

What is serious economics? And why doesn't it count the worth of Earth?

CHAPTER 4

SEEK ANSWERS VS REPEAT STOCK PHRASES

If what you say is not consequential, project that onto what is.

BURY OR PRAISE RENT?

In our modern era, it seems to many of us that land no longer matters. Who farms anymore, anyway? Rent being of no consequence is just common sense. However, as Bertrand Russell (another proto-geonomist) noted, common sense is often merely popular misunderstanding. This case is the opposite: unpopular understanding.

Even critics who know things like the salary gap between CEOs and workers, and reformers who know the losses from smog dismiss land and rent. They do so without any pressure from the establishment, despite rent being key to their issues. It's to capture the value of land and resources that humans do things like wage war, exploit and develop pristine nature, lobby for property tax caps, subsidize factory farms, etc.

Somewhat harder to deal with, if you're curious to know the worth of Earth in America, is expert misunderstanding. Even those who should know better assume the value of land and resources is insignificant as a sum and a factor. Conventional economists and mainstream statisticians trivialize and misconstrue natural rent.

IT'S ALL ACADEMIC

When teaching economics, professors compare rent to the portion of earnings of a talented person above the earnings of an average person. No, that's wages, however towering. Want an accurate analogy? Try urban drivers stuffing coins into a parking meter, paying for location.

Naysayers dismiss land as just another asset like capital. It does not matter to them that one, unlike the other:

- is fixed, can not be relocated,
- can not be reproduced like a new iPhone,
- required nobody's labor to come into existence, and

- is essential for life while the other is welcome for comfort.

Differences like these show why the two play widely disparate roles in economies. Academics explain economies are systems of rewards—just like training pets—yet blur.

CLASS BIAS?

Furthermore, knowing the success of their economy, a society might find a socially beneficial use for *this windfall now arriving in very few pockets*. But why fantasize? Our critics say, *despite evidence to the contrary*, that no single demographic gets the lion's share of such spending; it already goes to a majority.

Yet, even if rent were a minor phenomenon, how is that a criticism? Most professional economists spend their entire careers focused on such. Check out the table of contents of any peer-reviewed journal: consumption of chewing gum during holidays in rural counties, etc.

You can't blame the help, of course. Academics depend on donors and subsidies, bureaucrats squarely on government expenditure. And those who donate to universities and politicians are those who capture most rent.

Since rentiers do not provide any labor nor capital to produce land, the rent they get is something for nothing. Measuring this stream of reward draws attention to landlords growing rich in their sleep, as John Stuart Mill put it. Do his modern equivalents hinder the counting of natural surplus?

Economies are rewards systems – just like training pets. When we pay for some Earth, we do something different from when we pay for goods and services that somebody produced. Reward producers, they're likely to produce more. Reward absentee owners, what do they do? Hire an extra shift at a land factory? That's not happening but they may speculate even more, exploit more land and resources, and hire another lobbyist. Keeping the total unknown helps their cause (Ch 12).

Despite so much opposition, we curious gadflies may have some allies, wannabe reformers who'd find useful a figure for what we spend for the land we use.

“GREENS”

Imagine that we completely destroy the entire ecosystem—and survive. We'd have to do what it did, like deliver rain. Stuff like that gets costly. Robert Costanza tallied up what we'd have to pay the planet to perform the services it now performs for free (like create oxygen). He estimated the value of ecosystem services at \$166 trillion annually, a value that fluctuates annually due to human stresses. That's for all Earth, not just Amer-

ica. Nor is that an exchange value; nature does not need to be paid to provide its services. Yet if environmentalists can receive Constanza's financial figure, why not ours, too?

There is a hurdle. Loving the land, environmentalists cringe when seeing others treat it as an object of speculation. Our seeking a figure for the rental value of nature seems suspiciously speculative. Yet emotion aside, a figure for how much we all spend now for land somewhat degraded must make some wonder how much land in better health would then be worth.

It's not that humans *want* to foul their nest. A fouled nest is just a by-product of humans grasping for some of the worth of Earth. Because payments for land total so much, they attract lots of rational investors. A few of those investors and owners make money by putting nature to good use – selective logging, organic gardening, etc. Most make money by putting nature to bad use – clear-cutting, aquifer-draining, etc.

If you think you can live with despoliation and feel that only money matters, here's a fact to face: the financial cost from pollution-related death, sickness, and welfare is some \$4.6 trillion in annual losses – or about 6.2% of the global economy.

Equally as damaging as misuse of land has been nonuse. Specifically, when owners underuse urban land, they displace others who then overuse suburban land. Farmland lost to asphalt and concrete might be better left as a source of food to feed urban dwellers. To infill cities, making them more compact, many environmental groups have endorsed the notion of public recovery of land values (Ch 39). In general, however, just like economists those “greens” might be curious to know how much would flow into public treasuries.

