Growing income inequality in most countries in the 1990s and 2000s led to global shortfall between supply and demand. The US economy bridged this shortfall domestically and globally by blowing successive equity market and housing bubbles, but these produced ever more severe financial crises. Rebalancing after the 2008 crisis required trade surplus countries to expand their non-traded sectors, but rebalancing is never immaculate. Instead, the FED’s three rounds of Large Scale Asset Purchases, or quantitative easing, shifted investment flows towards some developed and developing economies. As a matter of accounting, capital inflows led to shrinking trade surpluses in those countries. However, their relatively undeveloped securities markets mean that rebalancing largely occurred through rising housing prices, mirroring the same unsustainable phenomenon the US experiences in the 2000s. In effect, the US shifted part of its unsustainably large non-traded sector in those countries by putting upward pressure on the real estate part of the non-traded sector in those countries. However, this is not a sustainable solution to global trade and financial imbalances in the long run, and risks producing the same kind of crises in the US experiences in 2008.

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