People Like Us? How Mass Preferences are Shaped by Economic Inequality and Racial Diversity

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Abstract

The U.S. has experienced runaway economic inequality since the 1970s, yet there is not strong public support for government efforts that serve to narrow the growing disparities between citizens. Why? I point to the role of rising racial diversity. I theorize that Americans believe in conditional equality, where they support equalizing policies as long as they perceive the beneficiaries as people like themselves. However, as the country grows more diverse, citizens are less likely to perceive those around them as people like themselves. Using time-series cross-sectional data of the American states, I demonstrate that as racial diversity increases, the likelihood the public will respond to increasing inequality by supporting bigger government declines. This paper provides evidence for the mechanism usually implied but rarely tested by studies of diversity and policy: mass preferences.

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Inequality poses a challenge for nations across the globe — yet the United States is often seen as exceptional. Not only is the U.S. experiencing high levels of income and wealth inequality historically, but it is one of the most unequal nations in the developed world. How did one of the world's richest democracies also become one of the most unequal? The state of economic inequality is shaped largely by government policy and parties in power (Kelly, 2009; Bartels, 2016). Scholars have theorized that the U.S. lacks the institutional structure for larger-scale redistribution (Alesina and Glaeser, 2004) and that policymakers are more responsive to the interests of the rich and organized interests than the average citizen (Gilens and Page, 2014). Though, what is particularly puzzling is the response of the American public: over time citizens have not met rising inequality with stronger demands for government efforts aimed at decreasing inequality (Kelly and Enns, 2010; Cavaille, 2014; Bartels, 2016). However, there leaves more work to be done to understand *why* the public has met rising inequality with limited liberalism.

To address this puzzle, I point to the role of increasing racial and ethnic diversity in the U.S. Specifically, I offer a theory of conditional equality, where Americans support equality-enhancing policies conditional on the notion that they perceive fellow citizens as "people like me." The more citizens identify with one another, the more likely they are to empathize with and in turn support policies that benefit others. However, as the racial fabric in various corners of the U.S. steadily becomes less homogeneous, the likelihood of this condition declines. The less often people see others around them as people like themselves, the less likely it is that the public supports policies aimed at helping others and equalizing resources.

To test my theory, I leverage variation in both inequality and racial homogeneity of the American states. Using time-series cross-sectional data for an almost 45-year time span, I find evidence that as racial diversity increases, the less likely the mass public will respond to increasing inequality by wanting government to do more. This is true for overall opinion toward bigger government, as well as policy-specific attitudes — including support for welfare and public education spending. While these findings fit into a large literature in comparative politics that identifies the relationship between national diversity and social policy, this paper's contribution lies in providing evidence of the typically implied (but not always tested) intermediary between diversity and redistributive policies: aggregate preferences. I build on recent work (Franko, 2017, 2016) by identifying key variation across states and highlight the relevance of subnational context in shaping redistributive preferences.

The Puzzle

I begin with a puzzle posed by Kelly and Enns (2010), who aim to identify the response of the American public to growing inequality. Using dynamic aggregate opinion data to examine the relationship between national income inequality and policy mood, the authors find that public opinion becomes more conservative (i.e. wants the government to do less) in response to increases in inequality. Further, they observe this trend with respect to both upper and lower-income voters, suggesting inequality has an effect on citizen preferences that transcends class divides. These findings have been replicated elsewhere (Luttig, 2013) and are complemented by other research indicating that public support for redistribution has not increased at a rate we would expect given such high levels of inequality (Bartels, 2016; Cavaille, 2014). However, we lack a strong theoretical understanding of why the American public has not responded to skyrocketing inequality with demand for more government intervention.

Why should we expect Americans to respond to growing inequality by supporting policies that decrease inequality? And why is it so puzzling that they do not? First, from a pure economic resources perspective, as the proportion of total income continues to funnel into a narrow segment of society at the top, the rest of Americans are relatively worse off. Thus, as inequality increases, the number of people that stand to benefit economically from policies that help to equalize resources also increases. Second, Americans are increasingly aware of and dislike inequality, and want the gap between the rich and poor to narrow (McCall, 2013; Piston, 2018; Stimson and Wager, 2020). Further, the vast majority of Americans are not opposed to government intervention to target disparities. In 2016, when asked if they believe the government has gone too far, not gone far enough, or just about right to address income inequality, only 7% of Americans reported that government had gone too far.[2] Lastly, what the public prefers is not inconsequential for actual levels of inequality. Aggregate opinion toward policy shapes election and policy outcomes in ways that have tangible effects on levels of inequality (Kelly, 2009). So *why* has the public not responded to rising national economic inequality with greater support for bigger government — that in turn allows for *more* inequality?

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[2]Associated Press-NORC GenForward Survey, September, 2016.

American Public Opinion and Rising Inequality

Frequently cited economic models of redistributive preferences (Meltzer and Richard, 1981; Benabou, 2000), while having some explanatory power in other national contexts, are unable to fully explain the trend we observe in the U.S. It is possible these models lack predictive power in the American context because they ignore characteristics specific to the U.S. electorate. For example, although Americans in principle endorse equality, they often fail to translate this sentiment into support for the appropriate policies (Bartels, 2016; Kluegel and Smith, 1986). Early work in political science attributed this disconnect to the value conflict that emerges between egalitarianism and traditional American values, such as economic individualism and meritocracy (McClosky and Zaller, 1984). However, recent scholarship has sought to reevaluate some of these characterizations. For example, McCall (2013) demonstrates that the belief one can get ahead with hard work is not related to beliefs about the causes of inequality. This implies that simply endorsing meritocracy does not necessarily mean one perceives the state of inequality as deserved.[3] Further, in contrast to meritocratic notions that the rich and poor are deserving of their status, Piston (2018) illustrates there exists resentment toward the rich (and sympathy for the poor) among the public. Overall, recent scholarship suggests American values, ignorance, or apathy cannot fully explain Americans' economic conservatism in response to inequality.

Racial and ethnic divisions provide one of the most formidable challenges to stronger welfare states. For example, greater racial diversity is related to lower levels of welfare spending at both the national and subnational level (Alesina and Glaeser, 2004; Alesina et al., 1999; Desmet et al., 2009; Hero and Tolbert, 1996; Filindra, 2013). Scholars attribute this association frequently (and implicitly) to voter preferences: the majority group will oppose government spending the more they perceive other racial groups as the beneficiaries. However, scholars examining the causal effect of diversity on public preferences across the globe have come to mixed conclusions, where evidence supporting the diversity theory is often drawn from the U.S. context (Steele, 2016). Specifically, the American

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[3]However, American values do remain in play as citizens continue to care more about equality of opportunity than of outcomes (McCall, 2013; Hochschild, 1981). McCall (2013) suggests as income inequality rises, citizens fear narrowing opportunities for advancement, and as a result, are more likely to connect rising inequality to policies that focus on increasing labor market opportunities (e.g., public education), than to explicitly redistributive policies (e.g., welfare). Thus, in contrast to the assumption that Americans fail to link the trends in inequality to appropriate policies, perhaps they can, but attention should be paid to the type of equalizing policy. For this reason, in this study I examine public opinion toward a variety of policies that target inequality, not solely cash transfers.

public's opposition to welfare has been traced back to the racialized discourse of welfare policies, which reinforced the stereotype that blacks were disproportionate and undeserving beneficiaries (Gilens, 1999; Quadagno, 1994). However, welfare spending is not unwaveringly opposed: individual support for welfare rises when the perceived number of beneficiaries from their own racial group increases (Luttmer, 2001). But while there is evidence demonstrating racial considerations play a significant role in Americans' attitudes toward welfare, welfare constitutes a only small fraction of domestic spending (Kelly, 2009). The central puzzle of this paper is why the American public responds to rising inequality with less liberalism overall—not just attitudes toward welfare. We thus need to understand what common thread connects the public's perception of various policies that target inequality.

While scholarship discussing the racialization of government programs frequently points to welfare, other programs that target income inequality are subject to racialization as well. Social Security, Medicare, and public education have historically experienced more support from voters than welfare (Stimson, 2015). However, as the perceived beneficiaries of these policies changes, so too should the level of public support. For example, several studies have found evidence of the "Florida effect," where a state's average public-school student is Latinx, but the average taxpayer is white. In turn, there is less support for education spending in states like Florida than in states where students and taxpayers are more likely to be of the same race (Harris et al., 2001; Poterba, 1997). These studies are illustrative of a large literature demonstrating social identities shape redistributive preferences, where group members are more likely to support policies when they share a social identity with the perceived beneficiaries (see Costa-Font and Cowell 2015 for a review). This pattern of behavior is explained by the tendency for group members to have favoritism towards their ingroup (Tajfel and Turner, 1986). Indeed, people often perceive ingroup members as more similar to themselves than outgroup members; because we feel closer and more connected to ingroup members, we also tend to feel greater empathy and responsibility toward ingroup members than we do for outgroup members (Mullen et al., 1992). And although other social identities splinter the American public, race is undoubtedly one the most consistently salient and divisive (Hutchings and Valentino, 2004). This suggests that support for equalizing policies is shaped to some extent by perceptions of who benefits, and this is informed — at least partially — by the racial identities of those beneficiaries.