HOUSING REFORMERS SEE SITE RENT

The notion of infilling cities both attracts and repels urban advocates, wanting more housing but wanting it affordable; newcomers downtown can't help but bid up the rent. Like, the artistic element makes a warehouse district hip and cool. The caché attracts new residents with deeper pockets. Artists can't afford higher rents so they resettle elsewhere. It's like bees swarming from an old nest to a new, buildable site. (Was the trigger also speculator bees bidding up site values in the old hives?)

Those who move out leave behind old friends, neighbors, nearby family, and coworkers, stretching – even severing – those ties. Those who stay put then deal with not only with higher housing expenses and property taxes but new neighbors and an altered character of their neighborhood, too. Yet citizens and cities both are both better off when communities are stable.

It's the value of land that pushes up the price of housing. Urbanists might like to know the size of that trigger.

The state of the housing market starts to make more sense when you factor in land values.

– by Mat Spasic for *Markets & Money*

Reformers concerned about unaffordable housing might lend a hand in ferreting out a stat for rent, and they are many and well placed:

- A pair of academics in the Federal Reserve Bank of Boston's **New England Public Policy Center** finger land rent: *"inelastic land supply in some attractive locations, combined with the growing number of high-income families nationally, can partially explain the growing differences in house prices and incomes among cities."*
- **Harvard** reports that "Over 38 million American households can't afford their housing, an increase of 146% in the past 16 years."
- **Stanford** researchers found affordable housing raises local land value. By how much? Maybe they'll help us find out.
- **UC Berkeley** researchers found that more than half of low-income households in the Bay Area, including those in higher-income neighborhoods, are at risk of, or already experiencing, gentrification.
- A recent **University of Southern California** survey said the high cost of living, especially housing, which is location, was making it difficult for businesses to retain employees
- The **Urban Land Institute** is "Facing the Challenges of Affordable Senior Housing."
- *The Dirt* by the **American Society of Landscape Architects** notes low-paying but essential jobs downtown *don't* pay workers enough to live downtown.
- **Demographia** International Housing Affordability Survey: 2016
- **CityLab** reports the nation's largest generation, Millennials, have been slower to buy houses due to affordability and location; the Boomers' suburbs lack the appeal of urban housing.
- **BuildZoom** notes the high cost of housing in expensive coastal metros is driven not by construction costs but by land. Because developers must acquire spendy land, building on it and selling what gets built is not necessarily lucrative.

- **The Guardian:** Not the Housing Rights Committee but a techie making six figures who no longer can afford Silicon Valley who said venture capitalists should quit investing in silly apps and instead solve social issues.
- **Bloomberg** opined that tech corps should argue less about visas and more about affordable housing for the employees.
- The **Washington Post Wonk Blog** reported that the National Low Income Housing Coalition sees the gap between wages and rent growing. Later they reported that Hawaiians are fleeing paradise because rent is too high.
- **Mercury News** reports techies flee to places like Portland and Austin, making those places unaffordable. Or stay behind; in LA, more Millennials live with their parents than all-ages live in Chicago (nearly 4 million).
- **Politico** reports the YIMBY Party, a coalition of renters, blocked a San Francisco ballot initiative to move zoning decisions beyond local control. Frustrated by high rents, they call for higher density housing and the federal government to get involved. Perhaps the US would tally land values for us all.
- **Slate** in their section Metropolis: Cities of Today and Tomorrow, ran “San Francisco’s Civil War.” Across the bay in Oakland, some have turned to living in shipping containers with their tiny footprint on land.
- **Wired** reports tech workers do well financially and bid up housing prices, which takes a toll on everyone else, especially blue-collar and service workers, who are increasingly priced out.

The McKinsey Global Institute found that, by spending so much of their incomes on the rent or mortgage, households don’t spend enough on consumer goods. Besides not stimulating others to produce, add in shortage of affordable housing, inflating its price. Mal-housing costs the economy between \$143 billion and \$233 billion annually, not taking into account second-order costs to health, education and the environment.

That’s nearly a score of institutes, researchers, and press groups who might join the chorus calling for official number-crunchers to tabulate a total for land and other assets non-produced, and that’s accurate.

If some agency would do that and release realistic figures for rent, the stat would not only supply environmentalists and urbanists with ammo, but when the running total peaks then everybody would have an indicator of the approaching downturn. Rational actors could take protective

measures, re-arrange their portfolios. Meanwhile, you would not believe the estimates experts pass off now as somehow connected to reality. What gets into those guys, anyway?