Congress flails as default looms

Meetings produce no sign of progress

By David Espo and Alan Fram
Associated Press

WASHINGTON — Republicans and Democrats in Congress failed to make any significant progress toward a deal Saturday even as a threatened default by the Treasury crept uncomfortably closer and a partial government shutdown neared the end of its second week.

Lawmakers in both parties said they were watching for the reaction to the political uncertainty by the financial markets when they reopen after the weekend.

The International Monetary Fund's policy committee said Saturday that the United States needed to take "urgent action to address" the uncertainties created by the budget impasse, particularly the threat of a default.

Global finance officials were nervously monitoring talks to end the U.S. budget impasse during their three days of discussions, held around the annual meetings of the 188-nation IMF and its sister lending agency, the World Bank.

"I think it is unthinkable that an agreement won't be found," Mario Draghi, head of the European Central Bank, told reporters Saturday. "If this situation were to last a long time, it would be very negative for the U.S. economy and the world economy and could certainly harm the recovery."

There are two issues at play: the U.S. government has been partially shut since Oct. 1 because of Congress' failure to pass a normally routine temporary spending bill. Separately, President Barack Obama wants Congress to extend the government's borrowing authority — another matter that usually had been routine.

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Twin stalemates

The focus of efforts to end the government shutdown and prevent a U.S. default shifted to the Senate on Saturday, where Senate leaders were in bipartisan talks aimed at resolving the twin stalemates.

"We haven't done anything yet" by way of compromise, Senate Majority Leader Harry Reid said, although he and other Democrats said repeatedly there was reason for optimism.

Across the Capitol, a member of the hardcore conservative tea party caucus, Republican Rep. John Fleming, said there was "definitely a chance that we're going to go past the deadline" that Treasury Secretary Jacob Lew has set for Congress to raise the $16.7 trillion debt limit.

Obama met with Senate Democratic leaders at the White House after accusing Republicans of practicing the politics of extortion. "Manufacturing crises to extract massive concessions isn't how our democracy works, and we have to stop it," Obama said in his weekly radio and Internet address.

Ironically, though, House Republicans who triggered the shutdown with tea party-driven demands to eradicate Obama's health law conceded that they had temporarily been reduced to virtual bystander status.

"The Senate needs to hold tough," Republican Rep. Greg Walden quoted Speaker John Boehner as telling House Republican lawmakers in a private meeting Saturday morning. "The president now isn't negotiating with us."

Focus on Senate

One day after talks between the White House and House Republicans fizzled, the focus turned to the Senate.

There, a meeting of Reid, Republican Senate Leader Mitch McConnell and two other lawmakers produced no immediate sign of progress.

"The only thing that's happening right now is Sen. Reid and Sen. McConnell are talking. And I view that as progress," said the second-ranking Republican senator, John Cornyn of Texas.

Senate Democrats rejected a stab at compromise led by moderate Republican Sen. Susan Collins, while Republicans blocked the advance of a no-strings-attached measure the Democrats drafted to let the Treasury resume normal borrowing. The party line vote was 53-45, seven short of the 60 required under Senate procedural rules.

At the center of the disagreement was a pair of issues, both important and also emblematic of a broader, unyielding dispute between the political parties over spending, taxes and deficits.

Lew has said that without legislation to raise the debt limit, the government will deplete its ability to borrow money, risking a first-time federal default that could jolt the world economy.

A separate measure was needed to reopen the government fully after 12 days of a partial shutdown that has resulted in furloughs for 350,000 federal workers and that administration officials warn could spread hardship if it remains in effect.

Politicians agreed passage of both was essential.

But Republicans demanded concessions that Democrats were unwilling to give — unless they could get something in return.

from 10.6 percent in January 2011 to the current rate of 8.1 percent, which is lower than North Carolina or Georgia. The national unemployment rate is 7.3 percent, down from 9.1 percent in January 2011.

North Carolina so far this year has announced 13,298 recruited jobs and $1.4 billion in capital investment, according to SYNC, a weekly publication of the N.C. Department of Commerce.

Economists say they are not surprised at the drop in recruited jobs.

"It's not surprising that the numbers have gotten smaller because the world's economy has gotten more uncertain and firms worldwide are looking at expansion plans," said Frank Hefner, a College of Charleston economist.

Hefner said policy uncertainty over the future impact of the federal health care law and tax rates has limited future plans of businesses. He said the same thing is happening across the nation.

Doug Woodward, a research economist for the University of South Carolina, said his research office had forecast a slowing in job growth this year in the state due to a sour economy.

"We don't have strong enough growth nationally to have a strong enough job market," he said. "We've sort of reached a point where the economy is sputtering and stalling again."

Woodward said none of South Carolina's employment sectors is particularly strong at the moment. State and local governments have cut back, he said, removing what had been a reliable source of jobs.

"Manufacturing has done OK, but not enough, and the other sectors just haven't been there," he said.

Sarah Watt, an economist with Wells Fargo Securities, said the state has a favorable business climate compared to other states in the Southeast to recruit new businesses but doesn't fare as well in work force skills.

"If you look at the labor force there in terms of skills, if you're looking at education as a proxy, the work force skills do tend to lag other parts," she said. "So I think that is kind of an uphill battle for the state."

In its economic forecast for the state issued last month, Wells Fargo Securities said the state was well positioned for a recovery and some sectors had improved.

"During the Great Recession, South Carolina saw slightly deeper job losses than the nation and has also taken longer to recover," the report said. "Rural areas and coastal regions were hit the hardest, reflecting cutbacks in manufacturing and the deflating of the housing bubble, mostly along the coast. Jobs are gradually finding their way back to the state."

Included in the state's jobs picture is a labor participation rate of 58.5 percent, according to the state Department of Employment and Workforce.

A spokeswoman for DEW said the rate appears to be the lowest in decades.

Wells Fargo reported the labor participation rate is about 5 percent below the national average.

"While South Carolina has enjoyed considerable success in attracting new industries, many of the higher-paying jobs moving into the state require a higher skill set than many of the workers displaced from traditional industries," Wells Fargo reported. "Given the time and expense that retraining often requires, many displaced workers have simply opted to drop out of the work force entirely."

Woodward said economists aren't certain exactly why the participation rate is so low but the rate has dropped nationally as well.

Among the contributing causes, he said, is an aging population which is retiring earlier, fewer young people looking for work and more two wage-earner families changing to one wage-earner families following the Great Recession.

"Then there is the relatively high unemployment which just discourages people from looking for jobs," Woodward said. "They just don't think they are available."

In past economic recoveries following a recession, Woodward said, the unemployment rate would be much lower, jobs would be available and people would be drawn back into the labor market.

Why so many are not looking for jobs is an important question, Woodward said.

"It's got to be a concern," he said. "Because people who are not in the labor force are not productively contributing to our economy, they are not paying taxes and it sort of digs us into a hole here, the likes of which we have not seen."

Watt said South Carolina's demographics may be contributing to the low rate, with an influx in recent years of retirees.

"If you look at the growth in the population over 65, just as a share of total employment, it's growing faster in South Carolina than it is nationally," she said.

Former State Commerce Secretary Joe Taylor said he believes one of the factors contributing to the low participation rate is a disincentive to work because of the array of benefits programs available to the jobless.

"I'm not so sure today that we don't incentivize people not to work," he said. "In other words, if you look at all the benefits you get from not working, from unemployment, child day care, free health and everything else. And I'm not sure that's not part of the equation out there."

He said some companies are fighting not to exceed a 50-employee level so they do not fall under the mandates of the new federal health care law.

"We make it painful for businesses to hire people and we don't reward people enough for going to work," he said.