People Like Us? Why Preferences for Equality are Conditional

While whites continue to constitute a narrow majority in the U.S., the racial fabric of the country has become decreasingly homogeneous. But what effect should this have on Americans' support for measures targeting inequality? We know that Americans are increasingly aware of inequality, dislike inequality and would like to see the U.S. become a more equal nation. Given this, as income disparities continue to grow, we would presume that Americans would respond by supporting government policies that serve to narrow this gap. However, I pose that what citizens really believe in is *conditional* equality, where they support equalizing policies as long as they perceive the policy beneficiaries as "people like us."

Though Americans' conceptions of "people like us," or their community, can expand beyond members of their own racial in-group and include other out-group members (Wong, 2010), race and ethnicity remain a critical factor in shaping perceptions of closeness to other American citizens. Table 1 shows the percent of white and black Americans who report feeling somewhat or very close to whites, blacks, Hispanics and Asians. By a large margin, both whites and blacks feel closer to their own racial group than any of the other three groups.[4]

Table 1: Percent of Americans Feeling Somewhat Close or Very Close to Different Racial/Ethnic Groups

Racial Group	Close to Whites (%)	Close to Blacks (%)	Close to Asians (%)	Close to Hispanics (%)
Whites	70.3	33.5	52.04	44.37
Blacks	45.2	76.9	39.3	52.0

Data comes from 2000 General Social Survey. Whites (n=1434). Blacks (n=264).

When citizens consider their environment and see it is composed of members of racial out-groups, it signals that there are more of "them" and fewer of "us." Citizens will have a heightened perception that the public is composed of others, and in turn, they will be less likely to perceive "us" as the beneficiaries of social policies. Since people are more likely to give to members of their own racial group, they will be less likely to support government intervention when racial homogeneity declines. In this case, the public will be less willing to support equalizing policies in response to increases in

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[4]The disparity between feelings of closeness with racial ingroup and outgroup members persists from 1996 through 2016. Table 1 illustrates survey data from 2000 because it was the only year the General Social Survey (GSS) asked survey respondents about their sense of closeness to Asians and Hispanics. The GSS only codes respondents' race into one of three categories (white, black or other).

inequality. However, when contexts are more homogeneous, citizens should be more likely to empathize with those around them and in turn policy beneficiaries. They then will respond to inequality by wanting the government to do more. Thus, voters' redistributive preferences should be a function of actual income inequality conditional on the racial diversity of their contexts. Formally, as racial diversity increases, the less likely the mass public should respond to increasing inequality with support for bigger government (H1).

Data and Methods

The notion that we are more likely to help people that we perceive as people like ourselves is not new to the political science literature. Recent work demonstrates that Americans' perceptions of the "other" have implications for their redistributive preferences, where we are more likely to want to help others that we perceive are like us (Wong, 2010; Theiss-Morse, 2009). However, this scholarship does not consider how rising levels of inequality, combined with racial diversity, shapes citizens' willingness to help other citizens. Moreover, these findings often rely on cross-sectional data at the individual level. I opt to test my theory over time at the aggregate level, where there are direct implications for policy outcomes at both the state and federal level (Caughey and Warshaw, 2017; Erikson et al., 1993; Stimson et al., 1995). Given that scholarship examining the consequences of diversity for redistributive politics often looks to policy ouput or government spending as the outcome variable, I shift the attention to the presumed intermediary between diversity and policy—aggregate preferences.

To test the conditional effect of rising diversity on the aggregate public's response to inequality, I turn to the American states. While scholarship examining the public's dynamic response to inequality has largely used the nation as the unit of analysis, there is substantial variation in both income inequality and racial diversity across states. Further, at the national level economic inequality and racial diversity trend upwards over time and are highly correlated; thus, a national level analysis risks spurious inference. For this reason, variation across states is particularly useful in assessing the interactive effect of racial homogeneity and inequality. State contexts should also matter for voters' responses to inequality. Recent scholarship finds that Americans accurately perceive changes in income inequality in their state over time (Franko, 2017) and their preferences are responsive to

objective indicators in state-level inequality (Franko, 2016). Finally, states have authority over various policy domains, and in turn, have power to shape economic outcomes. From Medicaid expansion to welfare benefit requirements to public education, state decisions on spending and taxation shape state economic inequality (Kelly and Witko 2012; Franko and Witko, 2017).

One of the primary drawbacks of prior scholarship that tests the relationship between diversity and opinion is the inability to identify causation, often a result of studying a single point in time (Stichnoth and Van der Straeten, 2013; Steele, 2016). While previous work has been informative, a dynamic analysis offers greater certainty that we are testing the presence of causal processes (Stimson, 1985). To determine the effect of state-level inequality and racial diversity on state public opinion, I make use of time-series cross-sectional data from 1970 through 2014 for all American states. By examining how variation in racial diversity shapes the public's *response* to inequality, this approach improves upon and complements other work that relies on cross-sectional data. This dataset is also valuable in its breadth by allowing me to model public opinion across every American state over several decades.

Measuring Economic Liberalism

Liberalism, broadly defined, is the preference for bigger government (Ellis and Stimson, 2012). According to my theory, racial diversity should shape voter liberalism for a range of policies targeting inequality. As long as the policy in question — whether it is aimed more at equalizing outcomes or opportunity — is ultimately about who gets what, it falls under the economic issue umbrella. To measure overall attitudes toward larger government at the state level, I rely on the state economic liberalism measure from provided by Caughey and Warshaw (2017), who use a dynamic, hierarchical group-level item-response (IRT) model to infer latent measures of public opinion by state. The measure is similar in nature to Stimson's (1991) public policy mood, which aggregates thousands of responses to various survey questions across a variety of issue domains, providing a general indicator of sentiment for preferences for policy change over time. Although others have developed estimates of public opinion and ideology at the state level (Enns and Koch, 2013; Berry et al., 2007), I opt to use the Caughey and Warshaw estimates for several reasons. First, because this study involves assessing economic preferences, and not necessarily overall liberalism, these estimates of state public opinion are useful

because they have been divided into separate economic and social dimensions. Although mood for social and economic issues often move in close parallel over time at the national level (Stimson, 2015), there is variation between the two at the state level. Economic survey items address issues like taxes, social welfare, and labor regulation, while social issue items measure attitudes toward abortion, gay rights, and other cultural — though not racial — issues. My objective is to measure preferences for more or less government intervention in economic outcomes — thus, using economic liberalism as the outcome variable is the appropriate choice.[5] Further, I choose to use the IRT estimates as my dependent variable because this approach to modeling opinion data accounts for the paucity of questions asked consistently over time. Finally, this data is also available over an extensive period of time for all states. I refer to this variable as *Public Economic Liberalism*, where higher values indicate increases in economic liberalism.

In addition to overall economic liberalism, I include two other measures, support for welfare and education spending, as alternative outcome variables to evaluate the influence of inequality and racial diversity on public support for *specific* redistributive policies. Similar to Franko (2016), I include these variables to determine if and how the public is responsive to state racial and economic contexts for certain *types* of redistributive policies. Education and welfare offer strong foils to one another. While both serve to narrow the equality gap, they do so in different ways. Further, Americans notoriously dislike welfare, while they simultaneously perceive public education as a more preferable way to address rising inequality (McCall, 2013). Public opinion toward spending on education and welfare at the state level were estimated through multilevel regression with post-stratification by Pacheco (2014). The author provides the percent in each state population that supports more spending annually for welfare (1974-2000) and education (1975-2000). These two variables I refer to as *Welfare support* and *Education support*. These variables were recoded to a 0 to 1 scale where higher values indicate preferences for more government spending.

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[5]Not all of these economic policy domains fall within our conventional understanding of government liberalism. However, there are many ways in which government can equalize economic resources among its citizens that extends beyond the narrow scope of social welfare (Kelly, 2009; McCall, 2016).

