the use of the model itself – a fact that may lead to this book being misunderstood.

The central idea is that the \$18 trillion US economy – representing 20% of the global economy – is not one economy, but two, made up of both a *developed* and a *developing* sector. What is provocative about Temin’s use of this trope is that this dichotomy is more usually evoked to describe societies making a transition to industrial capitalism. Yet Temin thinks it is the most descriptively adequate model for the description of the world’s largest and most sophisticated economy because the USA has “de-industrialized” with “an economy more like that of developing countries than industrial ones”. [Temin, 2017, p. 163]

Temin’s descriptors of his two sectors are “the finance, technology and electronics” sector and the “low wage” sector (henceforth the “FTE” and “LW” sectors). In his account, 20% of American citizens occupy the former sector while 80% occupy the latter (of a population of 320 million). [Temin, 2017, p. 4, p. 9, pp. 77–8] He elucidates his distinction as follows:

I distinguish workers by the skills and occupations of the two sectors. The first sector consists of skilled workers and managers who have college degrees and command good and even very high salaries in our technological economy. I call this the FTE sector to highlight the roles of finance, technology and electronics in this part of the economy. The other group consists of low-skilled workers who are suffering some of the ills of globalization. I call this the low-wage sector to highlight *the role of politics* and technology in reducing the demand for semi-skilled workers. [Temin, 2017, p. 8, emphasis added]

In Temin’s view, the upper decile (so a distinction *within* his FTE sector) starts with the kind of six figure income that allows a person to “live in a good school district, own your house, and drive a new car” even if, at the bottom end of that earnings spread, insecurity and anxiety are also part of the package. [Temin, 2017, p. 24] By contrast, “the median worker earns around \$40,000 and the dividing line between the FTE and low wage sectors lies in the gap between these two figures”. [Temin, 2017, p. 25] A hole has been punched into the middle of the income and wealth distribution

and the way in which this both shapes, and is shaped by, politics is the centrepiece of Temin's analysis.

In my view, the potential problem with structuring the discussion using the Lewis model is that it invites one kind of interpretation that justifies this extensive inequality: that of the meritocrat. Meritocratic justifications of inequality may take the more specific form of the hypothesis of *skills based technical change*: those fortunate enough to have been educated to the right level – and in the right way – command a disproportionately high price in a labor market exposed to the forces of globalization. So there are two phenomena here: the opening up of a market to global competition, and the need for workers in that market to adjust accordingly. However, the meritocrat contends that if you do make the adjustment, then you merit the rewards that attach to it. (He or she may well admit that being in a position to do so may involve a great deal of luck, but is the meritorious status that counts, not how a person gains access to it.)

This meritocratic justification can be further refined: technological change and globalization are producing hyper-competitive markets that are broad, deep and efficient such that they produce a “winner takes all” effect. For example, consider the highly competitive sports that appear on the TV screens of every American bar. These elite athletes and competitors represent the tip of a very large iceberg: but their material rewards far exceed those of their journeyman peers because the rewards in these professions are concentrated at the very top. (This is Sherwin Rosen's “superstar hypothesis”. [Rosen, 1981])

Many corporate executives in the USA like to think of their own remuneration in the same terms – notwithstanding the fact that their own remuneration is not fixed by the market, but by a cartel of their peers serving on each other's remuneration

committees.⁴ [Thomas, 2017, p. 395, fn. 29] So, in a system where the “winner takes all”, for every gambler who sweeps all the chips from the table, the other players leave with none. There is only the fragile safety net for those who invested in the wrong skills – or were never invested in at all. Hence meritocrats have an explanation of extensive inequality: a narrative of winners and losers in a fair competition.

If you were so inclined to misunderstand Temin in this way – as a closet meritocrat – you might note that, in the paragraph I have quoted, he seems to explain inequality by appealing both the SBTC hypothesis and globalization.⁵ You could also, were you so minded, note that the worse off in the low wage sector are only relatively poor. Temin does not deny that those in the American LW sector are not *literally* at subsistence level (while in Lewis’s original model the contrast was between developed and subsistence sectors). [Temin, 2017, p. 8] They are not as absolutely poor as many sub-Saharan Africans. Finally, as the coup de grace, you might add Branko Milanovic’s observation that while the LW sector in America is doing badly, the very same forces of globalization are lifting the standard of living amongst Asia’s “emerging global middle class”. [Milanovic, 2016, p. 19; Temin, 2017, pp. 150–151] So if we broaden our view, we can see that the stagnation of America’s LW sector is “balanced” by gains elsewhere. If your concern is not with inequality, but with poverty (as Phil Parvin aptly puts it) then the case against American inequality is mixed. [Parvin, 2017] If it is part of a process of globalizing capitalism that is lifting the world’s poorest people out of poverty, ought we not to accept intra-societal inequality such as we find in the recent history of the USA? Some apologists for capitalism think so.

