THE WALL STREET JOURNAL.

MORE JOBS, FLAT INCOMES

Faster employment growth but also 97,000 fewer workers.

October 3, 2014

The achingly slow employment recovery picked up speed in September, with 248,000 new jobs and an upward revision for July and August combined of 69,000. That puts average job creation at 224,000 for the last three months and is a sign that the economy continues to grow steadily if modestly.

The decline in the unemployment rate to 5.9% is welcome, though not as good as it looks because the labor force fell by 97,000. The labor participation rate thus fell again for the second month in a row to 62.7%, remaining at levels last seen in 1978, while the share of the population employed stayed at a very low 59%.

The employment ratio is a favorite of economists when they assess the overall health of the labor market, and it continues to be lower than it was (59.4%) when the recession ended in June 2009. Congress's Joint Economic Committee reports that the decline of 0.4 percentage points in the employment ratio during this economic expansion compares with an average increase of 1.7 percentage points in all post-1960 recoveries.

Also disappointing is the decline in average hourly earnings by a penny to $24.53. Average earnings have risen only 2% in the last 12 months, which means that most workers have barely received a raise after inflation. No wonder millions of Americans say they believe the economy is still in recession, even though the downturn officially ended 64 months ago.

This combination of faster jobs growth but flat incomes and millions of people who have fled the workforce is puzzling the Federal Reserve as it contemplates when to raise interest rates. The Fed's decision depends on whether you think the labor force is now permanently smaller thanks to demographic changes and the shock of the slow-growth recovery. Or if you think the long-term unemployed and those who have left the workforce can be lured back. Our inclination is the former—at least until the economy shifts into a higher growth gear that would start producing jobs that pay enough to make work more attractive than early retirement or government benefits.

The good news on growth is that better economic policies might be possible after the November election. Republicans have a chance to retake the Senate, which would break Majority Leader Harry Reid's stranglehold on many of the pro-growth measures that have died in the House in the last four years.

These include regulatory relief, fixes for ObamaCare, tax reforms such as the repeal of the medical-devices tax, approval of the Keystone XL pipeline, opening more areas to oil and gas drilling, and more. President Obama wouldn't sign them all, but he also couldn't afford to veto everything without paying a political price by looking like the cause of the gridlock he's long deplored.

If nothing else, the policy bias would be toward measures that increase growth, rather than higher taxes and additional costs for businesses. And faster growth would go a long way to finally giving Americans a raise.