Explanatory Variables

The first key explanatory variable used to test my expectations discussed above is the *Top 1%* income share in each state by year (Frank, 2009). Top income share is the proportion of total income held by the top 1% of income earners in each state, where higher values indicate more state-level inequality. There are many ways to estimate economic inequality (Frank, 2009), but I choose this variable because it reflects the skew of the changing income distribution, as rising income disparities are largely a result of the rapid expansion of incomes at the *top* (Piketty, 2017). Further, recent work has shown that state publics' *perceptions* of inequality accurately follow objective measures, including top 1% and 10% income shares; however, perceptions do not as closely follow changes in the Gini coefficient, a discipline standard for estimating inequality (Franko, 2017).[6]

The second explanatory variable is *Racial Diversity*. Obtaining an accurate measure of state racial diversity over a long time period that includes multiple racial/ethnic groups is difficult. As early as the 1960's, when collecting data on race the U.S. Census Bureau originally categorized people into three groups — white, black and other. Since then, there have been several options added to the census to describe one's racial identity, including mixed race. However, to create a measure of racial diversity that is consistent across time, I use Census data which provides the percent white, black and other for each state from 1969 through 2014 by state. This variable is referred to *Racial Diversity*. To calculate racial diversity, I rely upon the Herfindahl index, which is the estimated probability that two randomly selected individuals are from the same group. This measure has been widely used in research examining the consequences of diversity (Alesina et al., 1999; Hopkins, 2011; Putnam, 2007; Trounstine, 2016). Diversity is calculated as 1 minus the Herfindahl index. The formula is defined below:

$$D = 1 - \sum_{i=1}^{n} r_i^2$$

where D = Diversity, N = number of groups, and r = the size of each group as a percentage of the population. The variable is coded from 0 to 1, and higher values on the index indicate a declining probability that two randomly selected citizens are of the same racial group.

One question that arises is whether the public is even aware of the racial make-up of their envi-

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[6]For a robustness check, models were estimated using the Gini coefficient as an indicator of inequality. See appendix.

ronment. But Americans may be better at picking up on objective realities over time than scholars assume (Stimson and Wager, 2020). While I do not expect the average citizen can estimate the racial make-up of their state with precision, I do assume residents of Vermont perceive their state as whiter than residents of California. This assumption is supported by research demonstrating individuals are able to perceive objective trends in both economic and racial context in local contexts (Newman et al., 2015b). Further, there is debate over whether it is levels of racial diversity or *changes* in racial diversity that are really the driving factor of voter liberalism (Hopkins, 2009). Both higher levels and changes in racial diversity can signal diversity, and I see no reason to treat the two as mutually exclusive in terms of their effect on liberalism. Thus, I consider not only baseline levels but change. To create a measure of change in diversity, I simply subtract the lagged value of racial diversity from its current value. This variable is called *Diversity Change*, where negative values indicate a decrease in the diversity indicator (less diverse) from the previous year and positive values indicate an increase in diversity.[7]

Similar to past work on public responsiveness to inequality, I include a series of control variables that influence public opinion on economic issues. These include the unemployment rate[8], the natural log of the population and the natural log of mean income as controls. Further, to control for the potential of a policy feedback effect (Soroka and Wlezien, 2010), a measure of government *Policy Liberalism* calculated by Caughey and Warshaw (2016), is included. This measure of policy liberalism is based on hundreds of state policies and was estimated using a dynamic Bayesian factor-analytic model for mixed data. The authors again split policy liberalism into two dimensions: economic and social. I only include the former as a control. Economic government liberalism covers a wide range of policy areas, including social welfare, taxation and labor but excludes policies on cultural and social issues.[9] Higher values indicate greater government expansion. Finally, to account for the possibility that preferences for spending may be a response to actual levels of spending for specific policies, I control for per capita spending in each state annually for both public education and welfare (see Franko 2016). All variables were measured at the state level by year. The descriptive statistics for the main variables of interests can be seen in Table 2.[10]

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[7]As a robustness check, I also use 3 and 5-year windows for change and come to similar conclusions.

[8]State unemployment data is available only after 1975

[9]The data for both state public and policy liberalism was provided directly by Caughey and Washaw, from which I used the posterior means for economic and social/public and policy liberalism for each state-year in their dataset.

[10]Descriptive statistics for all variables used are in the appendix.

Table 2: Summary Statistics

Variable	Min	Max	Mean
Racial Diversity	0.01	0.52	0.23
Top 1% Income Share	4.01	36.07	13.44
Economic Public Liberalism	-3.60	2.72	-0.20
Economic Policy Liberalism	-2.24	3.32	0.02
Welfare Support	8.90	49.20	18.50
Education Support	36.20	78.42	63.92

Model Specification

To determine the effect of state level inequality and racial diversity on public opinion, I estimate a time-series, cross-sectional model, with both state and year fixed effects. The year fixed effects are aimed to account for national-level shocks and the state fixed effects are intended to account for time invariant differences across states. The inclusion of fixed effects is a conservative choice, placing a more rigorous screen on spuriousness.[11] The first model is defined below, where s and t index the states and years in my dataset, y_{st} is aggregate opinion, I_{st} is an indicator of inequality, and D_{st} is an indicator of racial diversity in that year. β_1 and β_2 are the effects of inequality and diversity, respectively. This model also includes an interaction between the two explanatory variables: inequality and racial diversity, captured by $\beta_3 I_{st} D_{st}$. Lastly, to account for over time dynamics (Beck and Katz, 1995; 2011), I include a lagged dependent variable, denoted by $\beta_4 y_{st-1}$, in the model.[12]

$$y_{s,t} = \beta_1 I_{st} + \beta_2 D_{st} + \beta_3 I_{st} D_{st} + \beta_4 y_{st-1} + \alpha_s + \varepsilon_t + \epsilon_{st}$$

Results

To illustrate the changing racial make-up of the U.S., Figure 1 maps the racial diversity in each state in 1970 and 2014, respectively. Higher values on the diversity index (darker shades) indicate there is a lower probability that two randomly selected individuals in a state are of the same race. A

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[11]A Lagrange Multiplier Test and Hausman Test confirmed the need to include fixed effects for both year and state in the model. Augmented Dickey-Fuller Tests indicated that all dependent variables (public liberalism, welfare support, and education support) do not have unit roots.

[12]I also run separate models that account for clustered standard errors by states. The substantive results do not change.

comparison of the figures suggests there is variance both across time and across states. While Southern states on average are typically more racially diverse than the majority of the country, over time most states across the nation have become more diverse.[13]

(a) Racial Diversity (1970)

(b) Racial Diversity (2014)

(c) Income Inequality (1970)
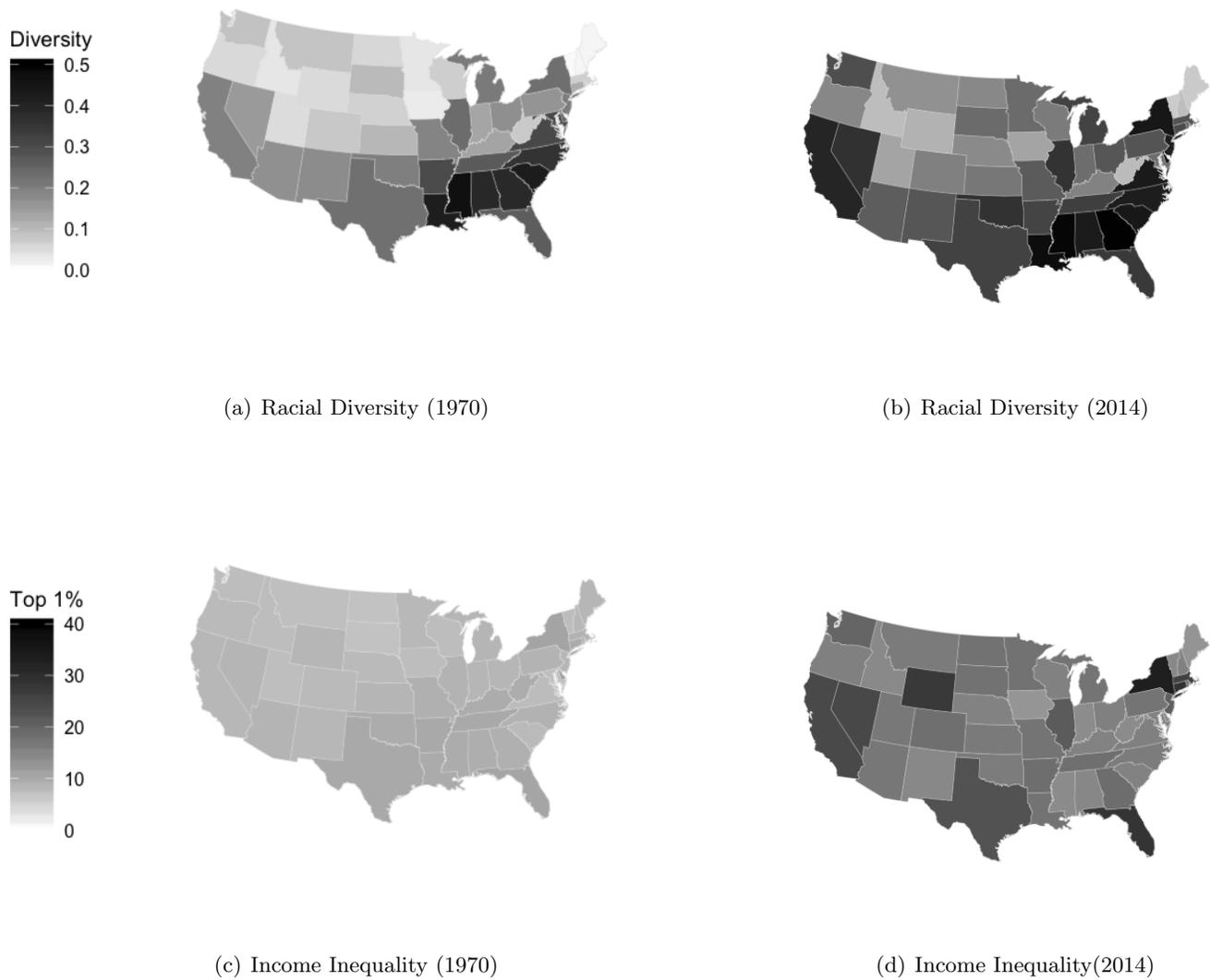
(d) Income Inequality(2014)