Why, then, would this meritocratic interpretation be an important misunderstanding of Temin’s book? Because what Temin is really interested in, when

he appeals to Lewis's model, is the latter's focus on how politics sustains the sectoral bifurcation essential to it. Lewis goes so far – in a passage Temin quotes – to describe the capitalists in the developed sector as acting towards the subsistence sector like “imperialists” – a prescient remark given the importance that Temin assigns to race in his own narrative and, indeed, Lewis's personal history growing up in a British colonial possession and ending up working at Princeton.⁶ [Lewis, 1954, p. 49; Temin, 2017, pp. 6–7]

Lewis argued that as capitalists in a developing economy want to attract workers from the parallel subsistence economy by paying a premium, and as its size is beyond their control, their interests are best served by keeping the subsistence sector poor so that the premium is added to as low a total as is feasible. [Temin, 2017, p. 7] You do not have to accept that specific explanation to draw a more general moral from it: that in a civil oligarchy, those in the FTE sector will implement policies to drive down wages in the LW sector – including pulling up the drawbridge of social mobility. Hence my italicization, in Temin's characterisation of his two sectors, of the phrase “the role of politics” in suppressing the demand for semi-skilled labour.⁷ [Temin, 2017, p. 10] The core claim of Temin's book is this: “one implication of the Lewis model is that the upper sector *tries to keep wages low in the lower sector*”. [Temin, 2017, p. xiv, emphasis added; see also pp. 6–7]

American inequality, and its attendant poverty, is the product of political action by those in the FTE sector – by direct or indirect means. They have a class interest and monopoly control of political power: while the upper decile is split in political allegiance between the Democratic and Republican parties that is of less importance than the fact that the FTE sector as a whole consistently enacts policies that keep members of the LW sector “in their place”. I think it would be a mistake to

think that every citizen in the FTE sector speaks with one voice: many members of this group are concerned about inequality. But political action by this sector as a whole, refracted through America's political institutions, produces domination of the LW sector even when some in the FTE sector would disavow this outcome. As Temin notes: "only the very rich want to destroy the New Deal and its 1960s extensions: the FTE as a whole seems willing to keep these programs functioning at a low cost". [Temin, 2017, p.101]

So the thesis that Temin actually wants to defend is well encapsulated in this passage from David B. Grusky discussing artificial "bottlenecks" in the supply of labor:

These bottlenecks create inequality by changing the relative size of the college-educated and poorly educated classes. Because bottlenecks generate an artificially small college-educated class, its wages are inflated and its unemployment rate suppressed. Because they generate an artificially bloated class of poorly educated workers, its wages are suppressed and its unemployment rate inflated. This crowding at the bottom has helped build a massive reserve army of unskilled labor evocative of mid-nineteenth century England. [Grusky, 2102, quoted in Thomas 2017, p. 61]

The issue is not, then, Skills Based Technical Change: Temin is explicit that "rapidly changing technology ... is an important part of this story, it is far from the whole tale". [Temin, 2017, p. x, pp. 150–151; see also Thomas, 2017, p. 382, n. 43; Mishel, Schitt & Shierholz, 2014; Krugman, 2015]

Nor is the issue some ineluctable economic determinism of globalization: if there is any society free from the pressures of globalization it is the world's remaining hyper-power, holder of its default safe assets, and controller of its currency of last resort, namely, the USA: the country that sets the terms on which other countries "globalize", but is not subject to that pressure itself.⁸

Nor, in the light of the falsity of the globalization-as-social-fate hypothesis, do we have to *choose* between intra-societal inequality and inter-societal inequality. [Temin, 2017, pp. 148–9; Thomas, 2017, chapter 12] America’s worst off and Vietnam’s middle class are not in zero-sum competition against each other: we do not have to choose between caring about global poverty and caring about intra-societal inequality. Indeed, if capitalism loses whatever legitimacy it enjoys in *already* affluent societies it is hard to see how it can serve as the engine of poverty eradication globally.

