Stabilizing housing market key to U.S. economic recovery: ex-official

Nami Yoshio

December 8, 2010, Kyodo (Japan) News

WASHINGTON, Dec. 8 Kyodo - Stabilizing the housing market is key to a sustainable recovery of the U.S. economy as it will lead to a pickup in consumption and eventually help restore employment, a former senior U.S. government official said in a recent interview with Kyodo News.

To help improve the sagging housing market, Robert Shapiro, who was undersecretary of commerce for economic affairs in the administration of former President Bill Clinton, proposed a temporary loan program of two years funded by the government, designed for people whose mortgages are in trouble, with the aim of avoiding foreclosure.

The plan is based on student loans, ''where you don't begin to pay anything back for two years and the interest rate is heavily subsidized,'' he said.

The financial crisis, which triggered a classic negative wealth effect, saw ''not only a decline in income but a sharp cut in wealth,'' said Shapiro.

In a country where ''70 percent of all Americans own their own homes and the average reduction in the value of housing across the country is 20-25 percent,'' it is to be expected that people will respond to the crisis by saving more and spending less, said Shapiro, chairman of economic advisory firm Sonecon LLC.

The November midterm elections dealt a severe blow to the administration of President Barack Obama as Republicans regained control of the House of Representatives and made substantial gains in the Senate as well.

In this political landscape, where fiscal programs are off the table, there is an enormous reliance on the second round of quantitative easing, Shapiro said, adding the situation is ''the direct result of the refusal of the Republicans in Congress to consider additional fiscal measures.''

The Federal Reserve's goal in purchasing long-term assets is precisely ''to bring long-term interest rates down in order to get people back into the housing market,'' he noted.

The strategy, however, has not yet been very effective in the current market, where ''the asset will be worth less in six months than it is today'' and ''the only people who can get mortgages are really people who have gold-plated credit ratings and significant liquid assets because you can't buy a house now without putting down 20 percent and banks won't lend you 20 percent,'' Shapiro said.

Shapiro said an alternative scenario for the housing market is to ''let the housing cycle run its course.''

But it may well take ''at least two more years'' before the housing market stabilizes and that could mean the current administration losing the next election, he explained.

Shapiro stressed the need for the government to do more to help stabilize the housing market, saying, ''The only entity which is in position to assume the kind of risk, of loaning to people who are defaulting their largest loan is the government.''

Whether the Republicans would support this plan is unknown, but it ''would be politically risky to oppose a program designed to keep millions of Americans in their homes,'' Shapiro said.

==Kyodo