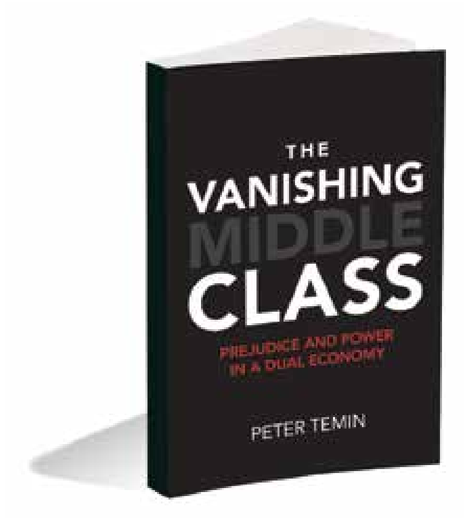
# Reinventing the Past




*Peter Temin*

**The Vanishing Middle Class**

**Prejudice and Power in a Dual Economy**

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Americans tend to assume that history marches forward and that their children will do better than they did. This is a fundamental tenet of the American Dream and a core deliverable of the economy over most of the course of the 20th century.

Sometimes, though, there are detours.

Even though over the past 40 years, the United States grew ever richer, the gains from this growth have not been shared. The US economy produced $18 trillion worth of goods and services in 2016, more than any other country that year—or any year on record. Data show that between 1980 and 2014 pretax income grew, on average, by 61 percent, yet most of these gains went to those at the very top. For the bottom 50 percent of the US population incomes grew only 1 percent; those in the top 1 percent snagged 205 percent income growth.

This is not the way the American Dream was expected to play out.

Explaining rising inequality in the United States is the aim of Peter Temin's new book, *The Vanishing Middle Class*. Temin argues that the distribution of gains from economic growth today make the United States look like a developing economy. He builds on the dual sector model developed in the 1950s by W. Arthur Lewis. Looking at developing economies, Lewis proposed that economic growth and development did not conform to national boundaries. Within countries, he saw that "economic progress was not uniform, but spotty." His model explains how development and lack of development progress side by side. One sector, which Lewis calls "capitalist," is the home of modern production, where development is limited only by the amount of capital. The other sector, which he calls "subsistence," is composed of poor farmers who supply a vast surplus of labor. In these two sectors' symbiotic relationship the capitalist sector seeks to keep wages down to maintain an ongoing source of cheap labor.

Temin applies this framework to the United States today. He argues that "the vanishing middle class has left behind a dual economy." His dual sectors are finance, technology, and electronics, or FTE—akin to Lewis's capitalist sector—and low-skill work, akin to the subsistence sector, whose workers bear the brunt of the vagaries of globalization. The book lays out how members of the FTE sector seek to keep their own taxes low and suppress the wages they pay so as to maximize their profits. Mass incarceration, housing segregation, and disenfranchisement all serve—among other things—to keep the low-skill sector in a subservient labor market position. These developments play out along racial lines set by the nation's history of slavery.

The bridge between these two sides of the economy is education. There are paths for children of low-wage families to get into the richer FTE capitalist group, but Temin argues that there are many more obstacles, especially for children from African-American families. This is why Temin's top policy recommendation is universal access to high-quality preschool and greater financial support for public universities.

His second recommendation is to reverse policies that repress poor folk of any race. He advises an end to mass incarceration and housing discrimination so that families can escape the low-skill trap and more coherently integrate into the broader economy and society.

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Alas, neither of these recommendations is potent enough to overcome the fundamental problems Temin identifies. The US path of natural progression toward greater equality has been detoured for decades now. The idea that the US economy is on a trend more like that of a developing economy than of a rich, developed nation may seem jarring, but that is exactly the nature of the distributional structure of the world's richest economy.

The steps that brought the United States more equality in the middle of the 20th century certainly included attention to education—the United States was among the first to provide universal access to primary education nationwide, and the GI bill after World War II opened college doors to generations of students—but that was not the only policy. Among other things, the middle decades of that century also boasted high taxation on estates and top incomes—money that could be invested in broader economic growth—yet both have been seriously eroded over the past four decades. If we want to revive our vanishing middle class, which Temin so eloquently describes, we'll need to do more to undermine the dual economy structures he so accurately details.

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