So the central trope of Temin’s book runs the risk of obscuring its most important thesis: a thesis I would summarize as the claim that *all economy is political economy*. That which keeps the two sectors apart is the policy upshot of the exercise of oligarchic political power.⁹ Temin argues forcefully that America combines a racialised form of capitalism and an entrenched civil oligarchy (most clearly in his chapters 6 and 7). The emergence of an immiserated precariat is the practical manifestation of the success of oligarchic control of politics. Temin’s helpful discussion of the workings of oligarchy explains why the Median Voter Theory fails as an explanation of why, in a democracy, the enfranchised mass does not mobilize in favour of equality; the Investment Theory of Politics explains how democracy evolves into a civil oligarchy – the focus of Part II, to which I will return.

An equally important explanatory factor in Temin’s explanation is not just the bi-sectoral model, but also history. Specifically, the history of race in America is crucial: Temin claims that the legacy of slavery plays a causal role in keeping African-Americans poor and politically dominated. [See also McAdam & Kloos, 2014] Yet it is not just African-Americans who are poor.¹⁰ Poor whites suffer from

the same policies sold to them as necessary to keep African-Americans in their place in the American racial hierarchy:

As incomes become more and more unequal, racism becomes a tool for the rich to arouse poor whites to feel superior to blacks and distract them from their economic plight. [Temin, 2017, p. xii]

Yet Temin notes that poor white Americans, who typically do not vote, did vote for President Trump with political repercussions that are yet to be determined as the Trump presidency unfolds. [Temin, 2017, p.x, p. 112]) Temin's sectoral division into the FTE and LW sectors maps directly on to race:

[T]he FTE sector is largely white, with few representatives from other groups. The low-wage sector is more varied, with a mix of whites, blacks and Latinos. The low-wage sector is about 50 percent white, with the other half composed more or less equally of African Americans and Latino immigrants. [Temin, 2017, pp. 9–10]

Government action via tax and transfer policies “softens” these bi-sectoral inequalities, but it does not remove them. [Temin, 2017, p. 10] Once saving is taken into account, inheritance and saving produces radical disparities in wealth inequality and inheritance.

As Temin details in his chapter on “The Preferences of the Very Rich”, America's highly politically active wealthiest citizens specifically oppose welfare payments, the minimum wage, public education and “socialized medicine”. Conversely, they strongly support government activity that may indirectly benefit them: examples are direct tax cuts for the wealthy, macro-economic austerity policies to reduce deficits, spending on infrastructure and on scientific research. In the overlapping sector of those in the 1% and 0.1% who are corporate executives their critique of “big government” is qualified:

The belief in small government does not conflict with the readiness of business leaders to profit from the effects of government. The way to

understand this apparent contradiction is that ‘small government’ does not have a simple meaning. It means partly a government that does not try to help the low-wage sector of the economy. The New Deal should be repealed; extensions in the post-War years should be eliminated as well. Unions should be broken. But transfers through the tax system from the low-wage sector to the FTE sector are fine. [Temin, 2017, p.81]

These transfers can be “in kind”, such as the outsourcing of externalities like pollution by dumping it in poorer states of the Union. [Temin, 2017, p. 81] Or it can be the defrauding of the public purse by corporate tax evasion.¹¹ [Temin, 2017, p.82] Or, as James K. Galbraith has already argued, it can be the co-opting of the state – not “rolling it back – when doing so further strengthens the FTE sector via the creation of rent seeking opportunities. [Galbraith, 2008] Furthermore, particular actions or policies by the state have historically played a role in the perpetuation of racialised inequality (practices such as redlining) and Temin emphasizes the centrality of mass incarceration to carceral policy generally – another state initiative. [Temin, 2017, chapter nine] The one area where the FTE sector is unequivocally in favor of “big government” is military spending. [Temin, 2017, p. 102] An interesting intermediate case is America’s rapidly deteriorating infrastructure: investment would be to the advantage of both sectors, but these effects are sufficiently indirect that “many members of the FTE sector would rather keep their taxes low than consider investments that may indirectly help them, much less the needs of the low-wage sector”. [Temin, 2017, p. 135]

How much insight is derivable from the Lewis model? It seems to me a great deal; here is Temin on the jobs in the LW sector:

Rural people sold food to cities in the Lewis model; members of the low wage sector typically sell services to the FTE sector in this modern reincarnation of the model. They work in fast-food restaurants and clean hospitals and hotels. They drive people around as needed, transport items in factories and stores,

work in nonunionized industries and engage in other similar activities that vary too much for robots to take over. [Temin, 2017, p. 28]

Whole categories of jobs are disappearing. The two sectors are disconnected from each other: “the low wage sector has very little impact on the progress of the FTE sector”. [Temin, 2017, p. 29] Temin further describes the outsourcing model that sees shareholder value maximized by concentration on core business while other service functions are “contracted out”: LW workers often now work for sub-contractors who compete to be hired by the various businesses who specialize in their core competencies alone. Cost cutting, precariousness and increased monitoring are the realities of life for employees in the LW sector:

