*My turn to take a wack at those respected stats – more like reflections in wavy mirrors.*

# CHAPTER 18

# Figures for Land: From a Fun House?

*"Studies show: 79.48% of all statistics are made up on the spot.*
— John A. Paulos"

## Other Totals Are Iffy But At Least Exist

You saw how academic jargon (Ch 16) and official statistics (Ch 17) in general are tough-sledding. Now hang on to your hat. The special treatment economists and bureaucrats give the worth of Earth in America is worse.

First of all, a total for the value of American land and resources does not exist. Not one public site, from local to federal has a separate category for the total value of the nature we use. Researchers must ferret out surrogates. Then their numbers that do exist typically minimize the value of a part of the natural world humans use. For some reason.

That officials don't tally a figure for payments for land, a basic factor, begs an explanation. They tally figures for payments for the other two factors in production, labor and capital. Aggregate wages were $6.3 trillion in 2015. A stat from which to derive interests says that all US businesses grossed about $20 trillion in 2012. Yet officials give no approximate stat for the base factor, land.

We could use one. With an accurate tally, we could fend off this economy that hurts too many people. A total for rent – how much we all together spend to occupy land – would inform us about two crucial phenomena. We'd see how well the economy is doing, plus where the economy is headed.

That the average Jane and Joe overlook land, hidden beneath buildings, is understandable. Us non-experts may refer to the cost of housing, assuming the human-made part to be what's valuable and the nature-made part not so much. But the "expert"? Despite their training – or because of it – even specialists make the same mistake.

## Casting Pearls Before Swains of Data

But not all. Some economists can't resist trying to figure out the value of land. Recall Morris A. Davis (U Wisconsin) and Michael G.

Palumbo (Federal Reserve Board) in their "The Price of Residential Land in Large U.S. Cities" (Ch 13). In 2004, two years before the peak in "home" (actually, home plus site) prices, the prices of homes along the coasts were not much greater than those for the other three US regions. Thus the increase in homes (+site) prices reflected the value of land, i.e., location.

The average lot sold for about $440,000 in West Coast cities. Land's share of home value had risen to 75% along the West Coast. When sampling upscale neighborhoods of cities, that figure easily rises to 80% (once again, the *Pareto Optimum*) and even more of property value.

Land's share of home value had risen to 65% on the East Coast, compared with about 40% in the other 3 regions. And here's the key stat: it rose 51% across the entire sample of 46 cities.

*"50% of marriages end in divorce. Thus, if you don't file for divorce, your wife will."*

Usually, when bureaucrats and academics put forth a number, it's lower than what's logical, typically lower than how much private business calculates. In the business press, one can read the occasional article reminding the lay public that location absorbs purchasing power. Hence land is vastly more valuable than buildings. One article found this obvious yet invisible fact in the 10 most populous US cities.

Davis and Palumbo aren't the only game researchers. The Lincoln Institute calculates land value based on home sales and updates it frequently. Eschewing houses, Albouy, turned up $30 trillion for metro land, while leaving out the trillions for non-metro turf. Larson took a stab at the grand total and found $23 trillion, way below Albouy's partial total (Ch 13).

## They Count *Something* – But What?

While grateful for these exceptions, the rule is another matter. Not only do statisticians lack a stat for rent, they also christen their charts for the profit from location with jargony labels and sometimes without any labels at all. To get to the meaning of their numbers within, one must decipher their packaging.

Contact an authoritative voice: the Census Bureau (public) or the Federal Reserve (private). One of the surprises among many is that authorities did not understand my question: How much do we spend for the nature we use each year, from land to oil, including water, etc? Such curiosity must be thinking way outside their box.

Yet at first, the "experts" are flattered that a lay person takes their field seriously. But soon an investigator's determination to pry an answer out of them begins to seem a fixation. Their recourse is never rudeness; instead, it's stonewalling. "Nothing to see here, move along."

Are they right? Are all matters economic better left to the experts? Driving away us riffraff, is that the official rationale behind the present figures that are incompressible and irrelevant? But if we don't persist, who will? Inside the official box, land is obscured, subsumed under capital; i. e., buildings. Bureaucrats suggest, *If you want to see something relevant, look at what stats we do trot out!*

Eventually a determined persistent one does decode the jargon, but why should one have to? The public pays for the gathering of the figures. Shades of Paul Romer (Ch 16), the paid gatherers should present their findings in a format as accessible as possible.

Beyond appearance is content. Despite missing much rent, specialists go ahead and publish official or scholarly underestimates. These statistics you do find…

- come based on assessments or appraisals of lump-sum sales, not ongoing leases;
- may combine commercial and residential and leave out agricultural;
- may include sylvan, mineral, spectral – or not;
- tally together private and public – or not;
- miss elements such as roadways, port districts, airport landings slots, the value of marina slips, etc; and
- are not centralized or standardized but are scattered across many agencies, both public and private, and in language that is not only obtuse but inconsistent from one agency to another; they don't use the same meanings for the same terms.

