Late last year the Bureau of Labor Statistics (BLS) issued a revealing report on the stagnating incomes and consumption patterns of American families over the last several years. President Obama responded to that report by meeting with corporate leaders to "jawbone" them to raise wages and hire more workers, much like President Hoover did in the early years of the Great Depression. Mr. Obama's approach is unlikely to work any better today than it did in the 1930s. He followed up in his State of the Union address with an equally unhelpful plan to raise the incomes of the middle class by raising taxes on the wealthiest one percent of income earners.

The BLS's Consumer Expenditure Survey, a detailed study of the spending patterns of 35,000 randomly selected households, paints a grim portrait of middle class families trying to maintain their standard of living in the face of stagnant or falling incomes and rising costs for necessities like rent, transportation, and health insurance. Middle class families – defined as those falling in the middle quintile of the income distribution with incomes between roughly $35,000 and $60,000 in 2013 – reported incomes that were essentially flat between 2009 and 2013 and expenditures that increased by slightly less than 3 percent. Households in the income quintiles just below and above the middle reported similar patterns of flat incomes and slightly increased expenditures. During these years of "economic recovery" – 2009 to 2013 – consumer inflation increased by nearly 9 percent, leaving real incomes for the middle class that were much lower at the end of the period than at the beginning.

Last month (December 2) the Wall Street Journal published an illuminating article as a follow up to the BLS study that cast additional light upon the current middle class "squeeze." In interviews with middle class households in different parts of the country, reporters found that families are deliberately altering their patterns of consumption in response to rising costs and stagnant incomes. "With health care and other costs rising," they write, "consumers spent less on furniture, entertainment, and even child care." Consumers are also spending much more on newer household items like cell phone service (up 49 percent from 2007) and home Internet service (up 81 percent).

The BLS study emphasizes once again that the middle class continues to suffer financially from the disappointing recovery from the recession of 2008-2009. It should come as no surprise that middle class incomes are far more sensitive to the overall growth in the economy than to incremental adjustments in tax and spending policies.

Between 2009 and 2013, real GDP increased by a less than 6 percent, or by something like 1.5 percent per year, a rate of growth that goes a long way toward explaining stagnating middle class incomes and consumption. By contrast, in the 1984-89 recovery, real GDP increased by more than 26 percent, while middle class incomes and expenditures grew by 30 percent and 26 percent respectively (according to BLS surveys). Between 1993 and 1999, real GDP increased by 26 percent while middle class incomes and consumption increased by 26 percent and 22 percent. Even during the relatively weak recovery from 2001 to 2007, middle class incomes and expenditures increased by healthy double-digit margins. Recent improvements in the U.S. economy will have to be

sustained for several more quarters before they can have much of an impact on middle class incomes and spending.

The United States, as many have said, has a "growth problem," but it is one that goes beyond the current slow recovery and the financial crisis of 2008. Economic growth has been slowing decade by decade since the heyday of post-war prosperity during the 1950s and 1960s when real GDP grew at average rates of more than 4 percent per year. It was not uncommon during that era for the U.S. economy to expand at rates in excess of 6 percent per year. During the 1970s, real GDP expanded at an average rate of 3.7 percent per year; in the 1980s by 3.5 percent; and in the 1990s by 3.2 percent per year. Following the "technology bust" and recession of 2000-2001, real GDP expanded by just 2.6 percent per year through 2007. During the recovery from the financial crisis, growth rates fell still further and in step with the multi-decade pattern of decline. If it is any consolation to Americans, European and Japanese economies have fared even worse.

This point is illustrated by the pattern of real GDP per capita economic growth from 1950 through 2013. The pattern is displayed in five-year moving averages in order to remove the "noise" of year-to-year changes so that the long-term trend can be seen more clearly. The U.S. economy has gone through three extended boom periods over the past sixty-plus years: the first in the 1960s, the second in the 1980s, and a third in the 1990s. Yet each recovery has been less robust in GDP growth than its predecessor. In between, the nation has gone through periods of sluggish growth, including an extended one in the 1970s that set the stage for the fairly robust recoveries of the Reagan and Clinton years. From the late 1990s onward, the pattern has been steadily downward, and much more sharply and for much longer than in previous sluggish periods.

What difference does it make for an economy to grow at, say, 2 percent versus 4 percent per year over an extended period of time? The growth path of GDP over the nineteen-year period with annual growth rates of 4 percent, while the second line from the bottom displays that path with annual growth rates of 2 percent (which is close to what we have seen in recent years). The difference in GDP at the end of the period is large, approximately $35.5 trillion in 2032 under the 4 percent scenario and just over $25 trillion under the 2 percent growth path. That difference of $10.5 trillion in GDP would yield $2 trillion more in available federal spending with a 4 percent growth rate versus the 2 percent rate (assuming federal spending to be roughly 21 percent of GDP). An annual growth rate of 4 percent over the next two decades, similar to what the United States experienced in the 1950s and 1960s, might allow the nation to "grow its way" out of its fiscal challenges. In the slow-growth scenario, there is little chance that the U.S. government could pay the pledges it has made.

But there are larger questions at stake here. Writing in the 1950s in his book People of Plenty: Economic Abundance and the American Character, the historian David M. Potter argued that economic abundance was the key factor in the success of America's experiment in democracy and limited government. Of course, he was far from the first or the only historian to make that case. Alexis de Tocqueville observed in the 1830s that the abundance of open land in America created an equality of condition that was favorable to

the political ideal of equality. That was true during the nineteenth century; in the twentieth century economic growth through innovation reinforced and extended the ideals of independence, achievement, and democracy. Americans have never favored radical schemes to redistribute income because of their faith in social mobility and the belief that they can get ahead on their own. A stagnant America, lacking growth and broad opportunities for advancement and achievement, would represent something new and dangerous for a nation whose ideals and institutions have been built upon a foundation of abundance.

The United States, in short, needs a new focus on economic growth and especially a new "growth agenda" out of Washington to replace the emphasis upon redistribution, regulation, and gender and race controversies that have defined the Obama years. The party or candidate that can deliver such an agenda will win the support of grateful middle class voters – and along the way they may just succeed in saving their country from tearing itself apart in fruitless battles over dwindling shares of a stagnating economy.