Economic 'mess'

Obama adviser says 'fundamentals are sound;' Fed chief says recession 'probably' will end this year

THE ASSOCIATED PRESS

WASHINGTON — The economy is fundamentally sound despite the temporary "mess" it's in, the White House said Sunday in the kind of upbeat assessment that Barack Obama had mocked as a presidential candidate.

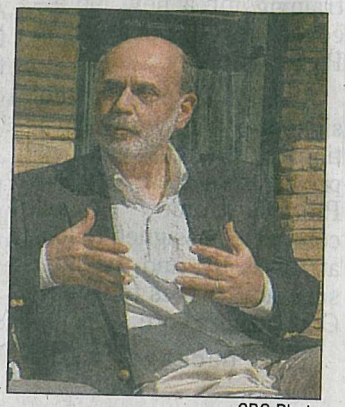
That optimistic message came from economic adviser Christina Romer. When asked during NBC's "Meet the Press" if the fundamentals of the economy were sound, she replied: "Of course they are sound."

"The fundamentals are sound in the sense that the American workers are sound, we have a good capital stock, we have good technology," she said. "We know that — that temporarily we're in a mess, right? We've seen huge job loss, we've seen very large falls in GDP. So certainly in the short run we're in a — in a bad situation."

Later, in a "60 Minutes" interview taped in Dillion, S.C., Federal Reserve Chairman Ben Bernanke said the recession "probably" will end this year if the government succeeds in bolstering the banking system.

In carefully hedged remarks in a rare television interview, Bernanke seemed to express a bit more optimism that this could be done.

Still, Bernanke stressed — as he did to Congress last month — that the prospects for the recession ending this year and a recovery taking root next year hinge on a difficult task: getting banks to lend more freely again and getting the financial markets to work more normally.



CBS Photo

Fed Chairman Ben Bernanke, in Dillon, S.C., talks with "60 Minutes."

"We've seen some progress in the financial markets, absolutely," Bernanke said. "But until we get that stabilized and working normally, we're not going to see recovery.

"But we do have a plan. We're working on it. And, I do think that we will get it stabilized, and we'll see the recession coming to an end probably this year."

Even if the recession, which began in December 2007, ends this year, the unemployment rate will keep climbing past the current quarter-century high of 8.1 percent, he said.

After weeks of projecting a dismal outlook on the economy, administration officials — led by the

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seen as temporary

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president himself in recent days — have swung toward optimism in what became Wall Street's best stretch since November.

During the fall campaign, Obama relentlessly criticized his Republican opponent, Sen. John McCain, for declaring, "The fundamentals of our economy are strong." Obama's team painted the veteran senator as out of touch and failing to grasp the challenges facing the country.

Just a week ago, White House Office of Management and Budget director Peter Orszag declared that "fundamentally, the economy is weak." Days later, Obama said he was confident in the economy.

"If we are keeping focused on all the fundamentally sound aspects of our economy, all the outstanding companies, workers, all the innovation and dynamism in this economy, then we're going to get through this," Obama said, striking a tone his top aides echoed.

Asked about the biggest potential dangers now, Bernanke suggested a lack of "political will" to solve the financial crisis.

He said, though, that the United States has averted the risk of plunging into a depression.

"I think we've gotten past that," he said.

It's rare for a sitting Fed chief to grant an interview, whether for broadcast or print. Bernanke said he chose to do so because it's an "extraordinary time" and it gave him a chance to speak directly to the American public.

Despite the new enthusiasm, there was little solid evidence to suggest an end was in sight to the severe recession that has already cost 4 million American jobs, driven down home values and sent foreclosures soaring.

Meanwhile, Chinese Premier Wen Jiabao said he was concerned about the safety of the estimated $1 trillion his country has invested in U.S. government debt.

Obama sought to downplay the worries.

"There's a reason why even in the midst of this economic crisis you've seen actual increases in investment flows here into the United States," Obama said Saturday in the Oval Office. "I think it's a recognition that the stability not only of our economic system, but also our political system, is extraordinary."

The seesaw message drew sharp criticism from Senate Republican leader Mitch McConnell, who said Obama's team was exploiting the economic situation for political gain.

"They're taking advantage of a crisis in order to do things that had nothing to do with getting us into the crisis in the first place," McConnell said.