# Globalism, Monetary Policy, Housing Prices and Trade Policy

The viewpoints of the world's macroeconomists are becoming anachronisms, not updated for a global economy and housing costs.

For starters, there are some storm signals out there in monetary-land; notably Far East investors are fearful of capital flight.

"U.S. rate hikes have sorted emerging markets into winners and losers as investors pull capital from particularly unstable countries, though steep dollar debts may soon drag even Southeast Asia—fairly healthy so far—into the losers' circle," reported the Nikkei Asian Review.

"The gap between key South Korean and US interest rates will widen further if the US Federal Reserve raises its key rate again this week, a move that would rekindle worries of capital outflows," reported The Korean Herald. Seoul stock markets have been drooping, despite the best news on North Korea in decades.

Of course, the 1997 Asian Financial Crisis was precipitated in part by higher US interest rates, which drained capital out of SE Asia.

The Hong Kong Monetary Authority matched the recent Fed rate hike, a move that may cramp that city's famously expensive and capital-eating property markets, although the People's Bank of China did not.

The concern in Beijing is that the China economy is already cooling too much. The Sino rulers evidently will rely on capital controls to prevent money flight.

About 70% of global economies have central banks that peg to Fed in one way or another, Mercatus Center scholar David Beckworth has posited. Embedded in the past, the Fed appears intent on raising interest rates preemptively to fight non-existent US inflation, courtesy of the propeller-plane era Phillips Curve.

That higher interest rates in the West could siphon money out of entire economies is not yet blinking on monetary-policy radar screens in Washington.

Hopefully, the globe's capital glut will lessen the impact of the

Fed's resolve to obtain higher unemployment rates in the US.

**Housing Prices**

Housing prices are runaway in so many nations that Nobelist and Yale scholar Robert Shiller recently authored a article entitled, "Why Do Cities Become Unaffordable?"

From Australia, to Hong Kong, to New Zealand, to America's West Coast, to Canada to London and all of Great Britain, housing has become unaffordable for the employee-class. In contrast, in much of the same developed world, wages have been stagnant for a couple generations.

The flow of capital to nations that run current-account trade deficits is cited in a Fed paper as a large reason for exploding house prices. Obviously, restrictive zoning is a primary factor as well.

A shocking headline from Hong Kong A huge amount of capital gets absorbed by static (in terms of supply) and unproductive housing markets, globally, as noted by Adair Turner, former Chairman of the Financial Services Authority in Great Britain and a monetary policy scholar. Housing markets become defined by towering leverage.

Another shocker: Houses and residences in the US are worth $31.8 trillion by recent measure, reported Zillow. The market capitalization of US stocks is about $30 trillion.

Where are America's macroeconomists on this trade imbalance, leveraging, and housing-price explosion issue? Mostly mute.

**Trade Policy**

Global free trade is a positive and has largely been obtained, although certainly fingers can be pointed at the OPEC cartel or mercantilist China.

Indeed, the American consumer may wonder if he or she can buy anything manufactured in the USA, from computers to smart-phones, household wares to clothes, to wide-screen TVs.

A Yank can buy an American-built pick-up truck, but then he is told that Nixon-Reagan era protectionism can be blamed for that. Meanwhile, Ford and GM are said to be giving up on US sedan production, and Ford wants to move more jobs to Mexico.

But let Trump suggest what are essentially wrinkles in trade policy, and more than 1000 US economists will sign a public letter, which as Bloomberg put it, “invokes the Great Depression.” The old canard that the (essentially toothless) Smoot-Hawley Act caused the global Depression (and not tight money?) is dragged out for a gullible US public to consume.

To repeat, “free trade” is a good idea, but whether the managed, taxed, subsidized and regulated trade of today is “free” is a basic question. Besides that, Trump-era protectionism pales next to the Nixon and Reagan days, and no global recession was triggered back then.

But the world did encounter a Global Financial Crisis and Great Recession after the 2008 property price collapse—which followed Fed tight money policies.

**Conclusion**

Investors and citizens must think for themselves, as expert economist consensus is increasingly outdated, or off-topic. Unfortunately, the whipsaw of expensive housing and dead wages is not going to encourage the public to believe in free enterprise or even bona-fide free trade.

Western economists need to come to grips with what causes unaffordable cities, dead wages and Great Recessions. More pontificating on the merits of tight money and free trade is not an addition to the conversation.

For investors, a tricky situation. Global assets and property are fully priced, and the Fed is tightening up (with the encouragement of most economists), and taking up to 70% of the world’s economy with it.  The good news is that Bank of Japan and the People’s Bank of China appear to be charting independent courses.

Yet, declines in global property values are sometimes self-feeding, and banks globally are heavily exposed.  Capital flight tends to breed capital flight.

Cures, if a recession hits? Central banks still have not even yet broached the taboo topic of money-financed fiscal programs, meaning that option is off the table. Interest rates are still moderate, so central banks will have scant ammo by lowering rates. There seems to be no consensus that QE works. Whether the Fed would even go to QE unless pushed remains a question.

The US government is already running huge deficits for as far as the eye can see. More fiscal stimulus may not be forthcoming.

Plenty for investors to be concerned about.

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