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Another Jobs Lull

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Maybe we should call this the Michael Corleone economy: Just when you think it might be accelerating, it drags you back down to the weakest expansion in modern history.

That's the story of Friday's disappointing jobs report for August, which showed a still mediocre pace of job creation. A pair of blockbuster Institute for Supply Management reports earlier in the week had led to renewed optimism that the long-promised breakout to 3% annual GDP growth is finally here. But the jobs report was another cold shower.

The economy added 169,000 jobs in August, 152,000 in the private sector, but that was less than predicted and was offset by a net downward revision for June and July of 74,000 jobs. That leaves this year's pace of job creation about where it was last year, and the year before that, and...

The unemployment rate fell to 7.3% from 7.4%, but that was mainly because another 312,000 working-age Americans left the workforce. The stunner is that the labor force participation fell to 63.2%, which is the lowest rate since August 1978 and before the enormous influx of women in the workforce in the 1980s and 1990s.

Labor force participation essentially measures the share of the country that finds it rewarding enough to seek or get a job. It's one measure of workers' confidence that they can find a job that pays enough to make it worthwhile. As the nearby chart shows, the rate peaked at 67.3% in 2000. It fell with the bursting of the tech bubble, rose amid the Bush expansion to as high as 66.4% in January 2007, and had fallen to 65.7% by the formal end of the recession in June 2009.

Defying modern economic history, the rate has continued to decline during this expansion and has now reached levels last seen in the Carter Presidency. If the participation rate merely returned to what it was at the end of the recession, nearly four million more Americans would be collecting a paycheck. And if those who have stopped looking for work were counted as unemployed, the jobless rate would be closer to 10%.

One silver lining in August is that the average weekly hours worked rose slightly to 34.5 (from 34.4) and so did overtime hours in manufacturing. Wages rose to $24.05 an hour from $24. These figures suggest that businesses are stretching their current workforce rather than taking on the risk of new hires. The hope is that businesses will hire more if the economy keeps growing, but the fear is that millions of the unemployed will be permanently left behind as their skills-gap grows.

Part of the problem is also the growing attraction of not working. These columns have reported on the explosion in both the food-stamp and federal disability rolls since the recession ended. A new Cato Institute study shows that the full plate of welfare benefits—food stamps, housing assistance, Medicaid and so on—now pays more than a $12 an hour job in half the states. This, too, plays a role in the expanding number of people who are leaving the workforce. Reforms in those programs would help, but the real cure is faster economic growth.

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