VMC Teaching Aids

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This essay on how to teach *The Vanishing Middle Class* is divided into three parts that echo the three parts of the book. The book describes the causes and effects of increasing income inequality in the United States that has lasted half a century. The first part of this essay emphasizes the usefulness of the Lewis model to interpret—and even predict—current events and suggests how to integrate current events into the account of the first part of the book. The second part of this essay introduces a new and even simpler model to clarify how the issue of race entered into American history and now enters into the American dual economy. Discussion of this new model also should help students understand how simple models aid thinking about complex subjects. The third part of this essay explores the use of sources to identify the ongoing effects of inequality identified in the book. I stress written sources, as befits an historian, although modern technology is making other sources useful as well.

I

Figure 1 in the introduction to *The Vanishing Middle Class* and reproduced here sets the stage for the book as a whole. But the figure shows trends only until 2014. A natural first question is what has happened since then.

The answer starts in the beginning of the epilogue to the paperback edition, where I cite some academic articles. It continues with the last paragraph in the epilogue—added as the paperback went to press—on the Trump tax cut of December 2017. The tax cut delivers more after-tax income to rich individuals and large corporations; it means that the curve for the higher

group in figure 1 (my FTE sector) will continue to rise for the foreseeable future. The *New York Times* headlined an article "A Tax Plan to Turbocharge Inequality."¹

We have become a nation of rich and poor. The Lewis model of a dual economy describes that condition well, and it provides a framework to analyze the many different effects of extreme inequality of income. Instead of listing changes in diverse parts of the American economy over the past half-century, the model of a dual economy provides a useful framework to understand the commonality in these many apparently unrelated developments.

I characterized senate majority leader Mitch McConnell's 2016 actions preventing Senate confirmation of Obama's nominee for the Supreme Court as a movement away from a constitutional democracy. Should we regard McConnell's actions in rushing through the tax cut of late 2017 as a continuation of this political shift? The effect of McConnell's actions can be seen in the Supreme Court's decisions in its first term with Justice Neil Gorsuch, Trump's choice for the Supreme Court. The decisions allow states to discourage poor and black voters from voting, criminalize abortions, starve public unions, bar class actions by workers, weaken antitrust law, and uphold Trump's travel ban on Muslims. They were all 5–4 decisions with Justice Gorsuch in the majority. The Supreme Court has been politicized, and the low-wage sector of the dual economy has been moved further away from political power.²

To explore the politics of the tax cut, you need to start with an early August meeting of the Republican budget committee with Mitch McConnell. Having failed to repeal the Affordable Care Act, aka Obamacare, the Republicans were desperate to pass significant legislation soon. Despite their desire for haste, the Senate did not choose to pass the final bill until December. Even so, their haste was evident in the handwritten corrections in the margins of the bill. There

was no time for the Congressional Budget Office to evaluate the bill as it did for previous tax bills. And there was no time for senators to read the bill before voting on it. The absence of normal Congressional procedures during the bill's passage continued the deviation from normal Senate procedures begun when McConnell blocked Obama from appointing his choice for the Supreme Court for over a year.³

The economics of the tax cut are described in many newspaper accounts; the only official account is a letter from the Congressional Budget Office saying that the budget deficit would amount to \$1.8 trillion, not \$1.5 trillion. The bill was not affected by this change even though the budget reconciliation process was limited to \$1.5 trillion. A newspaper article by Drucker and Rappeport listed winners and losers from the bill. The winners include President Trump and his family, big corporations, multimillionaires, private equity managers, private schools and lawyers. Losers include people buying health insurance, future individual taxpayers, the elderly, low-income families, owners of large houses, residents of high tax states, Puerto Ricans, and the IRS. More details will become apparent as various ambiguities of the law are litigated.⁴

A political effect of the tax cut will be Republican claims that the government cannot afford to maintain the social safety net: healthcare, Medicaid, Medicare, Social Security, etc. This will be like the boy who murdered his parents appealing for mercy as an orphan. An economic effect will be to hamper policies in the event of a financial crisis. Fiscal policy will be very hard to use with a large overhanging public debt, and a recession most likely would be deeper than in 2008.⁵

Seen through the lens of the Lewis model, the tax cut will make the FTE sector more separate from the low-wage sector. One consequence of this widening income gap is that

mobility from the low-wage sector will become even harder, freezing the low-wage people in poverty. The path to the FTE sector starts with education, which will become more fragmented and more difficult for poor families to afford, and the intellectual and social distance between the two sectors will become wider as the middle class continues to vanish.