Most tabulators don't give a value for land but for land and buildings combined. Those few who sought the value of land alone tried to separate it from the price of location plus house. Yet the worth of Earth is far greater than the value of just the land beneath a single-family home. Downtown – land beneath stores and offices – is where site values spike. And the method they chose to ferret out land under-counted it.

## Replacement *Cost*? Land Costs Zero!

*To appear smaller, dress the stat in horizontal lines.*

Conventional economists claim the value of buildings far outweighs the value of the location. Trying to justify their assertion, they don't subtract the value of the house as is from the combined total of the property. Instead, they subtract the building's replacement value, pegging the value of that house as if it were brand new.

Their method is like saying the value of a driveway with a junker resting on cinder blocks is not the value of the driveway by itself. Instead, it equals the value of both combined minus the value of a brand new Camry. Those specialists could use a BlueBook for used houses.

Want to know the actual worth of your home? Put it on a 30 foot wide trailer, drag it around town, and see what offers you get. That'll be built value. Subtract *that* from the combined value. Your remainder will be the value of the location.

If insisting upon using the method of replacement cost, use the replacement cost of the land. Use a fraction of the $166 trillions that Costanza tabulated for the world's ecosystems (Ch 4). A *reducto ad absurdum*?

Buildings age, need repairs; they depreciate (they're not known as "money pits" for nothing). Regions, on the other hand, become popular and more densely settled. When new people move in – like high-paid techies into San Francisco, or sold-out Californians into Oregon – locations appreciate. The pushed-up property values are pure land value, nothing to do with aging buildings.

Bureaucrats make available a morass of surrogate numbers woefully distorted. It's like economists go out of their way to issue under-sized values for land or locations. If they're not going to do it right, why do it at all? Imagine that the local pub's barkeep served residents shots so shaved down. I'll bet then the public would be up in arms.

Academics, bureaucrats, and dynastics (to coin a term) studiously ignore our spending that never rewards labor or capital (since neither factor created land). They subsume rent payments in expenditures for goods and services that humans do provide, then release their figures weekly, busily turning lemonade into lemons. Filling the forum for knowledge with noise makes it a great place to hide the rent signal. Out of sight …

## Eyes Wide Shut

Those officials who collect the figures have neglected rent for as long as they have been collecting figures. Similarly, economists have mislaid land for so long, that today's cloistered practitioners fail to see the non-human factor's relevance. If land does not count with economists, why would statisticians count its value?

Economists do not demand relevant and accurate data, and public servants do not supply them. Instead, both make excuses for each other. *"Determining the value of land is difficult."* And, *"Such a stat offers little utility anyway."*

By now, this official trivializing of rents has bred indifference among conventional economists. For them, society's spending for one of the three factors in production – land – does not matter. The vast majority of economists simply do not care how much or how little is its value (locations, natural resources, EM spectrum, et al). After a while, they can quit even pretending to tabulate land value. Rather than calculate accurately, the Fed quit calculating rent at all, notes the OECD.

The official gap in data for land and rent blinds people. Laypeople conclude, logically, that the items that officials do count matter and the items they don't count don't. Due in part to this negligence, natural values and occupied land have become invisible to the modern naked eye.

Professionals who should know better don't see the difference between assets created by humans and those that are not. Established economists don't see how our spending for human-smade assets stimulates more output while our spending for natural assets does not. Hence they miss what drives the business cycle.

## Political Pressure

To a degree statisticians are innocent. The laws in some states put caps and limits on property taxes and thus force down the official estimates. Maybe someone is keeping the good data private somewhere for well-connected insiders.

Even politicians are innocent. They're obeying the will of voters, and the most consistent bloc of voters are homeowners. Most of them are equal part land speculator. Dealing with land value puts one under political pressure. Most everyone yields ("Politics and Federal Statistics" by Janet L. Norwood in Statistics and Public Policy, 28 Sep 2016).

Appraisers, being in the employ of realtors, usually round estimates up, as jacked-up appraisals tend to inflame speculators. Furthermore, sellers

and buyers do not always convey the exact price to the assessor's office. Sometimes they shave it to lower tax repercussions.

Assessors, when they exaggerate the value of the improvement, they do the property owner a favor, since buildings depreciate and the owner can deduct that amount from their income tax liability. When they understate the value of the location, they do the land speculator a favor, since a lower number hides this socially-generated value.

Such distortions do not go unnoticed by appreciative insiders. Conversely, accuracy brings attention of the unwanted kind, putting one's career on the line. Hence the prevailing political tide carries official figures away from accuracy.

For conventional professionals, a realistic large number is controversial, while a sketchy small number for rent is safe. However, less really *is* less. Controlling the flow of information is a way to censor and to marginalize those who seek answers. That impoverishes culture, since knowing and understanding how one's world works is a huge part of any culture. Specifically, society loses the measure of natural surplus, a reliable indicator of economic swings.