The shift from paying wages to hiring subcontractors is a momentous change in the place of workers in a business enterprise. When workers were wage earners, there was a social component to their work. Workers saw themselves as a group, and being a member of a stable group fostered morale ... When workers are hired instead by a competitive service company, they have no identification with the parent firm. They have low morale and will not exert any extra effort for the parent firm’s benefit. Intrusive monitoring replaces morale, and antagonism replaces cooperation. [Temin, 2017, p. 31]

In addition to poor working conditions – including insecurity – the increasingly monopolistic character of US business, with attendant monopoly rent extraction, leads both to increasing consumer prices and collusion between employers who seek to keep wages low. [Temin, 2017, pp. 32-33] In the meantime, public sector services are, where possible, privatized and then cut:

The Lewis model asserts that the FTE sector wants to keep incomes low in the low wage sector, and that includes lowering the quality of public services in the low-wage sector. [Temin, 2017, p. 36]

As this welfare state is progressively run down and underfunded so its quality of provision drops: the downward spiral that leads “the FTE sector [to argue that] the programs are working badly and should be privatized”. [Temin, 2017, p. 101] As I

have noted, a significant redirection of public funds has been from investment in communities and education to fund mass incarceration instead, predominantly for African-Americans, a practice which Temin describes bluntly as “a form of social control”.¹² [Temin, 2017, p. 38]

Temin devotes a chapter to mass incarceration. He points out that African-Americans form 15% of the national population, but 40% of the prison population. [Temin, 2017, p. 37] There are currently one million African-American men under incarceration, unable to vote, and usually unable to claim any form of welfare if ever released: “those released from jail are denied access to social programs in most states ... recidivism is high”. [ibid] These are the very social programs that “help poor people get jobs, training and food assistance”.¹³ The only brake on America’s rising prison population is that, since 2008, budgets have fallen such that these levels of incarceration are becoming unaffordable. Private prisons, whose interest is in maximizing incarceration, have been at the forefront of lobbying for harsher penal policy – typical of the public-private “partnerships” that now infuse the US judicial system. [Temin, 2017, pp. 110–112]

Temin does not deny that the poor whites who make up 50% of the LW sector suffer the same ills as African-Americans: poverty, inner city deprivation, social exclusion, increased incarceration, breakdown in family structures and declining social capital: “[T]he American dual economy would still exist if there were no American blacks, but the political discussion would be different”. [Temin, 2017, p.39] 40% of single parent families of all ethnicities are below the poverty line. When it comes to inner city poverty, Temin argues that the basic explanatory variables are institutional and span ethnic categories. [Temin, p. 39; Wilson, Putnam, 2016] That which sets apart African-American communities is the role of the police in the

degeneration of their communities' social capital; white communities, by contrast, exhibit more self-destructive behaviours in the form of high rates of drug overdose, suicide and alcohol related liver mortality.¹⁴ [Temin, 2017, p. 154; Case & Deaton, 2015, 2017]

What, then, of a potential bridge between the two sectors – social mobility? Education is key to Temin's narrative: a key aspect of the dual economy is the disparity between educational outcomes in each sector:

[G]overnment decisions over the past generation have constructed a bifurcated school system, one for prosperous suburban whites who go on to college and one for urban black and brown people who are preoccupied by the threat of jail. [Temin, 2017, p. xvi]

The issue is, simply, cost: I would argue that it is positional goods whose market costs have increased disproportionately in the USA. [Drennan, 2015] This category of goods now includes education and housing (where the latter may well play a role in access to decent schooling) and healthcare. Given the bearing of health on fair equality of opportunity – John Rawls justifies free, high quality public healthcare on the grounds of his principle of Fair Equality of Opportunity – it is significant that these classes of goods have seen their costs disproportionately increase. As Temin notes, laconically, “the FTE sector has made this transition increasingly costly over time”. [Temin, 2017, p.41; Rawls, 2001]

This obstacle race places more, and higher, obstacles in the path of children whose parents are in the LW sector than for those in the FTE sector. Even those from the former sector who complete the course find that other factors – notably social capital – are involved in landing a job in the FTE sector. By contrast, “members of the FTE sector are not aware of the social capital that surrounds and sustains them”.

[Temin, 2017, p. 42] Social capital, and its radically unequal distribution between the FTE and LW sectors, is central to Temin's account of persistent educational failure across both the K-12 and university sectors.

