Given the politics, is economics a hopeless case, useless to knowing the size of rent?

CHAPTER 27

Porcelain Economics: Look, Don't Touch

The First Law of Economics: For every economist, there exists an equal and opposite economist. The Second Law of Economics: They're both wrong.

They Can Laugh, As They Should

In popularity, economist jokes are second only to lawyer jokes (many, blushingly, made up by economists themselves).

> *An economist is someone who lies awake at night trying to figure out how to make reality conform to theory.*

They make it too easy for the jokesters. The discipline fails to account for the worth of Earth anywhere.

Wrongheaded and Just Plain Wrong

Paul Samuelson, economist emeritus MIT, had the bestselling textbook of his era, *Foundations of Economic Analysis,* one of the best of all time. In early editions, he explained rent; in later ones, that part was missing. Why delete a discussion on payments for one of the three basic factors in production? It makes no economic sense; oblivious to rent, economists cannot understand surplus or make accurate forecasts. Rather, the decision must've made prudent political sense, appeasing the prevailing winds within the discipline and surrounding it.

To paraphrase proto-geonomist Henry Ford, you can have any statistic you want as long as it's not rent. Without the anchor of land, without clarity on principles, without needing to be right, economists can say and believe anything – and they do.

What could be more at odds than the diagnoses and prognoses of liberal and conservative economists? In 1974, two economists – Milton Friedman and Paul Samuelson – shared the bogus "Nobel" prize for saying exactly the opposite things.

If all economists were laid end to end they would not reach a conclusion.
–George Bernard Shaw, playwright, social critic, proto-geonomist

In the absence of a key component of the system, spending that never rewards labor or capital, unchecked opinions crowd out facts. Peruse the various explanations by economists re the burst of the recent "housing" (home site) bubble:

- Some blame low-income borrowers.
- Some blame lenders.
- Some blame government pressuring lenders.
- Some blame speculators.
- Some blame regulators.
- Some blame the absence of regulations.

Economists are anything but objective, with no axe to grind; they can be as politically opinionated as anybody. Blaming their favorite fall-guy is where most analysts halt their peeling of the onion. One sees what one expects, and upon finding that does not dig any deeper. On their less than rigorous analysis they base their recommendations. One insider, peeved at the policies of his cohorts, charged them with practicing "flat-earth economics."[1]

The Gaping Hole

Can the worth of Earth in America really be known? Economists have not exactly been Mr. Answer Man. Rather, the few who do investigate rent – spending that can never reward effort – have little impact on the rest of their field, who have closed ranks around the leftover topics.

While economists don't count how much society spends on the nature it uses, they don't want anyone else to measure it, either. Like specialists everywhere, the economists, the statisticians, the bureaucrats, act out the Priesthood Syndrome. Within economia, the hierarchy in which they rank each other excludes the uninitiated, the questers after a solid figure for society's surplus.

Peter Preston of *The Guardian* bewails, "When it comes to the economy, nobody knows anything." That might be a stretch; probably somebody knows *something*. Paraphrasing Oscar Wilde, "Economists know the price of everything and the value of nothing."

1 "Larry Summers And Flat-Earth Economics" by Steve Denning, *Forbes*, 22 Oct 2015

When it comes to one part of the economy, natural resources and privileges, it seems economists know *neither* price nor value. Even though economies generate a surplus – a fat one, if they'd only measure it (Ch 25) – economists abide by the frame of "scarce resources." Their fake poverty consciousness reinforces society's poverty consciousness. And makes abundance too good to be true.

Without a figure for rent, rent is easily ignored. Overlooking rent, economists ignore the difference between payments for things others create and payments for things nobody created. Doing that closes off from academic view the essential actions of economies, making accurate analyses impossible.

Field of Brooms: under the rug goes rent

You read the proclamations of the economists and statisticians and sense no doubt. You listen to them being interviewed or on the phone and hear the voice of confidence. But it is easy to be certain with the backing of the powerful.

Rather than be scientifically correct, economists must be professionally correct. All know that the richest Americans founded the US central bank, and that the Fed and bankers in general are outwardly dismissive toward land. If the most powerful fiscal institution on the planet snubs rent, why should anyone else, especially anyone hoping for a career in the field, research rent? Most don't go there. By de-legitimizing land, politics has discouraged any would-be real scientists.