Figure 1: Racial Diversity and Income Inequality by State Over Time. Darker shades indicate more diversity and more inequality.

Variations in income inequality over time in the U.S. are also shown at the bottom of Figure 1. The maps illustrate the share of income that goes to the top 1% of earners in each state in both 1970

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[13] To better illustrate this scope of this range consider the diversity scores of two states in 2014: Vermont (.07) and North Carolina (.42). Based on census data, in 2014 Vermont was 96.2% white, 1.6% black, and 2.1% are classified as "other." In North Carolina, 72.4% were white, 22.9% were black, and 4.7% are "other."

and 2014, where higher values indicate more inequality. In 1970, almost all states' top earners earned less than 10% of the total income earned in the state. By 2014, almost all states' top 1% earn 15-30% of the total income earned in the state.[14]

The results of a series of regression models are shown in Table 3, where the dependent variable is the public's economic liberalism. My theory predicts that racial diversity should condition the effect of inequality on citizens preferences' for greater government. The first model contains an interaction term between inequality and racial diversity, excluding control variables. If my hypothesis is correct, this interaction term should be significant and negative. Indeed, confirming expectations, the interaction term in the first model is significant at the $p < 0.01$ level, suggesting the effect of inequality does vary by the racial make-up of the state. Model 2 is identical to the first but includes control variables that also shape public opinion, which due to data availability leads to a shorter time series. The coefficient of the interaction term (-.04) between inequality and diversity also is statistically significant and negative.
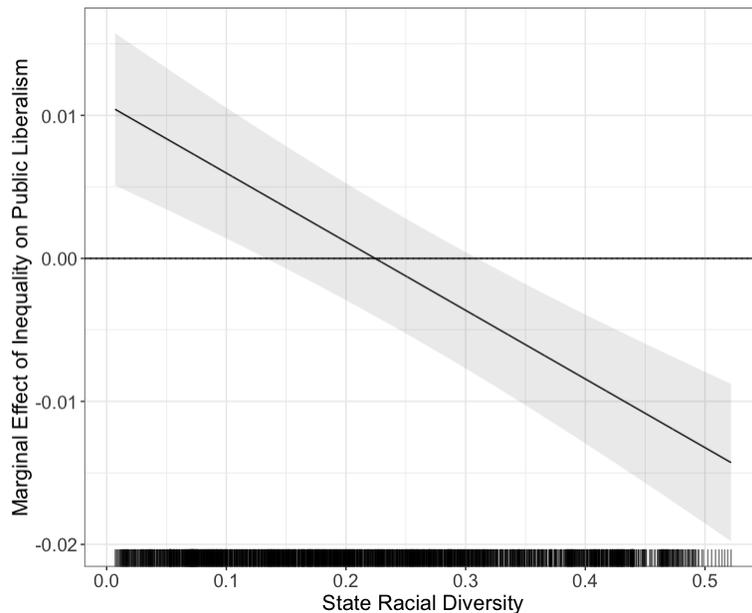

Figure 2: Conditional Effect of State Diversity on the Effect of Inequality on Public Liberalism

For clearer interpretation, I plot the estimated marginal effect from Model 1 and the 90% confidence interval over the range of racial diversity in Figure 2. Higher values of racial diversity indicate a state has more racial diversity. The solid sloping line in Figure 2 indicates how the marginal effect

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[14]More detailed graphical illustrations of racial diversity, inequality, as well as public liberalism, by state over time are provided in the appendix.

Table 3: Effect of State Inequality and Racial Diversity on Public Economic Liberalism

	Model 1 (1970-2014)	Model 2 (1976-2014)	Model 3 (1970-2014)
Top 1	0.01**	0.01*	0.00
	(0.00)	(0.01)	(0.00)
Racial Diversity	1.39***	1.57***	
	(0.35)	(0.45)	
Economic Public Liberalism $_{t-1}$	0.67***	0.57***	0.68***
	(0.02)	(0.02)	(0.02)
Top 1 x Racial Diversity	−0.05***	−0.04**	
	(0.01)	(0.02)	
Economic Policy Liberalism		−0.02	
		(0.02)	
Unemployment Rate		0.00	
		(0.01)	
Average Income (log)		−0.01	
		(0.12)	
Population (log)		0.25***	
		(0.07)	
Diversity Change			0.03
			(0.12)
Top 1 x Diversity Change			0.00
			(0.01)
Num. obs.	2248	1636	2248
R^2	0.94	0.93	0.94
Adj. R^2	0.94	0.92	0.93

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$, Note: Results include regression coefficients and standard errors in parentheses from OLS analyses. All models include fixed effects for state and year.

of inequality on state public liberalism varies by racial diversity. The confidence intervals around the line suggest the conditions under which increases in inequality have a statistically significant effect on public liberalism — they have a statistically significant effect whenever the upper and lower bounds of the confidence interval are both above (or below) the zero line. The dashes on the rug plot on the x-axis indicate observations.

The figure suggests that for states whose population is about .3 on the diversity scale or greater, the effect of inequality on public liberalism is statistically significant and negative. On the other hand, when states are more racially homogeneous (less than .15 on the diversity scale), the relationship between inequality and public liberalism is significant and positive. Notably, state-years that are .30 on the diversity scale constitute just shy of 30% of the total number of observations in this analysis. State-years that are less than .15 on the diversity scale about one 33% of the total number

of observations.

To gain a better handle on the substantive size of this effect, I take a deeper look at specific points along the range of racial diversity. When states are the most homogeneous, a one-unit increase in the percent of income held by the Top 1% leads to about a .01 unit increase in public economic liberalism. Alternatively, when states are at the highest end of the diverse index, a one-unit increase in Top 1% share results in about a .015 unit decrease in liberalism. To get a sense of the overall impact, note that the observed range of Top 1% income share is 4 to 36%. When states are homogeneous, an increase in inequality representing a shift from the bottom of its observed range to the top would produce a .32 unit increase in public liberalism. On the other hand, when states are more racially diverse, a shift in inequality from the bottom to the top of the range would produce a nearly .5 unit decrease. These effects are sizable, given the range of public economic liberalism (-2.9 to 3.1). Overall, the results from models 1 and 2 suggest that in response to an increase in inequality, state publics with lower levels of diversity are more likely to want the government to do more, while state publics that have higher levels of diversity are more likely to want government to do less.

Finally, the third model in Table 1 uses annual change in racial diversity as an alternative indicator of racial diversity. The interaction term between Top 1% income share and diversity change is not statistically significant. Thus, it appears levels—not year to year changes—in racial diversity shape the effect that inequality has on public liberalism.[15]

Could it be possible that rising racial diversity and inequality are not simply affecting attitudes towards policies that target economic inequality, but are leading the public mood to shift toward conservatism overall? To ensure that it is economic liberalism, and not all forms of liberalism, that are being shaped by these two factors, I estimate the effect of inequality and diversity on public social liberalism. As anticipated, the results indicate that there is not a significant effect between the interaction of inequality and diversity on social liberalism (see results in appendix).

