

July 08, 2010

## 2010-07-08: Recovery loses traction

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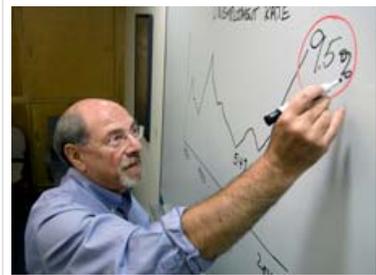
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## Recovery loses traction



Barry Bluestone, dean of the School of Public Policy & Urban Affairs, analyzes the latest economic data. Photo by Lauren McFalls.

**July 8, 2010**

Despite some encouraging signs in the winter and spring, the U.S. economy hasn't rebounded from the Great Recession as quickly or as strongly as many had hoped. Barry Bluestone, dean of the **School of Public Policy & Urban Affairs** and founding director of the **Dukakis Center for Urban and Regional Policy**, analyzes the current state of the economy and suggests ways to give it a boost.

### What do you expect federal, state, and local budgets—most of which begin anew July 1—to reveal about the current state of the economy?

Many states are facing continuing budget shortfalls this year. Without additional federal aid, states will have to shed state employees to balance their budgets, adding to the overall burden of unemployment. Moreover, with reductions in state support for local municipalities, many cities and towns will also be forced to lay off employees.

The cuts in state and local government spending offset much of the federal stimulus we have experienced, reducing the salutary impact of government spending on the economy. As a result, the economy is not growing fast enough to absorb most of those who are currently unemployed.

### What actions can be taken to improve the economy at a quicker rate?

The federal government needs to add to stimulus spending. The Federal Reserve Board has kept interest rates near zero percent, so there is not much more it can do to energize the economy. That leaves fiscal policy as the only tool available—raising federal spending or cutting federal taxes. A dollar in tax cuts stimulates the economy less than a dollar in spending, since part of every tax cut is saved rather than spent.

I would vote to extend unemployment benefits for those who are exhausting their benefits, perhaps with mandatory job retraining for those who have been unemployed for 99 weeks or more. I would also vote for more federal support of state governments so that declining state revenues do not undermine economic recovery.

### How will home sales factor into the economy over the coming months?

Home sales, particularly new home sales, provide an economic lift by putting construction workers to work and boosting sales of "big ticket" items like new appliances and new furniture. Unfortunately, the end of the federal first-time homebuyer tax credit has led to a collapse in home sales.

If something is not done soon to increase home sales, it is unlikely that we will see much improvement in the overall economy. I have suggested an 18-month federal "catastrophic home price insurance program" that would encourage qualified homebuyers to purchase now rather than wait for prices to fall further. For a small fee, buyers could purchase home price insurance so that they will be protected if their homes are sold at a loss. A draft version of this idea is before the House Financial Services Committee, but no action has yet been taken on it.

### What are some positive signs right now that the public should take note of?

Several months ago, I was encouraged by a sharp uptick in employment and home sales. But the latest statistics reveal that employment is growing very slowly nationwide and home sales are declining. With such discouraging news, along with uncertainty in the European economies, the stock market has tanked again, undercutting household wealth.

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All of this is showing up in a sharp drop in consumer confidence, which often is a leading indicator of declining sales, profits, and employment. None of this is good for the economy. I wish I could be more optimistic, but without additional federal stimulus I fear that unemployment will remain quite high for a number of years. This isn't another Great Depression, but it feels like one for many families throughout the country.

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