Uncomfortable thoughts at year's begin

In the outgoing year of corona 2020, there were some owners of second or third properties, whether in Tuscany, Majorca or the Maldives, who had to forego the physical enjoyment of their property in the form of holidays in pleasant surroundings. Instead, they explored the charms of their local region anew, perhaps even for the first time. Nevertheless, the circumstance of "not being allowed to travel" should give pause for thought. Why? Because it highlights how very vulnerable the cross-border exercise of property rights can be.

Corona has opened the floodgates to more intervention. This could become a threat to private property, including real estate.

If this time the highly contagious Covid-19 virus was to blame for the travel restrictions (or the apparently rather helpless authorities imposing such restrictions), another time it could be trade policy or even military reasons that restrict freedom of movement in the world. Corona has shown politicians how they can take away citizens' freedoms, indeed how to literally lock them away. Provided they have sufficient valid reasons to do so and thus suspend the constitution, at least temporarily. Let us be clear: the political system has tasted blood as a result of corona. There is a great danger that in the future we will be restricted in our constitutionally guaranteed individual rights for less serious reasons.

Real estate as an investment is at risk in this context. First of all, in terms of personal use, as corona illustrated. But also as an investment, because it is not possible to relocate a property and the investor is therefore dependent on local conditions, for better or worse. It is to be feared that populist-induced encroachments on the freedom of ownership will also spread in traditional constitutional states. Even in Switzerland, there have been discussions about government-imposed rent reductions for tenants affected by Covid – at the expense of the owners, of course.

In contrast, liquid investments, such as those offered and recommended by Private Client Bank for its clients, have the advantage that one can switch from investment A to investment B at any time. One can even change both the location of the investment and its underlying currency, and at extremely low transaction costs. And because this is so, policymakers avoid attacking property in the liquid capital market. Their only option is to impose heavy taxes on the owner of the capital at his domicile. In other respects, however, the advance effect of the threat of capital outflow has thus far largely protected liquid investments from expropriation attacks.

It is commonly said that crises are opportunities. Yes, that may be true. But only if we take the crisis as an opportunity to think rightly about the situation and its consequences. For example, the current practice of central banks to become very substantial owners of liquid securities should give pause for thought, especially from the point of view of the future permanence of ownership. Capital stockpiled at central banks can flow away less easily than privately held securities. The loss of the advance effect of the threat of capital outflow would then be another devastating side effect of Modern Monetary Theory and practice that has not yet been considered.

My recommendation therefore for 2021: to be as harmless as doves and continue to follow the corona requirements. And to be as wise as serpents – to observe closely just where, just what mischief is brewing. Corona has unfortunately opened the floodgates to more intervention. Be on your guard.

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Private Client Bank AG
Alte Börse
Bleicherweg 5 – P.O. Box
8034 Zurich – Switzerland

T +41 44 253 73 00
F +41 44 253 73 20
info@privateclientbank.ch
privateclientbank.ch