Instead, academics concern themselves with topics that their colleagues care about – marginal cost, elasticity, etc. And the academic press publishes reams and reams of papers – mere embroidery of little utility. So, less relevant issues become most important and the most relevant issue takes on the tone of "flakey."

While economists show great solicitude toward the elite, some sociologists show consideration toward the lowly. Sociologists used to conduct the wallet test; they'd leave wallets in train stations around the world to measure morality regarding property. The closer to the equator, where people are poorer, the more likely the finder just kept the billfold. The closer to the poles, where nations are developed, the more likely the finder tried to return it (even without accepting a reward). After a few years of testing, sociologists no longer wanted to potentially embarrass poor people. Yet right off the bat, economia chose not to annoy the rich and diligently overlooked surplus wealth.

Economists not only ignore the nature of land – its ability to consume the lion's share of our spending – but also ignore the nature of customs. They treat the sanctity of property, for example, as immutable as the law of supply and demand, a physical law. We deal with laws like gravity by engineering solutions, and deal with customs like, say, gleaning of fields by the poor after harvest, by aiming shotguns and hiring lawyers. If you treat phenomena that can change the same as you treat phenomena that can't, then your conclusions must eventually – or quickly – become out of date.

Students Beg for Relevance

Within the economics discipline, a tyro researcher has a choice. Either adhere to science, or appeal to prejudice. Either perform the most rigorous analysis and follow the findings wherever they lead, or follow the crowd and skirt the true nature of riches.

Most float in the mainstream. Many economic models, and especially those currently *en vogue* in economic theory, suffer from excessive use of mathematical techniques. Young researchers make their models complicated to impress a prospective employer and to get the paper published in a respected journal.

Because economists go through similar academic training, they act like a guild. The guild mentality renders the profession insular and immune to outside criticism. Conventional economists occupy the driver's seat but are headed nowhere near understanding the big picture.

Joe Earle, Cahal Moran, and Zach Ward Perkins in *The Econocracy* report that their lecturers did not mention the biggest economic catastrophe of our times; the recession that started a decade ago. What they were taught had no relevance to people's lives. Students were memorizing and regurgitating abstract economic models for multiple choice questions.

Some professors considered discussing the problem of "inefficiency" in finance to be outside the mainstream. Other academics have some jargon for that (naturally): "cognitive capture." During the financial crisis, cognition staged a jail break. Economists from the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and elsewhere started looking at "inefficiency."[2] We'll see if cognition gets put back in its cage soon; looking at class influence requires *so much* chutzpah.

Insiders Bemoan No Usefulness

All their worrying about controversy makes it hard to look broader and deeper. Focused on permissible topics, economists cripple their

2 "Rents and the High Cost of High Finance" by Guy Rolnik at Chicago Booth, 9 Aug 2016

field, keeping it from realizing its potential. Instead of of presenting a recipe for prosperity, mainstream economists come up with anything but that.

Within economia, the thinking is screwy enough that even conventional economists feel they must speak up. Over time, economists themselves repeatedly fault their field. Throughout his career, the World Bank's Paul Romer made a habit of critiquing the credibility of macroeconomic models of his peers, irritating many of them (Ch 16).

Romer's academic interest lay in studying how the diffusion of knowledge relates to output; more knowledge, more output. Conversely, less knowledge, less output. The less economists know about rent, the fewer useful insights they can provide society.*"Economize at all costs."* (Get it?)

What do economists have to say about all this? OOH, Prof. David Colander wrote *Why aren't Economists as Important as Garbagemen?* (1991). Irrelevance, *schmirelevance*. Prof. Ariel Rubenstein said academic studies are not intended to be practical.

The gatekeepers of knowledge appear impregnable. Yet, just when it seems that the silencers have won, students revolt. Economic students, academics, and professionals who hope to change business-as-usual within economia have gathered under the banner of Rethinking Economics. It's a hopeful sign, but it's also like a periodic rash. The previous generation had their post-autistic economics. And before them, there were other critics calling for a fresh start.

Check Your Ethics at the Door

"The only reason I don't sell my children is that I think they'll be worth more later."