This reflects the more general pattern of racially reinforced inequality and failed investment across the system. Specifically of the K-12 sector, Temin notes that “[the FTE sector] move to suburbs with good schools, paying high taxes to support them. If that is not good enough for them, they send their children to private schools”.

[Temin, 2017, p. 119] White flight to the suburbs has, at the K-12 level, produced “schools in the North ... as segregated as they were in the South before *Brown v Board of Education*”. [ibid.] Temin concludes that “American education has split into two separate educational systems” that confirms his bisectoral model: previously based on race, now on class.

When it comes to education, the very real “rolling back” of state funding – an area where political resistance has been successfully weakened – has closed the gates of social mobility that were available via the publicly funded sector. Tuition fees have risen accordingly, leading to student debt, and the multiply problematic “for profit” sector has expanded to meet the demand. This produces a combination of students who do not graduate, and colleges who fail to educate students up to degree level, leaving a substantial number of graduates still stuck in the LW sector – but now with student debts. “Student loans are now held by more than 40 million people who owe more than \$1.2 trillion in student-loan debt”. [Temin, 2017, p. 44] Temin notes the macroeconomic effect: debt depresses spending, which lowers demand for labour in the LW sector and helps to depress wages. This whole process has been governed by an ideology of state withdrawal and de-regulation: Temin contends that “lack of FTE

support for public education” is the fundamental cause of educational failure – a political issue, then, not an economic one. [Temin, 2017, p. 46]

Mark Blyth has memorably characterized the “austerity” policies implemented since the financial crisis as “a creditor’s paradise of positive real interest rates, low inflation, open markets, beaten-down unions, and a retreating state.” [Blyth, 2015] These policies directly reflect the interests of those who are adequately capitalized and a core theme of Temin’s book is that the LW sector lacks capital of all kinds: human capital, social capital and financial capital. The FTE sector is, by contrast, highly capitalized across all three dimensions and this is brought out in Temin’s insightful twelfth chapter ‘Personal and National Debts’: “we have a dual financial system, where the FTE sector generally has more assets than debts and the low-wage system is largely in debt”. [Temin, 2017, p. 137] Confirming independent work by Matthew P Drennan, Temin argues that high leveraging pre-2008 was a product of flawed government policy and income inequality. [Drennan, 2015] The post-Crisis debt overhang has contributed to low consumption and a protracted non-recovery (unless you are already wealthy). “Mortgage and educational debt are parts of a single problem”; and that problem is that the politically powerful FTE sector has no interest in debt relief – except bank bailouts. [Temin, 2017, p. 140, p. 158] The shell game by the FTE sector continues: “They idolize Reagan, but ignore the massive federal debt he created. The drumbeat goes on despite the enormous decrease in the federal deficit that has taken place since the financial crisis of 2008”. [Temin, 2017, p. 143] In his brief, but sympathetic and insightful discussion of Piketty’s work Temin notes that a focus on underlying holdings of capital may be a more useful basis for egalitarianism than focus on income alone. [Temin, 2017, p. 162; Thomas, 2017]

How does the FTE sector succeed in deploying political policies that keep wages low in the LW sector? Temin answers this question by appealing to the Investment Theory of Politics. He elects to open his whole discussion of the politics of his bi-sectoral economy with the issues of race and gender to illustrate the crucial role played in the history of American inequality by racism:

It seems odd that much of the public discussion of public policies designed to help the poor is directed to blacks, but the power of the American racial system dictates that it is so. [Temin, 2017, p.49]

Temin traces this tragic history in his chapter 5; African-Americans were systematically excluded both from the social protections of the New Deal and the expansion of the post-War middle class via such practices as redlining and systematic denials of credit. [Temin, 2017, pp. 52–3] The impact of this on the development of US social policy has been profound: Temin cites Alesina, Glaeser and Sacerdote’s conclusion that: “opponents of redistribution in the United States have regularly used race-based rhetoric to resist left-wing politics”. [Alesina, Glaeser & Sacerdote, cited by Temin, 2017, p. 55] In parallel, gender discrimination persists in the form of a 20% pay gap that persists notwithstanding equal levels of education. [Temin, 2017, p. 60]

Temin argues that only the Investment Theory of Politics can explain the data incorporated into the bi-sectoral model. The Median Voter Theorem would predict policies that favor the LW sector and yet those policies have not been followed. America’s political structures of representation and their distinctive history introduce significant status quo bias and too many choke points for extensive reform. In a self-reinforcing dynamic, not many Americans vote, and even those numbers are skewed by class, geography – and crucially by race. [Temin, 2017, pp.64–5] Time and again,

racially motivated legislation to stop African-Americans from voting prevents poor people generally from voting – the latter as a form of “collateral damage”. All of these factors undermine the usefulness of the Median Voter Theorem as a limiting device when it comes to extensive inequality; but Temin focuses in particular on gaining political knowledge – enough information to make good choices.

