Job Worries Grow As Debt-Limit Issue Recedes

Tom Raum, Associated Press

WASHINGTON (AP) — Anger at the nation's leaders for taking so long to strike a debt-ceiling deal has turned into high anxiety over jobs and the economy amid growing fears of a new recession.

The news that credit rating agency Standard & Poor's downgraded the nation's credit rating a notch for the first time ever only added to the tension.

The darkening clouds come in what should have been a good week for President Barack Obama. After all, he and Republican leaders finally ended a months-long game of brinkmanship with a bipartisan agreement to raise the government's debt ceiling and to trim spending.

The deal kept the government from beginning to run out of cash last Tuesday, averting a first-ever U.S. default and a possible global financial meltdown.

And there was a relatively good jobs report on Friday.

But applause for the debt-limit deal or the increase in jobs never came.

In fact, stock markets around the world tumbled during the week as grim new economic figures suggested the U.S. recovery has stalled and as debt default tensions climbed in Europe.

Terms of the deal to extend the U.S. government's borrowing authority and trim federal spending contributed to investor angst. Many economists suggest the debt-limit measure could even wind up making economic problems worse if belt-tightening spending cuts coincide with a new recession.

And the Standard & Poor's downgrade late Friday cast new doubts on the value of the U.S. debt-limit deal. The credit rating agency said it was cutting the country's top AAA rating by one notch to AA-plus because the deficit reduction plan passed by Congress did not go far enough to stabilize the country's debt situation.

As to that downgrade, economists suggested it might not have much actual impact, noting that the credit ratings of Japan, Canada and Australia had also been downgraded in recent years with few economic consequences.

And in the past few days, investors have been fleeing stock and commodity markets for the perceived safety of U.S. Treasury bonds and bills.

That's a dramatic about face, since just a few days ago, global investors were worried that a U.S. default on its debt would end the longstanding status of Treasurys as the world's safest-haven investments.

"Investors have voted and are saying the U.S. is going to pay them," Mark Zandi, chief economist of Moody's Analytics. Despite the S&P downgrade Friday night, "U.S. Treasurys are still the gold standard," he said.

Zandi noted that neither his parent organization, Moody's, nor Fitch, the other of the three major rating agencies, has downgraded U.S. debt.

"I don't think it (the S&P downgrade) is going to amount to a lot," said Peter Morici, a University of Maryland business economist. Still, Morici said, "The United States deserves to have this happen," because of its clumsy handling of economic policy.

Friday's jobs report — a net increase of 117,000 new jobs in July and an unemployment rate ticking down to 9.1 percent from 9.2 percent in June — was better than expected by forecasters, but it did little to ease fears of a new recession. The jobless rate now has exceeded 9 percent in all but two months since the recession officially ended in June 2009.

Recent reports suggest the economy is slowing to a near-stall.

The U.S. gross domestic product grew at less than 1 percent in the first six months of 2011. Adding to the woes: Manufacturing has slowed and so has consumer spending. At such a sluggish pace, job creation can't even keep up with population growth. GDP growth needs to be above 3 percent to push down unemployment significantly.

After dropping more than 500 points on Thursday, the Dow industrials seesawed Friday, finally closing up 61 points, while other major U.S. stock indexes were down. And that was before the S&P downgrade.

Ross Baker, a political science professor at Rutgers University, suggested that the debt-limit issue is quickly receding into the background and becoming less relevant to consumers. "You can't eat a debt-limit extension," he said.

"I suspect that when members of Congress go back to their districts, people are going to come up to them and say, 'My 401(k) has cratered. What are you doing about it?'" said Baker. And least for those who have jobs and 401(k)s.

While the public is clearly unhappy with leaders of both parties, the stalling recovery will likely hit Obama and his Democratic allies the hardest. As he prepares for next year's re-election race, the president clearly needs to be seen as doing more to help the economy and to create jobs.

"There's not a lot of precedent for an incumbent president getting re-elected in economic circumstances like this," said William A. Galston, who was President Bill Clinton's top domestic policy aide in 1993-95.

"People know the economy is bad. And there's no way even the most artful politician can convince them that it isn't," said Galston, now with the Brookings

Institution. "And anybody that tries to convince them that things are getting better is going to get his head handed to him."

White House and Treasury officials reject the idea that a double-dip recession looms, insisting that the economy will continue to grow and create jobs, if slowly.

Even so, White House economist Austan Goolsbee told The Associated Press on his last day on the job Friday that "the focus has got to be on getting the growth rate up ... not arguing over things like the debt ceiling where it's just absolutism and dysfunction."

So for Obama these days, it's all jobs, jobs, jobs.

On Friday, he went to Washington's Navy Yard to announce a plan to spur the hiring of veterans. He visits a battery factory in Holland, Mich., on Thursday to talk about the economy, and plans a jobs-oriented bus tour of the Midwest from Aug. 15-17.

He has challenged Congress to act next month on stalled measures he claims will help the economy and job-creation, including extending the Social Security payroll tax break, investing in infrastructure and extending unemployment insurance.

Obama also made jobs the subjects of Saturday's weekly radio and online address.

After Friday's jobs report, Obama said his "singular focus" is now getting the unemployed back to work and helping families and communities recover "from the worse recession that any of us have ever seen."

Looking back at the debt-limit debate, Obama said the compromise was "important in terms of putting us on sounder fiscal footing," but he conceded that the "process was divisive. It was delayed."

A Pew Research Center survey found the debt-limit debate was viewed dimly throughout the country. According to Pew, 72 percent of poll respondents described the negotiations in negative terms, using words such as "disgusting," ''ridiculous" and "stupid."

"Throughout the whole year, the public has been more concerned about the jobs situation and prices than they have been about the budget deficit. They want to understand what the government's going to do in that regard, and they haven't seen it," said Pew Associate Director Michael Dimock,

Many economists say the chances of a new recession have increased markedly.

Calling the economy "balanced on the edge," Harvard's Martin Feldstein, who was chairman of President Ronald Reagan's Council of Economic Advisers, puts chances of a new recession at 50 percent.