When Russia struggled to makeover itself and open its markets after the communist state gave up, you could read American economists claiming that the Russian economy was doing swell – even if the people were suffering. That's almost in a league with, *"We had to destroy the village to save it."*

Economists are unusual, but not unique, in their frequency of scoring low in altruism. Adam Grant, in "Does Studying Economics Breed Greed?", notes that even thinking about economics can make us less compassionate. Along with directly learning about self-interest in the classroom, because selfish people are attracted to economics, students end up surrounded by people who believe in and act on the principle of self-interest.

Extensive research shows that when people gather in groups, they develop even more extreme beliefs than where they started. Mob psychology. By spending time with like-minded people, economics students may become convinced that selfishness is widespread and rational – or at least that charitable giving is rare and foolish.

"Ethics teaches us that virtue is its own reward, economics teaches us that reward is its own virtue."

Rather than confront the powerful hierarchy, most economists bow to privilege and sacrifice the scientific method. Still, they boast of being neutral. So, standing by at the evisceration of their field and looking the other way is neutral? Really? Are they neutral or in a state of denial? If not something far less flattering.

Actually, I feel a little sad for the ones who adhere to the catechism. But, at least the pay is good. Still, are we being harsh? What if your accountant did not do the best job possible? Or your dentist? Or your tailor? You'd be in hot water with the IRS, maybe with the wrong tooth yanked, and wearing ill-fitting clothes.

All Creek, No Paddle?

Such criticism may encourage economists to change. Wider spread dissatisfaction can help bring about positive change. Even if, so far, there has been no self-correction within Economia.

An early practitioner, Thomas Malthus, called his field "the dismal science." Yet only half of that is true; the science part is a polite exaggeration. Their beliefs are more like superstition. I don't mean to be harsh, but what else can cold, impartial logic lead one to think? Economics is really just a discipline. And its disciples are not full of much useful advice. Rather, they are full of contradictory advice. So, society loses needed guidance.

Peer-review pressures economists to conform. When Gregory Mankiw, a Harvard prof, later a presidential advisor on economics, published a paper predicting the last recession, his colleagues roasted him. Instead of praising his attempt to be scientific (he cited the 18-year period in detailed demographics) other highly credentialed voices upbraided him. Not even the guys at the top can escape criticism when they actually try to do their job.

That chastisement was for forecasting, not for measuring the value of land. For measuring, the penalty is not ridicule but being ignored. Colleagues express no interest – and isolation is not healthy for one's career.

Prof. Bill Black, the author of *The Best Way to Rob a Bank is to Own One*, says "economists are unique among scientists [sic] in the frequency, severity, and persistence of their errors. No other field has such a disastrous series of predictive failures in modern times. No other field gives Nobel [sic] awards to economists for preaching critical policy issues and predictions that have proved dead wrong. Yet conventional economists claim that they should be judged on the basis of their predictive success." In an article by Yves Smith at *Naked Capitalism*, 16 May 2016.

Predict is what a science can do. It's the acid test of whether or not a study is scientific. For a field to belong to the noble endeavor of science, its practitioners must be able to predict. Economists cannot predict with any certainty. Ergo … economics it's not a science.

Economists have called eleven out of the last nine recessions.

The *Farmer's Almanac* does a better job forecasting the weather. Astrology puts economics to shame, joked John Kenneth Galbraith, the world's best six-foot-seven economist and President Kennedy's Economic Advisor. Two other guys who together, back in the 1990s, won that ersatz "Nobel" nearly brought the global financial house down by persuading the rich and powerful to invest in their hedge fund that went belly up.

Q: What do you get when you cross the Godfather with an economist?

A: An offer you can't understand.

The rare economist does find some predictive power; *"residential investment leads the business cycle whereas non-residential investment lags."* That's by Morris Davis (Georgetown University) and Jonathan Heathcote (Federal Reserve Board) in "Housing and the Business Cycle" (Ch 13). They even mention land and acknowledge it's absent from NIPA or GDP, so they whittled it down to 20% of the price of housing. For academia-nomics, at least that's something.

Are we finding too much fault? We're not. The key to forecasting accurately is not a secret, but it is ignored. Leaving out rent, most professionals miss that this cycle occurs with depressing (pardon the pun) regularity, making prediction possible. Geonomists see that, much to their advantage. Rents are vastly superior tea leaves, as you'll see.