In addition to the ways middle-class jobs are vanishing as noted in my book, workers employed by state government have seen their wages and opportunities decrease as the FTE sector reduces state administrations. This includes teachers, to be discussed more later, and other workers in what were previously lifetime careers. The failure of the federal government to enforce anti-trust laws has increased the monopsony power—the market power of *buyers*—of large corporations, keeping wages in private employment low as well. And the Supreme Court recently blocked opportunities for class actions to improve working conditions and pay.⁶

II

Turning to the second part of my book and the issue of race in America, consider how Lewis described his model: "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." By using the term *imperialists* Lewis implied that the rich sector differed from the poor sector by more than its income.⁷

I suggest here that another simple model that everyone knows, but few describe as a model, will help students understand both the usefulness of American history and how to use a simple model. Lewis was thinking of a colonial setting, so let us recall our colonial days. Edmund Morgan argued, as noted in the epilogue to my book, that Virginians acting in the tradition of British liberal thinkers classified all poor people as "black." Morgan closed his book with the assertion that this slavery mentality outlived the Civil War, asking, "Was the nation of equals flawed at the source by contempt for both the poor and the black? Is America still colonial Virginia writ large?" I follow Morgan's lead and call this the Virginia model.⁸

The Virginia model divides the population of a country in two, as does the Lewis model. The Virginia model argues that disadvantaged people who are poor and powerless should be considered not fully human and rendered as invisible as possible; they are all "blacks." In other words, both models divide the population in two, with the richer group demonizing the poorer group. But the Virginia model divides the country at the bottom rather than the top.

In the Lewis model, the top twenty percent want to keep the bottom eighty percent down. In the Virginia model, the percentages are reversed; the top eighty percent want to keep the bottom twenty percent down. In the modernized Lewis model used in *The Vanishing Middle Class*, the FTE sector uses the Virginia model to divide the low-wage sector into antagonistic "whites" and "blacks." Dividing the low-wage sector is an important way that the FTE sector persuades the low-wage sector to go along with their regressive policies. The Virginia model interprets the Declaration of Independence to say all *white* men are created equal.

The Virginia model describes the antebellum South when blacks were enslaved, and white Southerners' commitment to the Virginia model led eventually to our bloody Civil War. This much is clear without reference to the Virginia model, but the model continued in national politics after the war and the abolition of slavery. The presidential election of 1876 was indeterminate and was resolved by Congress as mandated by the Constitution. The resulting compromise—a century after the Declaration of Independence—allowed the Republican

candidate to take office in return for removing federal troops from the South, ending Reconstruction and the effort to force the South to abandon the Virginia model.

In a recent book on current events, Ziblatt and Levitsky heralded the compromise of 1876 as restoring "American democracy for the decades that followed." More accurately, the compromise restored the United States to its antebellum position as a union of a democratic North and an oligarchic South subject to the Virginia model. Why did Congress do this? It would take a different book to explore this matter; I cite the compromise here to show how a simple model can help us understand what happened then and the model's resurgence now.⁹

The Northern economy grew rapidly after 1876 while the South lagged. Southern blacks took advantage of the growth of transportation and increasing work opportunities in the North to move north between 1920 and 1970 in what is called the Great Migration. This extended the Virginia model from a regional to a national one. Northern whites regarded immigrants as well as freedmen as blacks. Even the Irish fleeing the Great Famine were considered black when they arrived. Only after Irish immigrants turned on the freedmen were they considered white. Blackness in the Virginia model is not determined by the darkness of anyone's skin.¹⁰

Blacks moved into Northern cities to find work as the original Lewis model predicted. Northern whites responded by fleeing cities for the suburbs. This led to segregation in the North that has lasted to the present day. White voters in more segregated areas were less likely to vote for Obama in 2008 than white voters in less segregated areas. Ryan Enos tied these trends to the dynamics of the Virginia model. Personal contact with black people (including immigrants) diminishes white prejudice, but an increase in nearby black populations without integration (as a result of residential segregation) increases white prejudice.¹¹

President Lyndon Johnson tried to break out of this model by supporting the civil rights movement of the 1960s and passing national civil rights bills that echoed the constitutional amendments passed by the North during Reconstruction. He was supported by followers of Martin Luther King Jr. and Bobby Kennedy, but opposed by adherents of the Virginia model.