Next, I test if the interactive effect of racial diversity and inequality functions similarly for preferences for welfare and education spending. The output of the two regression models can be seen in Table 2. In the first model, I show the results of the interactive effect of state inequality and racial diversity on public support for welfare spending. Similar to the results presented in Table 1, the

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[15]Models were also estimated using 3 and 5-year changes in diversity. Substantive results do not change.

coefficient for the interaction term is negative and significant at the $p < 0.01$ level. However, in the second model, when support for education spending is the outcome variable, the coefficient for the interaction term is negative but not statistically significant ($p = .14$).

Table 4: Effect of State Inequality and Racial Diversity on Public Support for Welfare and Education Spending

	Welfare Support (1975-2000)	Education Support (1976-2000)
Top 1	0.13***	−0.01
	(0.03)	(0.04)
Racial Diversity	10.15**	15.15**
	(4.18)	(5.98)
Top 1 x Diversity	−0.31***	−0.21
	(0.10)	(0.14)
Welfare Support$_{t-1}$	0.80***	
	(0.02)	
Welfare Spending Per Capita	−0.02	
	(0.50)	
Education Support$_{t-1}$		0.81***
		(0.02)
Education Spending Per Capita		0.88
		(0.71)
Num. obs.	1088	1161
R^2	0.95	0.96
Adj. R^2	0.95	0.96

***$p < 0.01$, **$p < 0.05$, *$p < 0.1$, Note: Results include regression coefficients and standard errors in parentheses from OLS analyses. All models include fixed effects for state and year.

I again plot the estimated marginal effect from the first model in Table 2 and the 90% confidence interval over the range of racial diversity. The results are illustrated in Figure 3. The figure tells a similar story: for states whose population is racially homogeneous, the effect of inequality on welfare support is statistically significant and positive (Figure 3a). As racial diversity rises, the public's likelihood to respond with more support declines. I replicate the same analysis for public education spending (Figure 3b). The slope and direction are similar to those produced from other models. As predicted, the public's preferences for education in response to inequality varies by state racial diversity. However, the solid sloped line does not cross the line at 0, suggesting there is no value of racial diversity at which the public responds to inequality with more preference for education spending.

Taken together, these results support my hypotheses. As inequality rises, states that are racially diverse are more likely to respond by wanting the government to *do less*. This is true for overall public liberalism and policy specific attitudes, although the size of the effect varies across policy domains.

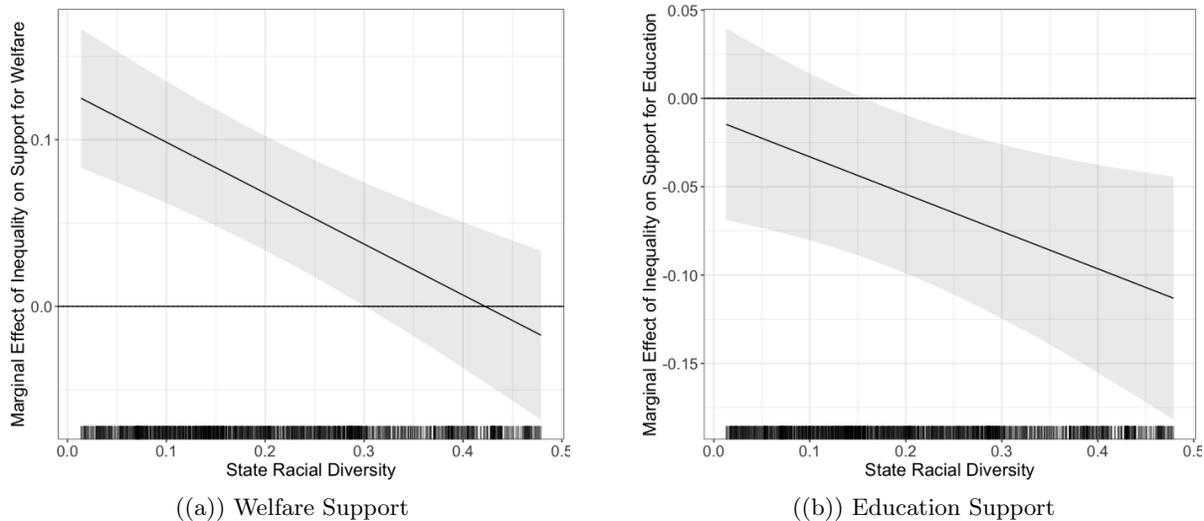|((a)) Welfare Support|((b)) Education Support|

Figure 3: Conditional Effect of State Diversity on the Effect of Inequality on Support for Welfare and Education Spending

Ultimately, though, the public's response to inequality is conditional on racial diversity.

State Diversity and Perceptions of "People like Us"

So far, this study has offered evidence to suggest that the effect of inequality on mass opinion has been conditioned by racial diversity over time. I now turn to gain more purchase on the theorized casual mechanism—that perceptions of other citizens as "people like me" vary by actual racial diversity. To do so, I rely on the Perceptions of the American People Survey, administered by the Ohio State University's Center for Survey Research between May and July of 2002.[16] Subjects were selected through random-digit dialing and a total of 1,254 interviews took place. The advantage of this original survey is that respondents were asked about their perceptions of group boundaries, including if respondents felt a part of certain groups. In addition to questions concerning national identity, subjects were asked about state boundaries. This allows for an empirical assessment of state racial diversity on perceptions of others as "people like us."

To measure state racial diversity, I use the same diversity measure used in the previous analyses. The outcome variable is subjects' response to the following item: "How strongly do you feel part of, or identify with, people from your state?" Responses were coded from 1 to 7, where 1 means they do not

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[16]Survey data was provided by Elizabeth Theiss-Morse and is publicly available on Theiss-Morse's website.

feel part of the group at all and 7 means they feel very strongly part of the group. At the individual level, I include several control variables that may shape group identification. This includes if the subject is native to the U.S. (0=non-native, 1=native), age, education (coded from 1-4 where higher values indicate more education), party identification as a Democrat or Republican (Independent was the excluded category), family income (re-scaled on a 1-5 scale where higher values indicate higher income) and race (white, black and other). [17]. At the state level, I include controls for logged state population, logged mean income, and percent Democrat[18] in 2002.
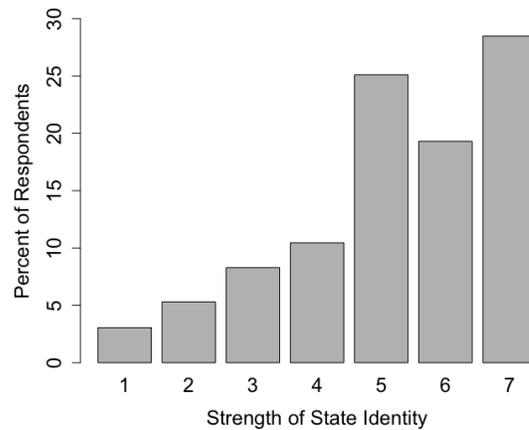

Figure 4: Respondents' State Identity Strength
(Higher values indicate stronger identity strength.)

Not unlike identification with the nation, Americans tend to feel part of the people living in their state (Figure 4). But what factors predict how much of an attachment they feel to other state residents? The results of the regression analyses can be seen in Table 5. In the first model, I estimate the effect of state diversity on respondents' perceptions of feeling a part of their state for the entire sample. According to theory, we would expect that as state diversity increases, people are less likely to perceive their states' population as "people like me." Confirming my expectations, this is what we find. The regression coefficient for racial diversity is statistically significant ($p < .01$) and negative, where a one-unit increase in racial diversity leads to a 1.85 decrease on the state identity scale, on average. However, in 2002, the racial diversity index only ranges from .04 to .48. Therefore, going

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[17]The use of the catch-all group "other" for coding race is unlike categories for whites and blacks in that not all members of this category have the same racial or ethnic identification. However, there are too few respondents within the "other" category to obtain accurate estimates by each racial/ethnic group. Further, this categorization scheme is consistent with the rest of the analyses in the paper.

[18]Data provided by Caughey and Warshaw (2017)

from the least diverse state to the most diverse results in about a .8 unit decline on the 7-point state identity scale. Overall, this suggests when states are more racially diverse, state residents are *less* likely to feel they are a part of the people in their state.