Temin takes Ferguson’s Investment Theory of Politics to be well supported by the existing empirical data. In Ferguson’s model, political outcomes correlate strongly with the amount of money channeled into the political process. The Supreme Court’s jurisprudence on this issue is at least right about this: money equates to speech (even if one ought to dissent from the underlying principle that maximalism about free speech converts to maximalism when it comes to money in politics): “more money yields more votes ... money is the prime determinant of the electoral outcome”.

[Temin, 2017, p. 74]

[T]he effects of voting are determined by entities – businesses, rich individuals, PACs – that are able to make large investments in political contests by various means. One way is to control who can vote, allowing only those people who will vote the way the investing entity votes. Another way is to advertise these entities views heavily ... and with powerful impact because voters have trouble getting other information about the effects of their votes. Voters typically need costly information for any single issue. Lacking the time or energy to get this information, they rely on advertising and party identification.
[p.72]

In this version of Schumpeter’s elite theory of democracy, the problem is that the two major parties are effectively a cartel and are not trusted intermediaries because their mediation of information to voters is shaped solely by who funds them. Particularly in the case of the recent history of the GOP, Wolfgang Streeck has noted that:

Why should one party in effect prevent itself from building a national majority, for the sake of more authentically representing a narrow core constituency? It is here that interest groups come in, especially those of capital...In Hacker and Pierson’s account, the America business lobby serves as a sort of functional

equivalent for the European state, providing its preferred party with financial support, thus liberating it from servitude to the median voter. In a constitutional system of divided government, the party can then dedicate itself to blocking legislation, thereby preserving the institutional status quo in a world of rapid social and economic change. [Streeck, 2014, p. 128; quoted in Thomas, 2017, p. 333]

This seems to me to represent a genuine insight – while not being entirely true: an investment in “vetocracy” certainly shifts power to the realm of private governance. But on some issues, notably “welfare for the wealthy”, the GOP can be highly activist – but in a way that avoids too much publicity by deploying hidden tax breaks and private subsidies. [Faricy, 2015] As Jacob S. Hacker’s work has made clear there are actually two “welfare states” in America: one under constant political attack whose goal is, putatively, to benefit the LW sector; another quietly going about its business that favors the LTE sector.¹⁵ [Hacker, 2002]

Temin draws on the research of Bartels, Gilens and Page to confirm the empirical, explanatory success of the Investment Theory of Politics in predicting US political outcomes. [Bartels, 2008; Gilens & Page, 2014] The FTE sector gets its own way in the determination of politics – no matter whether that influence is channeled via the GOP or the Democratic Party: “the FTE sector dominates decision making, and the low-wage sector is shut out of this process.” [Temin, 2017, p. 75, p. 80] Democrat Nancy Pelosi and Republican John Boehner were equally well funded by the 0.1%; the industries most active in investing in politics are pre-dominantly, not exclusively, from the finance, insurance and real estate sectors – making the policy outcomes after the financial crisis of 2007–8 hardly surprising. [Temin, 2017, p. 80] Yet it was these policies that shaped the striking data from Tcherneva with which I opened this discussion. Temin is at his most scathing about the political landscape post the *Citizens United* decision: blatant gerrymandering and the influx of even more

“dark money” into politics – “we are on our way to an autocratic government”. [Temin, 2017, p. 97] Here, as elsewhere, Temin is a commentator who is unafraid of speaking bluntly.

Temin has, then, written an impeccably researched book – a substantial synthesis of literatures in political philosophy, political science and economics – that are often developed in independence of each other. As is the case with Putnam’s *Our Kids*, behind the restrained prose the reader can detect an underlying quiet anger in Temin’s book. [Putnam, 2015] It naturally poses questions to the reflective reader – what can to be done to change any of these political processes or social outcomes?

