Home Price Declines Compound US Economic Decline
By Barry Wood
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Home prices in the United States fell in 2008 for a second straight year, and the decline is continuing. A cross section of economists agree that the economy will not get out of recession until house prices bottom and begin to rise.

Carnegie Mellon professor Alan Meltzer agrees with President Obama and his top advisors that there will be no economic recovery until home prices stabilize. Addressing a Washington forum on Friday, Meltzer said tax breaks should be used to stimulate the housing market. "Let's give a tax benefit by allowing people to expense their down-payments, if they buy a house that already exists, but only for the next year," he said.

Average home prices in the United States declined by nearly nine percent over the past year. Much of the downward pressure on prices came from a record number of foreclosures, or bank repossessions of homes that buyers could no longer afford. There were two-point-three-million home foreclosures in 2008.

The Obama administration is preparing legislation both to stimulate the overall economy and aid homeowners threatened with foreclosure. Meltzer's proposal for tax breaks is also being considered.

Eswar Prasad, a Cornell University professor who is a scholar at Washington's Brookings Institution, said the new administration faces a difficult challenge, as it must both stimulate the economy and avoid excessive spending that will trigger future inflation. "There is no question about it. But we cannot focus too much on the medium term, because we do need to get ourselves out of this fix (deep recession), before we can get the financial system and the economy on its feet again."

Panelists at the forum sponsored by the American Enterprise Institute opposed new injections of government money into the troubled banking system. There was great concern about the size of the likely government budget deficit, which will exceed one trillion dollars this year. Given the depth of the recession that began in December 2007, the Obama administration is proposing emergency government spending of up to $850 billion.