American society was in turmoil in the late 1960s. Assassinations and urban riots spread around the country. People were scared, and President Johnson appointed the Kerner Commission to help understand the urban riots then occurring. The commission's report argued that the riots were caused by a revolution of rising expectations. The civil rights movement of the 1960s led African-Americans to hope for integration into the general society, but progress was too slow. De Tocqueville, who described the antebellum United States so accurately, noted that "evils which are patiently endured when they seem inevitable become intolerable when once the idea of escape from them is suggested." The commission's report was rushed into publication for political reasons and was drowned out by concern over the Vietnam War. The expanding war diverted national attention from our internal problems to foreign entanglements. Urban riots and responses to them focused on the Asian war rather than social justice.¹²

President Nixon was worried about opposition to the war and transformed Johnson's War on Poverty into a War on Drugs almost exactly a century after the 1876 compromise. (Look at the epilogue for a clear statement of his motives.) His Southern strategy led to the rise of mass incarceration, which discriminated against blacks to create what Michelle Alexander calls a New Jim Crow. As described in *The Vanishing Middle Class*, Nixon's actions led to a dual economy at the same time as they confirmed the Virginia model for the nation. Catherine Cramer characterized rural white anger at cities where blacks and immigrants live as the Politics of

Resentment. The demonization of blacks and Latinos made it easy for candidate Trump to use racism as a tool in his successful bid for the presidency in 2016.¹³

Return to figure 1 to see how these two models work together. The rising line that shows the path of what I call the FTE sector from 1970 to today contains twenty percent of the population. The rising line also shows the path of the upper sector in the white population as it is the largest component of the population. What about other components? Only ten percent of the black population is in the FTE sector, while twenty percent of the white population is.

How do immigrants fit into this simple division? Immigrants often have been classified as blacks in the Virginia model, progressing to be white only after being absorbed into the population as a whole. Economically, Asian immigrants look like whites with twenty percent in the rising group. Latino immigrants by contrast look like blacks with only ten percent in the rising group. In an action that will preserve these inequalities for the future, President Trump rescinded Obama's directives promoting affirmative action in education. 14

The combination of the dual economy and the Virginia model as championed by Donald Trump attracted the 2016 white electorate, augmented by ads from the richest Americans and a few foreign dictators. The epilogue continues the story of the book, written before the 2016 election, and closes with the Trump tax cut, designed in the fall and rammed through Congress in a hectic rush at the end of 2017. The Investment Theory of Politics indicates we need to follow the money in politics.

The richest Americans undoubtedly will use some of the money granted to them by the tax cut to help preserve Republican control of Congress in 2018; the Koch network has already committed to spend \$400 million. Their contributions will be amplified by the gerrymandering of

REDMAP after *Citizens United* (2010) and restrictions of voting by blacks after *Shelby County* (2013). These critical Supreme Court decisions allowed money to dominate politics and restricted enforcement of the Voting Rights Act of 1965. They remind us of the message of figure 1: the election of 2016 was the result of past trends, not the start of a new American direction. Democracy is vanishing with the middle class.¹⁵

III

The third part of *The Vanishing Middle Class* tells how the low-wage sector of the economy suffered over the last half century in four separate areas. Declines in more areas, such as healthcare or the environment, could be added to those discussed in the book. The FTE sector determines public policies, and conditions for the low-wage sector deteriorate. The Investment Theory of Politics is evident. Racism, as expressed here in the Virginia model, also has been a factor in this deterioration and has caused extra damage in some areas. There are multiple connections between these areas that make it hard to improve any one of them by itself.

