

The worth of Earth in America – is it a lump sum or a flow from your budget?

CHAPTER 37

THE GREATEST STAT ON EARTH: ITS REAL WORTH

I'd rather be vaguely right than precisely wrong.

– J. M. Keynes, via Carveth Read

AFFORD RENT, NOT PRICE

As in the country-western song, researchers have been looking for a tally in all the wrong places. Statisticians have sought a figure for the worth of Earth in America by looking at sale prices, not at rental leases. Compounding their problem, most economists (except Albouy, Ch 13) looked at property, not at land alone. Why?

Practicality is an easy out. Sales greatly outnumber leases, deals for buildings greatly outnumber deals for raw land, and housing in the GDP greatly outnumbers all other kinds of real estate and businesses based on land like farming or mining. Yet you don't do science by choosing easy over hard; you choose what yields accurate results.

That's what we'll do.

WHY PRICE BIAS?

When you think about it, it's odd. Why have researchers focused on the non-functional rather than the functional? Why on the derived, not the source? Why sales instead of leases or monthly rents?

Practicality is an easy out. Sales greatly outnumber leases, deals for buildings greatly outnumber deals for raw land, and housing in the GDP greatly outnumbers all other kinds of real estate and businesses based on land like farming or mining. Yet the easy way is less accurate and not scientific, obscuring the business cycle, making forecasting difficult.

The media, too, ignore rent, focusing on price. When the price of housing goes up, the media tell us that is good news, while forgetting to point out that actually, it's the location that appreciates as buildings depreciate. Nor are higher prices good for everyone. What's good for the goose (the seller) is not necessarily good for the gander (the buyer).

And why do we see the seller in the driver's seat? The price for land is not how much the seller asks but the final amount that the buyer negotiates. It's the demand of and competition among buyers that sets price, far more than the stubbornness of sellers.

Economists and the media reflect popular longing. Everyone wants to sell out at an exaggerated price and denies the reality of needing to next become a buyer, likely at an exaggerated price. The prevailing mindset of the typical American is speculator, not money-saver.

Pulled by statistical ease and pushed by cultural norm, almost all of those few economists who do guesstimate the worth of Earth in America used price – a dead end. And when presenting a value for an asset, the default figure for economists is from the POV of the seller, speculator, profiteer, the “winner,” the recipient from the deal; not the buyer, investor, payor, the “loser,” the expender in the deal. In politics, winners write history. In economics, profiteers command statistics.

However, those figures represent a minority position. When it comes to owning nature, far fewer people are landlords than tenants. While only a few receive rental income, almost everyone pays rent or a monthly mortgage or something equivalent. Hence periodic payments tell a truer story than does rental income.

VALUE EXCEEDS PRICE

Besides the matters of utility and accuracy, price has an ethical failing, too. In the modern mindset, price conveys ownership forever while rent conveys occupancy temporarily. Ownership, especially when concentrated, magnifies power while diminishing responsibilities toward community and environment.

Thinking of land as having a price, we see that part of nature as a commodity, an object of speculation. Rent—a non commodity—counters that. Periodic payments recall The Bible: “The land shall not be sold for ever, for the land is Mine; for ye are strangers and sojourners with Me.”

While most specialists use “price” and “value” interchangeably, one scholar used the terms “rents” and “values” interchangeably. He was also the one guy (who led his team) to tabulate land exclusively (not land plus buildings). That was David Albouy, of U Illinois and NBER, investigating the worth of cities.

We're so used to buying and selling everything, including land, that we automatically, and mistakenly, assume that price is value; it's not. Price is only the part that the buyer pays the seller.

Buyers pay more collectors than just the seller. Value is not just price or annual rent but the entire amount one is willing, able, and required to pay. That includes:

- mortgage interest paid to banks (the “F” in “FIRE”),
- insurance (the “I” in “FIRE”),
- other charges the Real Estate industry manages to impose (yet may not be necessary); plus
- taxes on property.

An accurate tally of the worth of national Earth would include the land half of these four payments – rent or interest, insurance, fees, tax – in the grand total.

FLOWING TO A TOTAL

Who’s going to do what the academics haven’t? As usual, if you want something done right, do it yourself. Don’t think me a delusional megalomaniac, able to solve grand puzzles the experts can’t. Just remember:

- Astronomers helping NASA identify the landscape of the moon and Mars.
- The authors first to theorize an asteroid killing off the dinosaurs, Allan O. Kelly and Frank Datchile, and ...
- Michael Faraday, who laid the groundwork for Einstein,

were all amateurs. Amateurs can go where the overly cautious conventional pros fear to go.

Experts eschew spending; we build on it. Nobody can collect from their sale of land until somebody else pays up. As rent is upstream of price, so spending is upstream of cashing in.

Fortunately for gadflies, official figures on spending for land are likely to be more accurate than official aggregates of the price of land. Political pressure influences economists and statisticians to slight land value. This pressure is off, as is the human tendency to adopt the winner’s POV, when it comes to spending.

Most Americans don’t buy raw land, but part of the price of what they do buy goes to rent. Most houses come with land. Food purchases pay for farmland and rangeland. Fuel pays for oil fields and mines and ores. The Bureau of Labor Statistics says in 2017 consumers spent, in trillions, on:

- shelter (inc. property tax) \$1.5
 - food \$1.0
 - utilities \$0.5
 - fuel \$0.3
 - medical care (patents) \$0.6
 - entertainment (copyrights) \$0.4
 - schooling (credential monopoly) \$0.2
- All from Table 2400.