The advantage of analyzing individual-level data is that I can identify how a state's racial make-up affects members of different racial groups. I estimate three separate models for whites, blacks, and all other respondents. Instead of using the racial diversity scale as a measure of racial make-up, I use the percent of the state that is in a different racial category than the respondent. As expected, we see in states that have higher proportions of blacks and other non-whites, whites are significantly less likely to feel apart of their state (Model 2). On the other hand, blacks' sense of state identity does not appear to be significantly affected by the percent of non-blacks in the state (Model 3). In Model 4, I estimate the same regression using respondents that identified with a racial or ethnic group other than blacks or whites. Respondents' sense of state identity is only significantly affected by the percent of blacks in their state, where they are less likely to feel apart of their state as the proportion of blacks in their state increases. However, there is no statistically significant effect for the proportion of whites in a state on state identity strength for this group.

Finally, survey respondents were also asked about their preferences toward helping others with two items, including 1) "Are we spending too little, too much or just enough on welfare?" and 2) "Is it definitely, somewhat, or not an obligation you owe to ensuring a basic standard of living for all Americans?" Responses to these questions were measured on a 3 point scale where higher values indicate a stronger preference for helping other citizens. Table 6 presents the results of two OLS models estimating the effect of state identity on preferences for helping others, including relevant individual controls.[19] The regression coefficient for state identity is the average effect of a one-unit increase in on the identity scale on on attitudes towards helping others. Model 1 indicates that state identity may be positively associated with welfare support, but the relationship does not reach statistical significance ($p = 0.15$). However, Model 2 suggests that state identity has a significant and positive impact on believing others are owed a good standard of living ($p < 0.1$).

Overall, these findings provide suggestive evidence for the individual causal mechanism I propose is driving the relationship between inequality, diversity and political preferences— empathy with other

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[19]Estimating these models using ordinary logistic regression does not significantly change results. Full model results including estimates of control variables are in the appendix.

Table 5: The Effect of State Racial Make-up on Feeling Part of People from State

	Entire Sample Model 1	Whites only Model 2	Blacks only Model 3	"Other" only Model 4
Individual Level				
Native	0.33	−0.25	0.75	1.23**
	(0.27)	(0.38)	(0.85)	(0.56)
Age	0.07	0.06	0.51***	−0.40*
	(0.05)	(0.05)	(0.16)	(0.20)
Education	−0.18***	−0.09	−0.23	−0.66***
	(0.06)	(0.06)	(0.20)	(0.20)
Democrat	0.35***	0.25*	0.30	0.70*
	(0.12)	(0.14)	(0.32)	(0.39)
Republican	0.15	0.06	0.92	0.60
	(0.13)	(0.13)	(1.20)	(0.44)
Income	−0.03	−0.03	−0.20	−0.14
	(0.04)	(0.05)	(0.15)	(0.15)
White	−0.11			
	(0.15)			
Black	0.05			
	(0.20)			
State Level				
Racial Diversity	−1.85***			
	(0.63)			
Population (log)	0.01	0.01	−0.08	0.05
	(0.08)	(0.09)	(0.33)	(0.26)
Average Income (log)	−0.59	−0.34	2.06	0.03
	(0.46)	(0.56)	(1.71)	(2.33)
Democrat (%)	2.82*	2.81*	1.35	2.11
	(1.45)	(1.68)	(4.63)	(5.14)
Other (%)		−5.24**	−8.23	
		(2.35)	(8.29)	
Black (%)		−1.72**		−9.63*
		(0.87)		(5.20)
White (%)			−1.33	−0.21
			(2.23)	(6.75)
R^2	0.04	0.03	0.19	0.30
Adj. R^2	0.03	0.02	0.09	0.21
Num. obs.	1044	849	95	100

***$p < 0.01$, **$p < 0.05$, *$p < 0.1$

Note: Results include regression coefficients and standard errors in parentheses from OLS analyses. Data come from The Perceptions of American People Survey (2002).

Table 6: Feeling Part of People from State on Attitudes toward Helping Others

	Model 1 Welfare	Model 2 Standard of Living
State Identity	0.02	0.03*
	(0.01)	(0.01)
Individual Controls	yes	yes
Adj. R^2	0.03	0.07
Num. obs.	1070	1088

***$p < 0.01$, **$p < 0.05$, *$p < 0.1$ Note: Results include regression coefficients and standard errors in parentheses from OLS analyses. Analyses include survey weights. Data come from The Perceptions of American People Survey (2002).

citizens. When states are more racially diverse, state residents are *less* likely to feel they are a part of the people in their state. Further, weaker identification with the state is then associated with less support for efforts to help others. However, whites, in particular, are the most susceptible to a growing non-white population. Consistent with recent scholarship (Abrajano and Hajnal, 2017), this suggests that whites may be the driving force behind shifts in aggregate opinion towards economic conservatism.

Conclusion

The evidence I have presented suggests that the relationship between inequality and mass preferences is conditioned by subnational racial diversity. When states are more diverse, there is a weaker perception that the citizenry is composed of "people like us," and in turn citizens on average are less willing to support equalizing policies in response to inequality. However, when states are less racially diverse, the public is more likely to share a common social identity. In turn, they should be more likely to empathize with others as people like themselves and thus more likely to support government intervention to help others. Overall, this research makes steps to help answer why the mass public has not met escalating inequality with preferences for bigger government. By leveraging key variation across states in inequality and racial diversity, these findings help to explain trends in public opinion we see at the national level.

This study contributes to the literature in several ways. First, consistent with previous work, it demonstrates that public opinion is responsive to changing economic conditions at the subnational

level. However, I find that public responsiveness to state-level inequality is not absolute. Other state characteristics matter, specifically racial diversity, that condition the effect of rising inequality on public liberalism. This finding may also shed light on why scholars have come to conflicting conclusions when studying the public's response to inequality at different units of analysis (Kelly and Enns, 2010; Franko, 2016; Newman et al., 2015a). In short, within-country variation *matters*. By showing that racial diversity shapes the relationship between aggregate opinion and inequality, we can better understand the conditions under which we expect Americans to demand more from government.

Second, though these findings are consistent with an influential literature suggesting social hetero-geneity poses challenges to government spending (Stichnoth and Van der Straeten, 2013), this study identifies the impact of subnational racial diversity on aggregate *opinion* towards larger government. Thus, this paper offers evidence for the mechanism usually implied but rarely tested in studies of diversity and policy output: mass preferences. Based on these analyses, public opinion is likely one of the driving factors that has led to limited government spending in the U.S. Further, although the racialization of welfare through elite framing is well-documented, this paper addresses how race plays a role in shaping public liberalism overall. Public education, and potentially other policies, are more likely to be more subject to racial considerations as the nation continues to become increasingly diverse.

Finally, following prior scholarship that finds citizens pick up on their racial context (Wong, 2007; Newman et al., 2015b), this study also poses that the public is able to perceive differences in the magnitude of racial diversity in their states and this shapes perceptions of other citizens as "people like us." When states have higher proportions of people that are not in their own racial group, they are less likely to identify with the people of the state. However, more work still is to be done to form a deeper understanding of the extent to which these perceptions vary across geographic units and what source of information informs these perceptions over time.

The theory I present suggests that a decline in *empathy* is the causal link between rising inequality and aggregate opinion. However, previous scholarship points to several other alternative mechanisms through which diversity affects public opinion. Proximity to other sizable racial groups can trigger feelings of threat and competition (Key, 1949; Blumer, 1958) and community diversity has been found to erode trust, social capital and civic engagement (Putnam, 2007; Hero, 2007). So though I

identify empathy as a plausible explanation for the decline in public liberalism, future experimental and qualitative research may better evaluate and explore the causal mechanism linking diversity, inequality and preferences. However, these mechanisms are *not* mutually exclusive.

While the analyses presented here suggest that the puzzle we see is mass preferences over time is driven by whites, this may not be the whole story. I find suggestive evidence that larger shares of blacks in state populations lead other racial and ethnic minorities to feel less a part of the people in their state. This is consistent with other work suggesting that racial minorities—not just whites—can be inclined to see other racial groups, other people who are not like them, in a negative light (Kim, 2000; McClain et al., 2006; Gay, 2006). In addition to whites, blacks have also become increasingly opposed to government redistribution (Ashok et al., 2015). Future scholarship would benefit from understanding why different racial groups demand less from government over time.

Finally, though the theory I offer focuses on the implications of increasing racial diversity, this could be one component to a broader phenomenon. As the country grows increasingly diverse—on multiple dimensions—we perceive fellow citizens as increasingly different, and in turn, are less likely to empathize with one another. Therefore, for example, my account of Americans' opposition to bigger government is not entirely inconsistent with Cramer's (2016) portrayal of the politics of rural America. Cramer's ethnographic study reveals white rural residents who referred to the "undeserving" recipients of government funds were nearly always talking about urbanites or young people, *not* racial minorities. While it is unlikely racial considerations are always absent in such cases, the overall sentiment proposed in this study is present: those people are *not* "people like us."