While all these policy errors and neglect contribute to the decline of the American economy and society, no neglect is more important than our abandonment of urban public education. Per capita spending in California from 1984 to 2004 *fell* twelve percent for higher education, rose twenty-six percent for K-12 education and rose thirty-four percent for post high-school education, while per capita spending on prisons grew 126 percent. Don't you think our priorities are all mixed up?¹⁶

This part of the book generally elicits more audience response than the previous, more abstract parts. Possible avenues to explore in a class or discussion forum include geographic variation, different organizations trying to help, suggested policy changes, and personal activities

in one or another issue discussed in part 3. Sources also vary as a result of this variety, and newspapers—on which I relied—are supplemented by books, movies, and other forms of communication. Videos can be more dramatic than newspapers, and even fiction can illuminate conditions in some areas. The full story of bad water in Flint, MI, described in *The Vanishing Middle Class*, is recounted in *What the Eyes Don't See* by Mona Hanna-Attisha, the pediatrician who broke the story. The lead in the water was due to a bad choice by a city manager appointed by the governor; the problem is still not fully corrected.¹⁷

The racial composition of mass incarceration has elicited a lot of interest. Movies dealing with the topic include *13th*, *Moonlight*, and *Fruitvale Station*. Racial disparities in education is also a large and varied topic; there are books and articles galore. School teachers in several states of middle America—Arizona, Colorado, Kentucky, and Oklahoma—walked out of their classrooms in early 2018 to protest their low wages and inadequate spending on school buildings and supplies. Some of these states, unable to hire local teachers at the low wages offered, have begun importing teachers from abroad. Videos of teachers' protests and of the outdated textbooks they are forced to teach are appalling. As the author of a *New Yorker* description of the Oklahoma walkout argued, it is a teaching moment.¹⁸

The condition of urban infrastructure in America is told in stories of delays and inconveniences as people in the low-wage sector struggle to get to and from their workplaces. And high levels of education and mortgage debt reduce household formation and spending. The current administration opposes new infrastructure spending, such as building a new tunnel from New Jersey to New York. A plan to update the New York subways costs \$20 billion—one-fifth of Apple's stock buyback after the tax cut—but the funds are nowhere to be found. And the Koch network spoils plans to improve local infrastructure in cities around the country.¹⁹

The only thing this administration is interested in doing is destroying the social and human capital of Latinos at the border—who are blacks in the Virginian model—so that they can become fodder for mass incarceration later. And President Trump destroyed social capital in the country as a whole when he falsely denied that his policy of destroying Latino families was his administration's policy; he lied when claiming that Democrats initiated it.²⁰

Together, these accounts show an economy that is allowing its capital stock to depreciate. Capital in *The Vanishing Middle Class* includes physical capital, human capital and social capital. Social capital, also known as soft power, is often neglected in discussions of inequality, but it is an essential part of advanced economies. Businessmen need to trust people in order to fulfill their contracts and pay their bills; students need to trust their teachers in order to learn. All types of capital are deteriorating, with ominous implications for America's future prosperity. For example, just the fear of a trade war strained the global economy in mid-2018 as President Trump threatened friends and foes with tariffs. Paul Krugman argued that Trump's destruction of our international treaties was like destroying the Pax Romana.²¹

While supporters of the Trump tax cut argued that reducing taxes on large corporations would increase employment and improve wages and living conditions, corporations instead have concentrated on buying up their own shares. This distributes part of the tax reduction to their shareholders, who are members of the FTE sector. Apple, one of the largest corporations and greatest beneficiaries of the tax cut, said it would buy back \$100 billion of its stock. Other companies have followed suit.²²

I asserted in *The Vanishing Middle Class* that two oxymorons, majority-minority and public-private, dominate our thinking about government support for replenishing our capital. A

particularly egregious example of the depreciation of social capital was President Trump's neglect of Puerto Rico after Hurricane Maria in September 2017. The official count of fatalities stands at 64, and the president trumpets his recovery efforts to help the American citizens of Puerto Rico. A new and careful study of the fatalities during and after the hurricane found that the death toll was almost 100 times larger than the official tally. Based on extensive random surveys across Puerto Rico and meriting publication in the *New England Journal of Medicine*, this study found 4645 deaths. The study shows Hurricane Maria to be one of the worst tragedies of the United States. More United States citizens died from Hurricane Maria than from the 9/11 attacks. Such is the force of the intertwined Lewis and Virginia models that these Puerto Rican deaths went almost unnoticed by national media.²³

Since the beginning of his presidential campaign, Donald Trump has frequently referred to Latinos as criminals and rapists, showing his adherence to the Virginia model. He uses the term "criminals" to link Latinos to the drug trade, as discussed earlier, but why refer to Latinos as rapists? Statistics provide no evidence of frequent Latino rapes. This accusation comes from the 1915 movie *Birth of a Nation*, which portrayed African American freedmen as dangerous sexual predators. President Woodrow Wilson admired this movie a hundred years ago, and President Donald Trump clearly admires it today. Trump adheres to the original expansive meaning of the Virginia model by regarding Latinos and other minorities as subhuman.