TOTAL \$4.5 trillion, over 1/4 of national income. If half is rent, then it's presently at least \$2.3t.

*Owe, owe, owe you bought,
Thoughtlessly, you dream,
Merrily, merrily, merrily,
Rent is but a stream.*

Yet, the list is incomplete. It's not just households who consume but also nonprofits, businesses, and governments – the four official groups of purchasers. So, switch from purchasing to producers.

Spending underlies GDP. The US government's Bureau of Economic Analysis put GDP in 2017 at just under \$20 trillion, not corrected for inflation. The GDP sectors loaded with rent occupy these portions of the total:

- F.I.R.E. (Finance, Insurance, & Real Estate) 20.9%
- agriculture, forestry, fishing, and hunting 0.9
- mining 1.7
- utilities (water, grids, etc) 1.5
- information (patents & copyrights) 4.8

All from Industry Data. TOTAL 29.8%,

Nearly 1/3 of GDP (\$7t). If half is rent, then it's nearly \$3.5t, over a trillion more than the \$2.3t above. A trillion dollars may be small change for experts but it's like Mt. Everest for me. Yet the larger figure is reached another way, too.

Sticking with GDP, just over \$20t in 2018 Q2, but now from the POV of expenses. People paid, in trillions, for:

- housing + utilities (why combine?) \$2.5
- residential investment \$0.6
- non-residential structures \$0.6

- eat out \$1.0
- eat in \$0.9
- fuel \$0.3
- intellectual property \$0.9

All from Table 3. TOTAL \$7 trillion,

Over 1/3 of GDP. If half is rent, then this way it's also \$3.5t.

Yet the list is incomplete. People also pay to park and to play in parks. Consumers pay for non-solid "land" (as economists define the term); water and intangible electromagnetic waves. Furthermore, paying the property tax keeps one's title to land. Compared to other expenses, these would not be huge amounts, but they add up.

This \$3.5t does not tell the whole story. Besides Earth that someone is paying for, there's land nobody is: land that's owned free and clear, farmland lying fallow, unlogged forests, capped oil wells, un-auctioned airwaves, uncompensated eco-damages, etc. Paid-off homesites alone are worth \$0.7t – 1/3rd of owners of real estate priced at \$28t, rentable at \$2.8t. All the other natural resources together would probably go for a third trillion. Eco-losses (clean ups, health costs, regulation, etc; Ch 23) a half-trillion. Adding this \$1.5 trillion brings the value to ... Showtime for the greatest stat on Earth, literally: The worth of Earth in America – \$5 trillion (also the global value of exchange-traded funds). This amount per-capita registered voter is \$2,600/month.

That \$5 trillion can be doubled. There's another class of assets that acts like nature – privilege. Like natural resources, government-granted privileges don't need anyone's labor or capital to exist. (Disregard the labor of lobbying and the capital of campaign contributions.) Without those two human inputs, privileges can be extremely valuable.

Privileges create rent. Holding them, business can overcharge. Licenses enrich doctors, patents enrich Big Pharma, copyrights overly endow Record companies. On and on.

The granddaddy of them all is limited liability. If you plan to put consumer and worker at risk, you can limit your liability by getting a corporate charter for a mere filing fee. Imagine if government were run like a business and charged as much as an insurance company would. That charge, the value of one privilege, could raise \$1 trillion. That puts rent at \$6 trillion (how much debt China keeps off its books). Per capita registered voter, that's \$3,200/month.

Next, patents and copyrights. Getting one is like planting a flag on a field of knowledge, preventing everyone else from exploring there. That confers tremendous competitive advantage yet it, too, costs a mere filing fee. If government were to charge the market value of these monopolies it grants, it could rake in \$2 trillion per year (Ch 24). Add that to the \$6tr; now we're at \$8 trillion (also the amount of global debt, all stocks in developing nations, and the tourism industry). This amount per registered voter is \$4,200/month.

There's more: the money monopoly. Our Founding Fathers gave the power to create new money to Congress, yet Congress gave that away to the central bankers. That forces us to spend far more on interest, fees, and inflated prices (directly in our household budgets and indirectly as taxes) than we would otherwise spend in a competitive market. Inflation and interest on debt owed by consumers (including homebuyers), businesses, and government is well over \$2 trillion, much of it rent, putting the total at \$10t (minimum total in 401ks). Per registered voter: \$5,200/month (the average salary for professionals).

A FIGURE FOR A NEW FUTURE

At \$10 trillion, half of GDP, more than half of income or spending – nature and privilege are just as valuable as labor and capital. Yet what do economists do? Ignore half of the economy. Perhaps because privilege is a creature of politics while creation is the subject of geology, academics see both as beyond the parameters of economics.

This \$10t isn't authoritative. We're not authorities. Yet authorities are not up to this task. Of all the totals by authorities, none is a measure of the money we spend for the nature we use. Ours is. Using official stats in a novel way, we showed how it's done – quit looking for an official price and start looking for an official expense. Turn from price to rent, then from income to outgo, to finally measure the worth of Earth in America.

This datum is now loose in the world, as is the knowledge of how to calculate it. Further, the method is in plain English, accessible to every lay-person. It's what one would hope for from a public agency.

Going forward, a number-cruncher would update the inputs and refine the method, maybe rely less on voluntary surveys and more on actual receipts, in order to hone in on an even more precise number.

Better than a lump-sum price, spending flows can tell you what phase of the business cycle you're in. Once you start tracking this stream, updating daily, quarterly, or as much as feasible, then you're in business as a prognosticator. Its positive changes, negative changes, they are great indicators. One can have faith in economic statistics again. Now to announce