Barrington Moore Jr. famously quipped “no bourgeoisie, no democracy”. [Moore, 1966] Since 1970, it seems that the United States has determinedly set out on a social experiment to test Moore’s hypothesis – an experiment particularly emboldened by the winning of the Cold War in 1991. The central thesis of Temin’s book – which I think is correct – is that this experiment reflects a set of political choices by those in the FTE sector who dominate those in the LW sector and, indeed, those who are not employed at all. [Thomas, 2017] This outcome is not the ineluctable product of the autonomous logic of capitalism (a thesis beloved by some economists), nor of the globalization-as-social-fate hypothesis, nor its local variant – the hypothesis of skills based technological change. Nor, as I have emphasized, is intra-societal inequality the price we have to pay for our concern for the global poor. One needs only to concede a modest version of the thesis of political path dependency to wonder whether it is already too late to envisage *any* change to Temin’s bi-sectoral account of US society. Is there any way back, or is America already beyond justice?

If you are committed to the values of liberal social democracy, then Temin's book makes for grim reading, not least because of the self-reinforcing stability of the bi-sectoral model that he describes: an authoritarian form of capitalism stabilized by racism. Margaret Thatcher's notorious statement that "there is no alternative" may well once have been both false, and politically contestable, but the very changes that both she and Ronald Reagan instigated have made this remark self-verifying. Their policies have brought about, over the long run, the very disintegration of realistic political options that would have falsified the claim that there is no alternative.

Over the longer historical run, Temin is surely correct that it was the New Deal that provoked a backlash in the form of the mobilization of American business interests, and the wealthy, which has systematically destroyed any potential agents of opposition and change – notably labor unions. [Temin, 2017, pp. 80–81; Hacker & Pierson, 2010; Philips-Fein, 2010] As Temin also notes, over the shorter run the most recent trend is for the influx of private wealth to push GOP policy even further to the extremes. [Temin, 2017, pp. 83–5, pp. 95–97] Dissent within the GOP is stifled, lest a resistor find a Tea Party candidate fielded as his or her opponent. [Mayer, 2016] The resulting mix of polarization, a sharper lurch to the Right by the GOP, and deepening instability has produced a more chaotic situation on the American Right – of which the presidency of Donald Trump represents a form of pathological symptom. But political chaos is really a sideshow: the aims are either the co-option of the state, or to "roll it back" so that regimes of private governance can fill the vacuum. As Calvin Coolidge remarked: "the chief business of the American people is business" and in that sense political instability and gridlock in Washington are natural accompaniments of business as usual. [Coolidge, 1925] Temin supplies a list of sensible and practical reforms that will begin to undo the bi-sectoral model; that which he does not supply is

any suggestion as to where the political will to implement them will come from.
[Temin, 2017, p. 156]

Political instability is not, of course, a recipe for macro-economic stability and in this case it seems that the very opposite is true: the politics of oligarchy licenses the economics of instability, with a series of boom and bust cycles that reinforces Solow's "rich gets richer" dynamic while abandoning any attempt at legitimization. [Galbraith, 2012; Stiglitz, 2012; Solow, 2014; Piketty, 2013] Troublingly, stabilization without legitimacy can only mean stabilization by power alone. As I have noted, I think Temin is right that there is a plausible case to be made outside think tanks and universities the rhetoric of rolling back the American state was a shell game: oligarchic politics co-opted the state while rolling it back "tactically" where entrenched interests were weak. [Temin, 2017, pp. 80–85; Thomas, 2017, p.] But the presidency of Donald Trump, while a reversion to orthodoxy in a military driven foreign policy, might be genuinely innovative when it comes to the undermining of what remains of the US welfare state. [Tcherneva, 2017b]

In the light of books such as Temin's, and others, the reader is left with an open and concerning question: whether the social fabric of the United States, with the vestiges of its already dysfunctional social safety net removed by President Trump, can withstand the next financial crisis and the social impact that will inevitably follow from it? It is not as if, in the light of books such as this, we have not all been warned about what is to come. For this reason, and many others, Peter Temin has written a very important book.

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¹ Is it a coincidence that the cutoff point for income tax payments to Social Security stop at \$118, 500? Temin thinks not. [Temin, 2017. p. 70, p. 141]

² In her 2017 update, which takes into account data available until 2015, Tcherneva notes that “real income for the bottom 90 percent of households is no longer shrinking ... Nevertheless, these families still capture a historically small proportion of that growth – only between 18 and 22 percent. The growing economy continues to deliver the most benefits to the wealthiest families”. [Tcherneva, 2017a]

³ This depends on whether the USA is an exceptional position – see the following footnote (4).