Ultimately, this study provides a piece to the puzzle of why inequality in the U.S. is self-reinforcing. As racial diversity increases, the public is less likely to respond to rising inequality by supporting policies that equalize economic resources to help the "have-nots". As a result, policies are implemented that either keep the status quo or help produce more inequality, contributing to a cycle of self-reinforcing inequality.

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Appendices

Table of Contents

Figure 5: Caughey & Warshaw's State Economic Public Liberalism Scores (1970-2014)

29

Table 7: Descriptive Statistics (1970-2014)

Variable	Min	Max	Median	Mean	SD
Racial Diversity	0.01	0.52	0.21	0.23	0.13
Top 1 Income Share	4.01	36.07	12.65	13.44	4.81
Economic Public Liberalism	-3.60	2.72	-0.18	-0.20	1.01
Social Public Liberalism	-2.30	5.49	0.13	0.36	1.05
Economic Policy Liberalism	-2.24	3.32	-0.10	0.02	1.09
Social Policy Liberalism	-2.85	3.11	-0.02	0.01	1.06
Welfare Support	8.90	49.20	17.40	18.50	5.01
Education Support	36.20	78.42	66.31	63.92	8.72
Welfare Spending (1000's)	0.05	2.53	0.55	0.65	0.47
Education Spending (1000's)	0.34	4.50	1.35	1.48	0.77
Average Income	5077.91	88157.73	28714.09	30864.37	16817.42
Unemployment Rate	2.30	17.40	5.70	6.07	2.07
Population (100,000's)	296.00	38701.28	4183.95	5734.22	5868.14

Table 8: Descriptive Statistics (2002)

Variable	Min	Max	Median	Mean	SD
Individual Level					
State Identity	1.00	7.00	5.00	5.21	1.64
Welfare Support	1.00	3.00	2.00	1.74	0.70
Standard of Living	1.00	3.00	2.00	2.23	0.74
Age (scaled)	1.00	4.00	3.00	2.62	1.01
Year Born	1909.00	1983.00	1956.00	1954.93	16.22
Education	1.00	4.00	3.00	2.98	0.95
Family Income	1.00	5.00	3.00	3.15	1.43
State Level					
Racial Diversity	0.05	0.48	0.30	0.29	0.10
Population	573.16	34871.84	8552.64	12136.30	9524.12
Average Income	27649.29	58800.86	41296.84	42812.94	5646.43
Percent Democrat	0.22	0.48	0.37	0.37	0.05
Percent White	0.62	0.98	0.82	0.82	0.08
Percent Black	0.01	0.37	0.12	0.13	0.08
Percent Other	0.62	0.98	0.82	0.82	0.08

State level data is from 2002. Individual level data come from The Perceptions of American People Survey (2002).

Table 9: Effect of State Inequality and Racial Diversity on Public Social Liberalism

	Model 1 (1970-2014)	Model 2 (1976-2014)
Top 1	0.00	−0.00
	(0.00)	(0.00)
Racial Diversity	0.69***	0.80***
	(0.19)	(0.25)
Social Public Liberalism $_{t-1}$	0.97***	0.93***
	(0.01)	(0.01)
Top 1 x Diversity	−0.00	0.01
	(0.01)	(0.01)
Social Policy Liberalism		0.03***
		(0.01)
Unemployment Rate		0.01***
		(0.00)
Average Income (log)		0.05
		(0.06)
Population (log)		−0.07**
		(0.04)
Num. obs.	2246	1634
R^2 (full model)	0.99	0.99
Adj. R^2 (full model)	0.99	0.99

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Table 10: Effect of State Inequality (Gini Coefficient) and Racial Diversity on Public Economic Liberalism

	Model 1 (1970-2014)	Model 2 (1976-2014)
Gini	0.46	0.46
	(0.40)	(0.53)
Racial Diversity	2.37***	2.28***
	(0.51)	(0.68)
Economic Public Liberalism $_{t-1}$	0.67***	0.58***
	(0.02)	(0.02)
Gini x Racial Diversity	-3.25***	-2.41**
	(0.80)	(1.16)
Economic Policy Liberalism		-0.03
		(0.02)
Unemployment Rate		0.00
		(0.01)
Average Income (log)		0.02
		(0.11)
Population (log)		0.26***
		(0.07)
Num. obs.	2248	1636
R^2	0.94	0.93
Adj. R^2	0.94	0.92

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Table 11: The Effect of Feeling A Part of People from State on Attitudes toward Helping Others

	Model 1 Welfare	Model 2 Standard of Living
State Identity	0.02	0.03*
	(0.01)	(0.01)
Native	−0.22*	0.08
	(0.12)	(0.12)
Age	0.00	−0.10***
	(0.02)	(0.02)
Education	0.08***	−0.02
	(0.02)	(0.02)
Democrat	0.05	0.11**
	(0.05)	(0.05)
Republican	−0.17***	−0.16***
	(0.05)	(0.05)
Income	−0.03*	−0.03
	(0.02)	(0.02)
White	−0.06	−0.16**
	(0.07)	(0.07)
Black	−0.06	−0.01
	(0.08)	(0.09)
Adj. R^2	0.03	0.07
Num. obs.	1070	1088

