

*Thankfully, the professional courtesy of specialists extends to this inquisitive gadfly.*

## CHAPTER 21

# HOW DID AN OLD GUARD TREAT A YOUNG UPSTART?

*I asked a statistician for her phone number ... she gave me an estimate.*

### **MORE RENT, FEWER ADMIRERS?**

**R**ecall those four plus trillions of dollars we just deduced for the worth of Earth in America? Incredible, eh? Am I pioneer? Or am I walking the plank above watery ignominy? Announce that all we spend on all the nature we use – from oil to atmosphere and every location in between – is grand. Some don't want to hear it, like it's bad news. What, they wanted society's surplus to be small?

Yet it's understandable. Accustomed to the value of land and resources being tiny, then the bigger rent is, the harder it is for conventional economists to believe it – and admit how wrong they've been for so long. Thus the number of appreciators is inversely promotional to the actual quantity of rent.

Other big numbers sure have it easier:

- a statistician says the national debt is trillions of dollars heavy,
- an astronomer says the universe is billions of light years old and big,
- a physicist says a string is a zillionth of subatomic particle,

And you don't blink. But say the value of natural assets is immense ...

While economists may feel physics envy, they don't exhibit physics receptivity to outlandish imagination. Physicists suggest new explanations, no matter how bizarre – like two-way time travel – and even accept such hypotheses. After all, imagination is the sources of new theories.

Conformist economists, though, must first bow to which way the wind is blowing, on behalf of their job security. It's only logical that only a few of them would stick their necks out this early in the game, while most of

them would ignore or criticize measuring the value of the factor in production that nobody created.

### ADMIRATION – A TWO-WAY STREET

**D**o specialists who gather economic statistics appreciate a gadfly's effort to tabulate the value that society generates? Happily for me, some official economists and statisticians did not remain on the sidelines but took an interest and lent a hand. Even though my estimate was "not invented here," our quest did inspire some appreciators among the insiders. Some not only replied to inquiries and replied helpfully but often did so with casual humor. That makes number-crunching less burden and more fun.

Without revealing their identities, I'll treat you to a few excerpts from some of my correspondents' replies...

Jeff,

Was it Truman who was so exasperated with his economic advisor always telling him, 'Well, on the other hand ...,' that he wanted a one handed economist? There really are different uses for the various surveys! Try asking the Bureau of Economic Analysis (BEA) who bought what!

– Revi K., Bureau of Labor Statistics

Jeff,

How much is land value? It's a lot! (No pun intended :) It's my understanding that the BEA (the people that do the GDP) is working on including land in the National Balance Sheet, but they're not there yet. You would want to clarify whether you are talking just about "urban land" (that is, "real estate" land), or also land that is productive as such in its own right (without buildings) such as farmland, timberland, mining land. Also about whether to include dedicated open space (such as parks – how much is Central Park 'worth?').

I suggest you contact Professor MD. He subscribes to a data service in order to update his estimate just about daily. [Ed. Note: And the good prof did come through, writing me that all residential land was now priced at only \$9 trillion – a pitiful amount for all home sites in America, actually.]

– DGL at MIT"

“Jeff,

Thanks for the detailed comments.

The data is [sic] based on transactions, so it does not include all properties and land in the United States. Extrapolating from this data to the entire nation is possible, but any such measure should come with the appropriate caveats.

I have had discussions with staff at Census on using the data to improve our estimate of land values, but we have not had a chance to work on that project yet.

I am in the process of updating the estimates and hope to be able to publically [sic] release the updated indices by later this summer. I’ll be sure to send you a link to the new indices once they are released.

– Jay N., the US Federal Reserve”

“Dear Jeffery,

Would you be available on Friday 4/22 at 2pm for a phone conversation? RL, an economist who follows real estate for the Financial Accounts, can join us then.

Regards,

– Luz Q., the US Federal Reserve”

“Jeffery,

Thanks! I’m glad you find my posts interesting and I really appreciate your note. My experience suggests we haven’t identified the effect of population growth, apart from economic growth, on housing prices.

Thanks for sharing that paper. I was happy to see it came from the University of Kentucky. I did my undergraduate there.

– Len K., Freddie Mac”

“Hi Jeffery,

I don’t know why the Colorado legislature curtailed municipalities from taking advantage of the real estate transfer tax after Aspen adopted it to use for affordable housing. Two people that I think would be more well versed on the subject would be Mick I. and Rachel R., both of whom have been heavily involved in local policy since at least the 1990s. Let me know if you need their contact information.

– Catherine L., Colorado reporter”

Thank you! I too am occasionally bewildered when academics don't create a consistent time series out of an index that could be consistently updated for just a fraction of the original work they put into it. Particularly because it guarantees them a steady stream of citations from people like me (see the Economic Uncertainty Index, for example) and, in some cases, even a series on FRED that untold researchers will end up using and citing. Zillow Research has the best home-value index, because they adjust it for the mix of homes in the area – it's not distorted by the specific mix of homes on the market at any given time as other home-value indices often are.

– Andrew V, *The Post*

Hi Jeffery,

Thanks for writing. Current numbers add up to more like \$300T. The best source is the Fed's Z1 report. Link and file below. Near the front you will find a page that lists total financial assets and liabilities bisector and total but beware as they include no tangible assets. Toward the end there are pages for balance sheets but they only cover 3 sectors – including households but not governments. In the household numbers you will see the assets that include tangible assets and report land and structures separately.

Best,

– John R, columnist

Hi. This table is part of the Z.1 release: <https://www.federalreserve.gov/releases/z1/current/html/default.htm>. You should be able to find what you are looking for there.

Thank you for your interest in the Z.1.

– Virginia L, Sr Financial Analyst, Board of Governors of FRS

Hi Jeffery,

CBO takes its estimates of the overall value of land in the nonfarm business sector from the Bureau of Labor Statistics. We don't include an estimate of the value of farmland. A benchmark for non-farm land is estimated by applying a land-structure ratio based on unpublished estimates by the BLS to the value of structures. These ratios are based on data from 2001 for Ohio. This benchmark is extrapolated from Bureau of Economic Analysis investment data. The resulting nonfarm land data series is allocated to industries

based on Internal Revenue Service data on book values of land. Land is assumed not to depreciate. I hope that helps. Regards,  
– Bob A, Unit Chief, Congressional Budget Office”

Thank you for your question. The government does not determine the fair market value or appraised value for every piece of land the Federal government owns. Funds received for various rights (air, mineral, water, etc.) to real property, agencies may track those funds in their various internal systems, but it is not reported to the FRPP (Federal Real Property Asset Management) system I manage.

– Chris C, US General Services Administration”

### **MORE RENT ON THE HORIZON**

**T**hese helpful respondents above represent the cutting edge within the discipline, an edge that should keep on moving forward. As other researchers come sniffing around, looking for reliable totals from official data gatherers, requesting a more rational methodology in their parsing of stats, then professionals such as the above are likely to deliver a finely honed total. Finally we’d have a number we could utilize to predict reliably and clarify how economies really work.

Later, being better informed, with better ways to measure it, experts might expect the assessment of the amount of rent to total even higher. Tabulators would take account of more sources, like marina berths and note that a lot of interest on loans is actually rent. Putting it all together, that’s a scary thought for those who now insist the size of all rents is negligible.

For doubters, the size of rent is going to get a lot worse. Beyond land, people pay big bucks for some land-like things, other never-produced assets: airwaves, ecosystem services, and the field of knowledge. We have yet to count those three huge categories of spending. Let’s get to it.