

The Reserve Bank of Australia Understands Housing. The Fed Is Dangerously Clueless.

Australia, like the West Coast and some other regions of the US, or Canada and Great Britain, faces an explosion in house prices.

The Reserve Bank of Australia recently issued a study concluding that in 2016 a whopping of A\$488,944 of a typical A\$1.16 million house price in Sydney was due to tight property zoning. The RBA also says the zoning costs have been worsening.

As bad as that is, I suspect the RBA actually understates matters, as they seem accept on face surging Sydney land values. But with an abundant supply of free-market housing, how valuable would Sydney land be?

But be that as it may, the RBA is on the right track. Restrictive zoning has created higher housing costs and inflation in city after city globally in the developed world (current account trade deficits seem to play a magnifying role).

The Fed

Compare the RBA's insights to this jaw-dropping clueless description regarding West Coast housing production, from the Fed's latest Beige Book:

"Activity in [12th District] real estate markets continued at a strong pace. Construction in the residential market picked up noticeably, limited only by the persistent shortage of labor and increasing material costs."

That tight urban property-zoning is suffocating new housing production along the West Coast, and has for decades, is something grade-schoolers casually toss off in playground jibes. Little old ladies at the mah-jongg boards tutor each other on exploiting zoning variances, and public-park winos discuss the merits of an R-2 parcel in a R-1 zone.

The Fed? The central bank plays Inspector Clouseau (after being blinded in both eyes).

In cities such as Seattle (where an average house is now \$820,000),

69% of residential land is zoned “single-family detached.” In San Jose it is 75%, and in Los Angeles, 57%. And if you ever want to see an American free-marketer libertarian change the topic immediately, bring up the need to eliminate property zoning...in his neighborhood.

Conclusion

In general, conventional US macroeconomists have been unable or unwilling to address the growing role that ubiquitous property-zoning plays in national and global economies, and in real living standards.

A wrinkle in US trade laws, or a budge in minimum wage rules, brings forth a Niagara of op-eds, issued from the very pinnacles of righteous indignation.

Like the Fed, most macroeconomists ignore property zoning, so it was nice to see the RBA play it front and center.

But the Fed’s blind-spot is not benign. The danger is that a central bank, eyeing “rising asset values”—which include housing prices—will choose to choke off economic growth.

There is a solution to exploding housing costs, but it is not tighter monetary policy.