While both right and left economists do well in keeping themselves out of poverty, how well have they performed lifting others out of poverty? Or preventing large swaths of the middle class from falling into poverty when economies shrink and no mainstream economist warned the trusting public?

Perhaps academics and bureaucrats don't see how one spending stream rewards privilege and other streams do not. However, it's more likely they do see the elite being benefited, and that's the problem. Curiosity gives way to caution.

Downplaying the role of land and payments for land, those economists and statisticians stay the course. Or, if you can stand the pun, they stay the curse. They are not doing science but merely maintaining the status quo. Whether intending to or not, without received orders being made explicit, both number-crunchers and academics have become guardians of the rentiers, the few happy recipients of the vast flows of rents.

Or they perpetuate the main rival ideology – any of the various leftisms. Those also overlook land, limiting themselves to the usual labor-versus-capital argument. Leftists reinforce the industrial paradigm and likewise miss the organic nature of economies.

Yet despite pressure, researchers in other fields do science even when opposed. Communist economists have happy careers in academia. Evolutionary biologists, harangued by religious myth makers, tell their truth. Why can't mainstream economists and statisticians do it, too?

## Assessing Accurately

Have we set the bar too high? No, official American statisticians have set the bar way too low.

Since localities do not tax locations apart from improvements, they don't care about the value of land. Ever the practical, county assessment offices quit assessing nature-made locations separately from human-made improvements. In Oregon, some assessor offices toss into the circular file their assessments of land. And being officials, the way they do things is what becomes Standard Operating Procedure.

Some assessor offices do much better. British Columbia, whose office was set up by geonomists Mason Gaffney, emeritus UC-Riverside, and his protege Ted Gwartney, former assessor for several jurisdictions and Chief Appraiser for Bank of America, is so well-known for precise assessments that professionals come from all over the world to be trained or hone their skills in rainy BC. Americans could reach for the higher Canadian standard.

As for any difficulty of separating the values of land and buildings, the difficult is not the impossible. And how hard is it, really (outside of political pressure)? Actually, not that hard. Redevelopers who buy property to tear down the extant building and erect a new one, they separate the value of the location from the value of the improvement upon it all the time. For them, the task is simple.

With computers, the county assessor's office could easily update all records of all parcels in an area every time one of them sells or leases. The totals would never lag and be available to all comers. The federal agencies, who now get their numbers from the local ones but don't do much with them, could truly serve the public.

The "incomparable John Rutledge" already does. In his "Total Assets of the US Economy $188 Trillion, 13.4xGDP" he notes that the Federal Reserve Board furnishes balance sheets for non-financial assets covering several sectors of the economy. Yet the Fed does not include the value of land and non-produced assets held by financial corporations and government. Moreover, owners do not directly report the value of their land. This gap between concept and measurement biases figures downward.

The link to this article on his website no longer works, but in a private email John estimates the 2017 total to exceed $300 trillion; a portion of that is land price.

## Lay Down the Gauntlet

While accuracy would be great, at this point we can make do with a ballpark figure. Heck, none of the other stats from bureaucrats and academics are precise. Yet they keep cranking them out and passing them off as "data," as if they were milliseconds or parts per billion.

Consider the firepower of all those public agencies spewing reams of numbers that don't draw a picture but just muddy the waters. Imagine if those staffs were directed to measure essentials. It'd be so easy for them to calculate the worth of Earth in America.

There are tons of numbers to use. Each year in the US, there are hundreds of thousands of transactions for land, resources, electromagnetic spectrum, etc. There are sales, leases, sublets, auctions, plus taxes levied on those natural assets, not to mention interest paid on the land portion of mortgages.

Most likely, number-crunchers won't budge until economists ask for more relevant stats. Perhaps it requires a controversy – an innocent proclaiming that the emperor wears no clothes – to motivate the discipline, to spur reform. It's a duty job, so somebody has to do it, typically a gadfly, a curious investigator, certainly not an official obfuscater.

The job of this book is to raise the bar, to raise expectations. How will criticized gatekeepers react to an outsider laying down the gauntlet? Ignore and ontinue to mislead? Or find the chutzpah to ferret out facts?

No hard feelings, but may economists remember, science has always been a back and forth between old and new theories, and between researcher and skeptical public. Once they're measuring the flow of rent, seeing the size and fluctuations of that spending stream, and understanding how economies operate, economists could do more than guesstimate; they could predict. Finally forecasting accurately – and stating dates people could plan by – they'd become real scientists. Thereby, our critiquing of their nowadays numbers is a service to society.

It makes me feel a little sorry for economists and statisticians who once may have had professional pride, their having to toe such a partial, biased line. Do they feel embarrassed to be dishing out such distortions rather than the best data? To be the butt of jokes? (e.g., somebody who rescues statistics that can't lie for themselves). Deep inside, I bet economists probably want to become scientists, or they would not suffer from physics envy. A healthy number of them would welcome reform, eh?