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Bush Admits Economy Faces Challenges



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President Bush speaking on Monday at the Union League Club in Chicago. “We cannot take growth for granted,” he said.

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CHICAGO — President Bush, in a marked shift from his usual upbeat economic assessments, conceded here on Monday that the nation faces “economic challenges” due to rising oil prices, the home mortgage crisis and a weakening job market.

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“We cannot take growth for granted,” Mr. Bush said in a speech to a group of business leaders in which he acknowledged that “recent economic indicators have become increasingly mixed.”

But even after a government report on Friday that showed unemployment jumped to 5 percent last month from 4.7 percent in November, Mr. Bush stopped short of warning that the nation may be about to enter a recession.

Democrats in Congress and on the campaign trail echoed the president’s sobering view. With a number of analysts now predicting that an economic downturn could be imminent, both Mr. Bush and Congressional Democratic leaders say they are considering whether a rescue package is necessary to counter the threat of a recession, in which economic activity declines and joblessness increases over an extended period of time.

But the two sides would undoubtedly take vastly different approaches, setting up a clash that could dominate the 2008 election campaign and the remainder of the Bush presidency.

If the past is any guide, Mr. Bush is likely to favor broad-based tax cuts of the sort he pushed through early in his presidency. Democrats are discussing more targeted relief — tax cuts, spending programs or a combination of the two — to help lower- and middle-income Americans who would be hurt the most if the economy falters.

“This is going to be a battle over doing more of what George Bush has done for the past six years, or doing more for the middle class,” Representative [Rahm Emanuel](#) of Illinois, the chairman of the House Democratic Caucus, said in a telephone interview after spending the day in Chicago with Mr. Bush. “That’s where the fissure is going to be.”

The clash comes as the latest negative signs on the economy, coupled with uncertainty in the housing and credit markets, have forced Mr. Bush to abandon his usual sunny rhetoric and paint a darker picture of the economy’s condition.

After months of insisting that the economy’s fundamentals are strong — a theme he reiterated on Monday — Mr. Bush did not mince words. He acknowledged that “many Americans are anxious about the economy,” and he noted that “jobs are growing at a slower pace.” He said core inflation was low — “except when you’re going to the gas pump, it doesn’t seem that low.”

Still, the White House is not convinced it must act. The deliberations are tightly held, and aides to Mr. Bush say he will not make a decision about whether to offer a stimulus package, or what it should contain, until later this month, in time for his State of the Union address scheduled for Jan. 28. Appearing in New York on Monday, Mr. Bush’s Treasury secretary, [Henry M. Paulson Jr.](#), echoed that approach, and cautioned against any rush to action.

“Working through the current situation and getting the policy right,” Mr. Paulson said, “is more important than getting the policy announced quickly.”

On Capitol Hill, Democrats were positioning themselves to get ahead of any proposal the White House might present. Aides to [Nancy Pelosi](#), the House speaker, said that she had yet to conclude decisively that a stimulus package was needed, but that she had met with a group of economic advisers last month who urged her to take swift action aimed at stabilizing the jittery economy and lifting consumer confidence.

The group included [Lawrence H. Summers](#), a Treasury secretary under President [Bill Clinton](#); [Felix G. Rohatyn](#), the financier and former ambassador to France; and Laurence D. Fink, the chairman and chief executive of [BlackRock](#), the global investment firm.

An aide to Ms. Pelosi said the three were “unanimous in saying that we should move out ahead.” In an interview over the weekend, Mr. Summers said he believed that there was now a greater than 50 percent chance of a recession this year.

“My view is that now is the time to be thinking about policies that would provide recession insurance,” Mr. Summers said, “and if we wait until it’s entirely clear that there is a recession, it will be too late.”

But Democratic leaders said there was already a general consensus within the party that any stimulus package would be temporary and targeted to the middle class and the poor. Among the proposals under consideration are a \$500 across-the-board rebate, possibly to be returned to taxpayers in their paychecks through the payroll tax system, as well as a plan to restore the \$1,000 per child tax credit to many low-income families that currently do not qualify for it.

Polls show Americans are now more concerned with the economy than the war in Iraq, a trend that is reflected in the presidential campaigns. In New Hampshire on Monday, as the candidates furiously courted voters on the eve of that state’s crucial primary vote, pocketbook issues like the price of home heating oil and health care took center stage.

“The economy’s beginning to have some problems, which I’m worried about,” Senator [Hillary Rodham Clinton](#) of New York told a group of voters on Monday morning in Portsmouth, N.H. “We’ve got this energy crisis, with oil now at \$100 a barrel,” she said, citing consequences “for our economy, for our security, for the problem of [global warming](#).”

On the Republican side, [Mike Huckabee](#), the former Arkansas governor, sounded similar themes, recalling his humble roots as he tried to persuade voters that he understood their “struggle.” Gas prices, home heating costs and health care bills keep going up, Mr. Huckabee said, “but your paycheck doesn’t go up to cover it.”

As for the Bush administration, Mr. Paulson, the Treasury secretary, tried to offer assurances that the White House is not standing still. He said the administration may seek to expand a program begun last year to help homeowners who cannot afford to repay subprime mortgages once they are adjusted upward.

Mr. Bush had expected to spend his final year in office focused on foreign affairs — he leaves Tuesday for the Middle East — and a few domestic issues, like reauthorizing his signature education bill, [No Child Left Behind](#).

But the president has had trouble getting credit for the economy even when times were good, and he can ill afford to leave office on an economic sour note. Mr. Bush is well aware that if he does not appear to share the public’s concern, he — and, more important for the 2008 elections, his party — could easily look out of touch.

“I think Bush is looking not to give the Democratic candidate any more ammunition than necessary,” said [Bruce Bartlett](#), a Republican economist who has been highly critical of the administration. “If we are in the middle of a recession in November, obviously the [Republican Party](#) is going to be blamed for that.”

Still, Mr. Bush must be careful not to depress the economy with pessimistic talk, and so his speech in Chicago on Monday offered a delicate balancing act. “People said, ‘Are you optimistic?’ I said, ‘Absolutely, absolutely optimistic,’” Mr. Bush said. “Do I recognize the reality of the situation? You bet I do.”