He and his equally racist attorney general Jeff Sessions initiated a program of criminalizing Latino immigrants seeking asylum at our southern border in April, 2018, and separating children from parents. There was no plan to reunite the thousands of children that the U.S. government had captured by June with their parents, and chaos followed as family members struggled to find their relatives. This assault on Latino families aroused horror and protest around the United States.²⁴

IV

Where does this leave America as seen in mid-2018? Not in a good place, despite the favorable economic news of the moment. America will become less productive as fewer students are qualified for good jobs and have the knowledge to make productive innovations. The United States is facing competition from China and other developing countries that educate their children adequately. Reviving education will be hard as students are adversely affected by mass incarceration and left with unsupportable education debts. The country won't even try to revive American public education unless it can wrest power from President Trump and his pals from the Forbes Billionaires list. And any political change would have to cope with the effects of an updated figure 1.²⁵

If we do not change, America will decline from being one of the richest countries to a developing one—retreating into the kind of country Lewis described in 1954. There will be a few rich financiers and capitalists surrounded by many countrymen and countrywomen living near subsistence level. The Lewis model will dominate, facilitated by the omnipresent Virginia model, and the United States will have little influence on world politics.

Figure 1

Percent of Aggregate US Income

Sources: Pew Research Service, 2015; Temin, 2017, xi.



<u>References</u> (Missing references are in *The Vanishing Middle Class*. References to *New York Times* stories can be found on their website by entering authors and dates in the search tool. Books and articles vary in difficulty and professional sophistication.)

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Notes

¹ Leonhart, 2017.

² Dias and Ember, 2018; Liptak, 2018; Litman, 2018; Wu, 2018.

³ Kaplan and Rappeport, 2017; Tankersley and Rappeport, 2017; Wilkinson, 2017; Temin, 2017, Chapter 8.

⁴ Hall, letter to Senator Ron Whyden, January 2, 1918; Drucker and Rappeport, 1917; Krugman, 2017; Tankersley, 2018.

⁵ Romer and Romer, 2017.

⁶ Cohen and Gebeloff, 2018; Katz and Krueger, forthcoming; Krueger and Posner, 2018; Liptak, 2018.

⁷ Lewis, 1954. For a recent survey of the Lewis model after sixty years, see Gollin, 2014.

⁸ Morgan, 1975, 386-87.

⁹ Levitsky and Ziblatt, 2018, 124–25.

¹⁰ Kahrl, 2018.

¹¹ Enos, 2017, 34–35, 48–49; Edsall, 2018. Enos followed Allport (1954) and phrased his conclusion as follows: "Interpersonal contact diminishes group-based bias, but ... in the absence of interpersonal contact, the presence of an outgroup increases group-based bias."

¹² De Tocqueville, 1856, p. 214; Kerner Commission, 1968, Chapter 5; Harris and Elkins, 1986, p. 19.

¹³ Alexander, 2010; Cramer, 2013; Pew Research Center, 2017.

¹⁴ Pew Research Service, 2015; Green, Apuzzo and Benner, 2018.

¹⁵ REDMAP, 2013; Daley, 2016; Easley, 2018.

- ¹⁶ Newfield, 2008, p. 266.
 ¹⁷ Hanna-Attisha, 2018.
 ¹⁸ Galchen, 2018; Goldberg, 2018; Goldstein, 2018a, 2018b; Romeo, Healy and Turkewitz, 2018.
 ¹⁹ Fitzsimmons, 2018; Shear and McGeehan, 2018; Tabuchi, 2018.
 ²⁰ Davis, 2018; Sheridan and Nelson, 2018.
 ²¹ DasGupta, 2007; Goodman, Austen and Malkin, 2018; Krugman, 2018.
 ²² Nicas, 2018; Dbilling, 2018.

- ²² Nicas, 2018; Phillips, 2018.
- ²³ Kishore et al., 2018.
- ²⁴ Blitzer, 2018; Harris, 2018; Jordan, 3028; Sheridan, 2018; Yoon-Hendricks and Greenberg, 2018.
- ²⁵ Koo, 2018.