⁴ For an even broader perspective, Andrew Gamble notes that the CEOs and financiers of the world’s last remaining hegemon have extensive rent seeking opportunities from this hegemonic position alone: “When its currency is the international, reserve currency, for example, the hegemon is not subject to the same constraints on its economic policies as other states, unless it chooses, as Britain did in the nineteenth century and the US did between 1946 and 1971, to tie its currency to gold. But once the US had unilaterally renounced that link, it had much greater freedom to incur as much borrowing as it chose, pushing the costs on to other countries. ... Shaping the rules and the standards under which the rest of the world

operate gives significant advantages to US companies and helps the US retain its competitive edge. ... It is hardly surprising that US companies should therefore still dominate the list of the world's largest companies.”[Gamble, 2014, pp. 111–112]

⁵ By way of contrast, this explanation *is* endorsed by Case & Deaton [2017], p. 30, p. 38 as at least part of their explanation of why labor market exclusion plays a role in explaining “deaths of despair” amongst middle-aged non Hispanic whites in the USA (they later add “automation” as a complementary cause, p. 38). Elsewhere in the same paper, however, they note that identifying “the” cause of this mortality rate is “more a matter of semantics than statistics”, p. 38. I would note that, since inference to the best explanation can be comparative, if SBTC and globalization are incorrect explanations, then the comparative plausibility of “declining real wages” becomes more marked.

⁶ It is significant that Sir William Arthur Lewis was born in St. Lucia when it was still part of the British Windward Islands federal colony. As Temin observes: “[H]e was treated as an African-American, even though he was neither African nor American ... Lewis taught at Princeton University in later years, and he resented being incorporated into the American racial system”. [Temin, 2017, p. 49] There is, of course, a direct causal link between the Caribbean economies whose development inspired Lewis’s work and the historical development of the American South.

⁷ There is also a meritocratic tinge to Temin’s discussion of the attitudes towards risk of those who fail to self-capitalise [Temin, 2017, p. 11]; this is balanced by a more nuanced discussion of the importance of social capital alongside physical and human capital: “the FTE sector functions in the long run as standard economic growth models predict. Capital – physical, human and social – comes from savings and produces more output. It is important to include social capital on both the input and the output side. Trust and networks are important for productivity, and the capital of finance, for example, is not primarily physical capital.” [Temin, 2017, p. 12]

⁸ So I am not sure that, consistently with his overall thesis, Temin should argue that “Low wages are the result of decreased labor demand coming from improving technology and increased supply coming from globalization in the varied forms of trade, immigration, and moving production offshore”. [Temin, 2017, p. 28]

⁹ But Temin is not always consistent. He is certainly right that the financial sector has expanded since the 1980s, but there is a meritocratic component to his explanation

that “more educated people entered the ... sector. The increasing human capital in finance explains most of the rise in financial incomes in the 1980s. Wages in finance professions exceeded the educational premium in other industries after that, perhaps because of increasing risks in finance.” [Temin, 2017, p. 23] For a contrasting view of the same industry, see Turner [2012, p. 58] who concludes that: “What then is the balance between the real value added and the distributive rent extraction? We don’t know. But we do know that there is more potential for finance to generate redistributive rents than exists in most other sectors of the economy.... And a lot of those rents stick to the highly skilled employees.” [quoted also in Thomas, 2017, p. 361]

¹⁰ “Black Americans are a minority of the population and of the low-wage sector, but the desire to preserve the inferior status of blacks has motivated policies against all members of the low wage sector. Sometimes ‘black’ is a metaphor for ‘others’”. [Temin, 2017, p. 35]

¹¹ Is it creditable to America’s 1% that, unlike their European counterparts, they engage in less individual tax evasion? (While American corporations show no such constraint.) Given how favorably they are treated by the tax code of America’s civil oligarchy perhaps this “restraint” is not surprising.

¹² “The New Jim Crow is an important part of the complex of measures designed to keep African-Americans poor and politically marginalized in America”. [Temin, 2017, p. 104]

¹³ “40% of people living in households headed by females – resulting when men are locked away by mass incarceration – are in poverty. And they go to schools in poor areas as a result”. [Temin, 2017, p. 113]

¹⁴ “Not only are educational differences in mortality among whites increasing, but mortality is *rising* for those without, and *falling* for those with, a college degree. This is true for non-Hispanic white men and women in all age groups from 25–29 through 60–64”. [Case & Deaton, 2017] While noting that their research is at a preliminary stage, Case and Deaton are currently working with the hypothesis that the best explanation of these “deaths of despair” are “a long-standing process of cumulative disadvantage for those with less than a college degree”, pp. 3–4.

¹⁵ Similarly, Temin describes a parallel judicial system “where the FTE sector pays taxes and occasionally fines, and the low wage sector is subject to frequent fines and imprisonment for failure to pay fines”. [Temin, 2017, p. 103]