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Economy's Woes Shift the Focus of Budget Talks

By JACKIE CALMES

WASHINGTON — Recent signs that the economic recovery is flagging have introduced a new tension into the bipartisan budget negotiations, giving rise to calls especially from liberals to limit the size of immediate spending cuts or even to provide an additional fiscal stimulus.

On Thursday, for the first time in two weeks, Vice President Joseph R. Biden Jr. and six Congressional leaders will meet with a new urgency to take up negotiations toward reaching a deficit-reduction deal in July. Democrats will make the case for additional tax revenues to balance spending cuts, an approach Republicans have rejected.

More broadly, however, the signs of an economic slowdown in past weeks — not least Friday's report showing weak job growth in May — have altered the climate for those talks. Amid the emphasis in Washington on significant deficit reductions, including new plans for spending cuts from more than 100 of the most conservative House Republicans and from Tim Pawlenty, one of the Republican presidential aspirants, some Democrats, economists and financial market analysts are raising concerns that too much fiscal restraint this year and next could further undermine the recovery.

“On the one hand the markets want a deal,” said Howard Gleckman, an editor and analyst at the Tax

Policy Center, a joint effort of two centrist research organizations, the Urban Institute and the Brookings Institution. “On the other they don’t want a deal that’s going to send the economy back into recession.”

While the Biden group, which includes Congressional leaders from both parties, is focused on ways to reduce projected annual deficits over the next 10 years, many Democrats say the immediate issue of what to do about a weak economy now looms for the negotiators should they reach a deal. They have taken their concerns to the White House.

The administration is already intent on limiting the proposed spending cuts for the 2012 fiscal year, which begins Oct. 1; Republicans prefer larger cuts up front.

“We are working toward a balanced approach to deficit reduction that will be phased in so it wouldn’t interfere with an economy that over the next two years will continue to be strengthening,” said Jason Furman, the deputy director of the White House National Economic Council.

Beyond that, however, Democrats and more liberal economists are suggesting that any long-term deficit reduction be paired with short-term spending increases or tax cuts to spur the economy, should it continue to weaken — perhaps by extending for 2012 the payroll tax cuts, business write-offs for equipment and other investments and extended federal unemployment benefits that President Obama and Republican Congressional leaders agreed to in December for this year.

Mr. Obama stoked such speculation on Tuesday at a press conference alongside Chancellor Angela Merkel of Germany, when he was asked what he might do to avert a double-dip recession.

“One of the things that I’m going to be interested in exploring with the members of both parties in Congress is how do we continue some of these policies to make sure we get this recovery up and running in a robust way,” he said.

Republicans would probably support extending the tax cuts, but not the unemployment aid. “I don’t know if throwing more money at the problem is going to solve anything,” Reince Priebus, the

Republican Party chairman, said Wednesday at a breakfast hosted by Bloomberg News.

Mr. Obama and administration officials say they expect economic growth to pick up later in the year after what they call “the headwinds” of high oil prices and fallout from the earthquake in Japan, turmoil in the Middle East and the debt crises in Europe — an assessment similar to views expressed this week by Ben S. Bernanke, the chairman of the Federal Reserve, and many financial analysts.

Yet the setbacks have depressed Mr. Obama’s poll ratings for his handling of the economy to their lowest levels, stoking concerns among his advisers as the 2012 election season gets under way.

“I think Obama himself is going to have to move or he’s going to risk losing the next election,” said Mark Weisbrot, a liberal economist and a co-director of the Center for Economic and Policy Research. “He’s going to have to say clearly that the federal government has to step in when the economy is so weak,” regardless of whether his proposals can pass in the Republican-controlled House.

Mark Zandi, the chief economist of Moody’s Analytics, a macroeconomic consulting firm, who has advised members of both parties, said he was not ready to call for an additional stimulus. “I think we can wait to the fall to determine whether that’s necessary or not,” he said.

But, he added, neither should the White House and Congress tighten fiscal policy too much right now as the economy sputters to emerge from the worst downturn since the Depression. The government is already contracting its role in the economy, Mr. Zandi noted, given both the spending cuts that Mr. Obama and Congress approved for the current fiscal year and the fact that stimulus measures enacted since 2009 are phasing out.

“The recent slowdown does reinforce a point, and that is that any additional fiscal restraint in the near term would be in error,” Mr. Zandi said. “There’s a fair amount of fiscal restraint already in progress and that will gain momentum next year without any changes. So if you add to that, you are running the risk of undermining the expansion. It would be wrong to pile on at this juncture.”

But this week 103 House Republicans told party leaders, Speaker John A. Boehner and Majority Leader Eric Cantor, a negotiator in the Biden group, that they want immediate spending cuts of at least \$380 billion for 2012 to halve the projected deficit, as a condition of their support for raising the federal [debt limit](#) this summer.

Such cuts are far deeper than those proposed up front in the House-passed budget written by Representative Paul D. Ryan, Republican of Wisconsin, which has led to protests in Republican lawmakers' districts. Analysts across the spectrum dismissed the conservatives' plan; Mr. Zandi and Mr. Gleckman said it would provoke a recession, thereby increasing annual deficits in the near term.

Douglas Holtz-Eakin, an adviser to Republicans, former director of the Congressional Budget Office and now president of the American Action Forum, a center-right research group, said he had no fear that the White House and Congress actually would cut too much. "I live for the day when a Congress cuts spending so aggressively that it actually endangers near-term growth," he said. "We've never seen that."

But neither should they provide additional stimulus, Mr. Holtz-Eakin said. "It was appropriate when the economy was falling," he said, "but it's been growing for a long time. We need better growth policies."



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