$^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$

Note: Results include regression coefficients and standard errors in parentheses from OLS analyses. Analyses include survey weights. Data come from The Perceptions of American People Survey (2002).
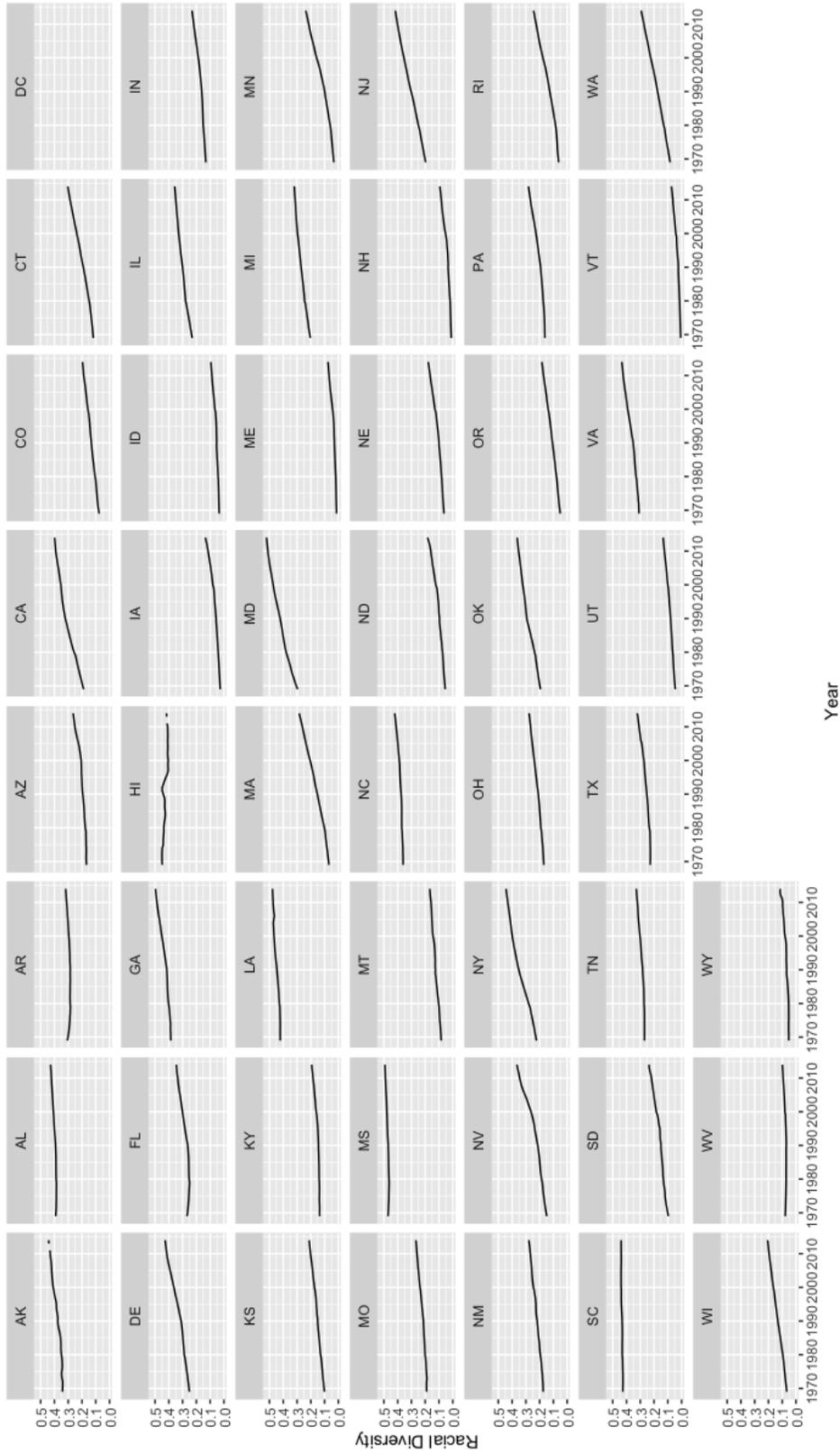
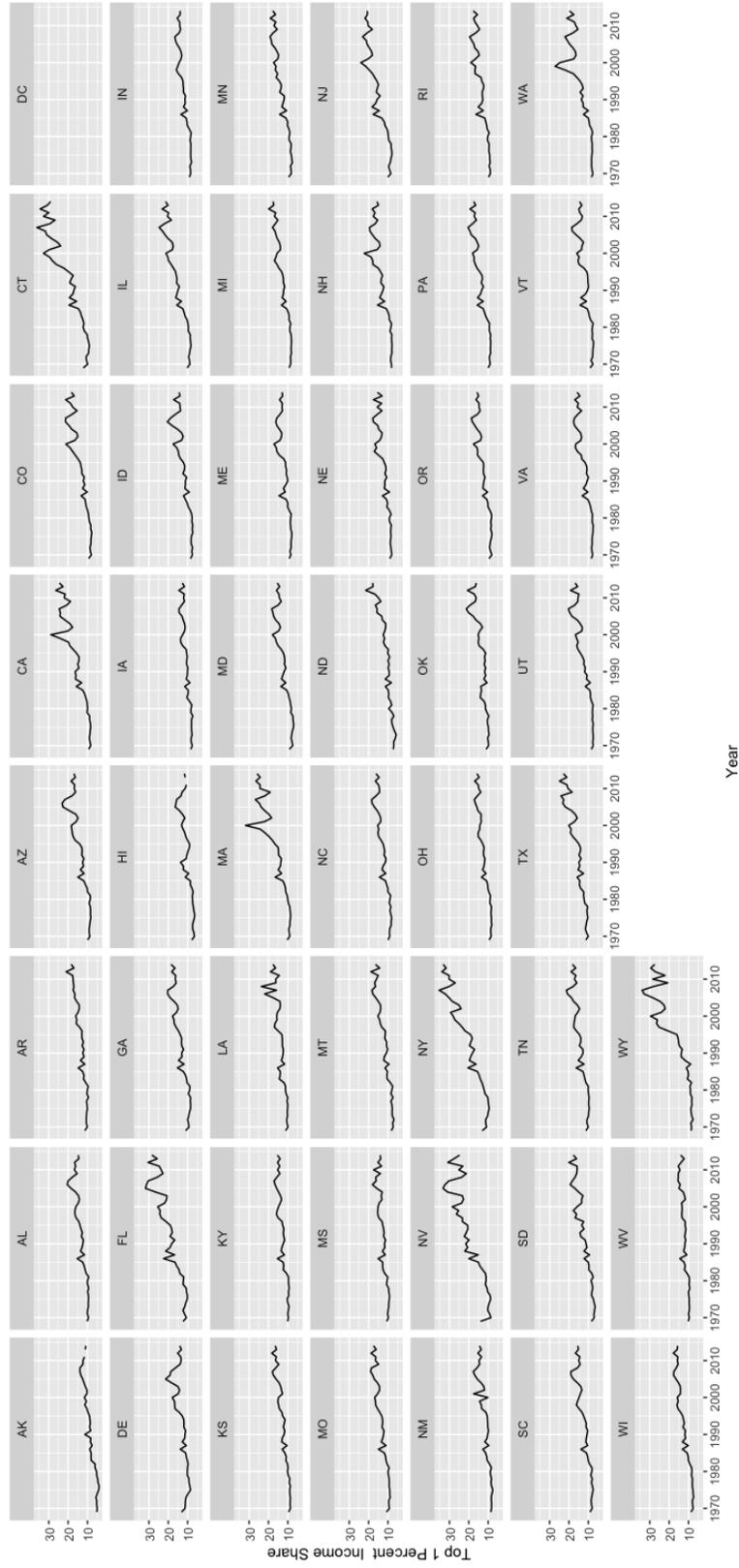Figure 6: Racial Diversity Scores by State Over Time
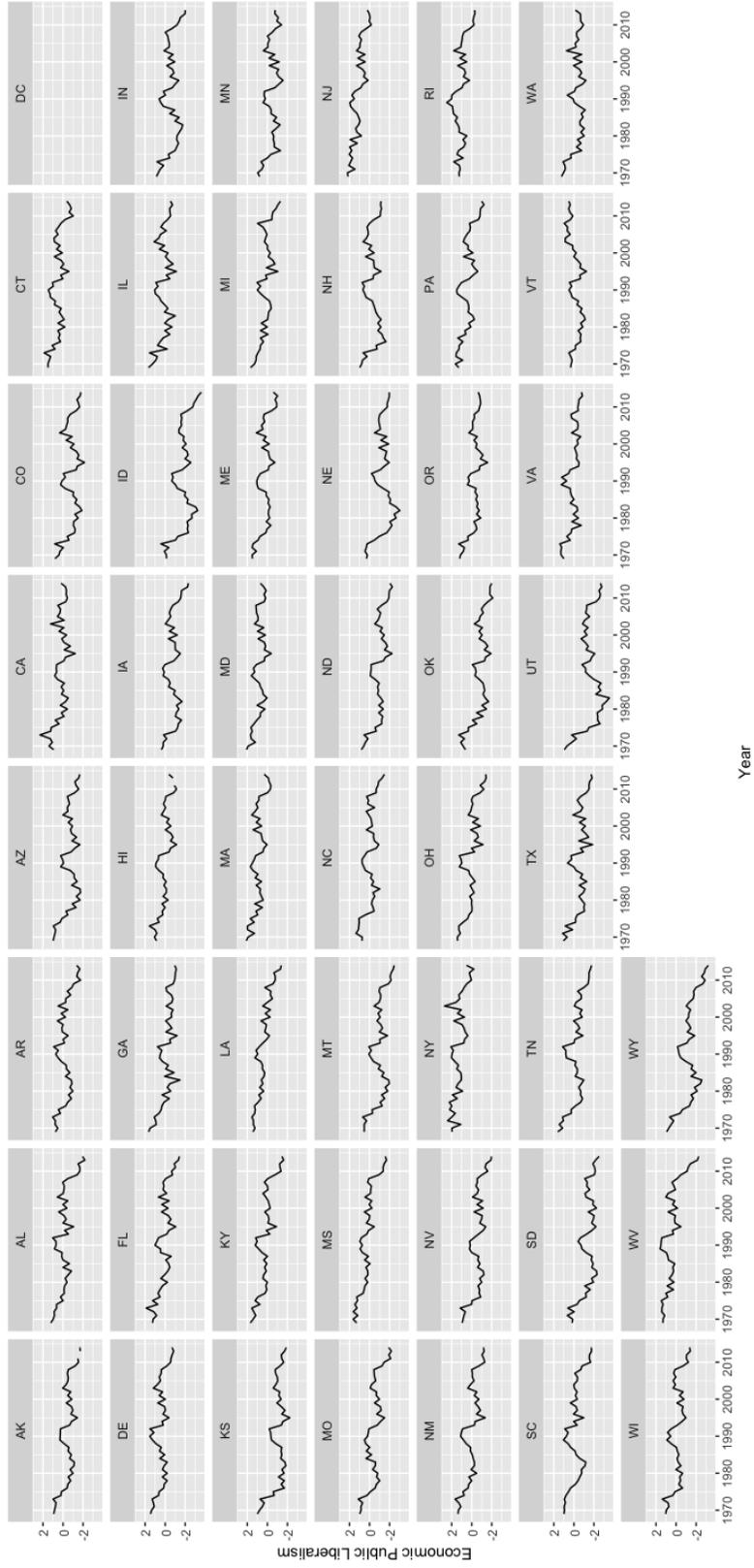
Figure 7: Income Inequality by State Over Time

35

Figure 8: Public Liberalism by State Over Time