Investigating solo, a gadfly makes an easy target for anyone aiming for a takedown.

CHAPTER 25

Scouting Ahead of the Curve Strains Ties

"Out on a limb, above a well-guarded secret, only your balance has got your back."

Working Without a Net

It's not like economists and statisticians to ignore big numbers; normally, they don't. But talk about the elephant in the room; $8 trillion for the worth of Earth in America *annually* (Ch 24) definitely qualifies as huge. So, why'd they let us go out on a limb by ourselves?

Only a few researchers make educated guesses and those always slight the land. Even at eight trillion dollars, the count could be an underestimate. Under-estimate is what officials do. Getting clear is what they don't do (Ch 18). Nor do economists, and bureaucrats after them, show interest in noting the two kinds of spending. One rewards the efforts of workers, the other rewards the ownership and privileges of others.

Allies are not found among critics and would-be reformers of standard economics. They don't criticize the inadequate treatment of land nor join the call for calculating rent. Ironically, the issues they find relevant exist only because they're downstream of the rent problem.

However, our real opponents are found among the rich and powerful who now receive the lion's share of our spending for nature and privilege. Lenders of mortgages, owners of oil companies, holders of patents, exercise their considerable power to keep real rent statistics under wraps (Ch 12). Even the middle-class, with inconsiderable power, prefer to ignore that their lesser captures of rent are unearned.

We questers of the size of rent are pretty much on our own, tallying staggering figures, walking the high-wire alone, while working without a net. If we get the total wrong, that means ignominy for this quest – by us or anyone to follow us – for a long time to come.

Most cannot see the land, but only what's on it – unaffordable housing.

Urban advocates miss:

- What rises in value is not housing – already built – it's land. Further ...
- Sellers and landlords don't cause the rising; it's residents with more money to spend on prime locations.

Many criticize the GDP as a measure of economic health and a guide for policy and offer ideas to reform it. Yet, few notice that the strongest stream in the GDP is our spending for parts of nature. People worried about GDP, housing, and inequality, leave us to our own devices.

Academics Criticize Bogeyman

Thomas Piketty became a celebrity with his fat bestseller, *Capital in the 21st Century* (2014). He showed how the rich get richer while the poor get poorer due to ownership (or lack) of capital, or so he said. Piketty used "capitalists" and "the rich" as synonyms and proposed taxing them. Similarly, the tax code calls income derived without having to apply labor or capital "capital gains", rather than "land gains" or "privilege gains".

Reed College (in Portland Oregon) graduate Matthew Rognlie while still a grad student at MIT noted that capital—factories and skyscrapers—depreciates; it's land—especially urban land—that appreciates. As do most in his discipline, Matt mislabeled land as "real estate". What captures the surplus that functional economies naturally exude is not buildings or any sort of capital but land, becoming the father of enduring fortunes.[1]

Sitting side by side with Piketty on a televised panel discussion, Joseph Stiglitz echoed Rognlie, saying it's not owning capital that widens the income gap but owning land. Piketty did not acknowledge the point. And making the point was the former Chief Economist of the World Bank, a winner of the ersatz "Nobel" prize, and a professor at Columbia.

How many know Piketty's idea? Millions. How few read the correction? Several thousand? Even when getting it wrong, a critic of wealth inequality can achieve fame and fortune, leaving geonomists as lone voices howling in the wilderness.

Certainly, a few capitalists did rake in fortunes. Railroads and steel, oil and cars, did vastly enrich a few. Yet the textbooks leave out these facts:

- Railroads made more money selling the land they were given by Congress than by ferrying freight.

1 "Meet the 26-year-old who's taking on Thomas Piketty's ominous warnings about inequality" by Jim Tankersley, Economic Policy Correspondent, *Washington Post,* 19 March 2015

- Iron, the basic ingredient of steel, was already valuable in the ground, untouched by miners (that value is rent).

- Oil, like iron, was already valuable even before being extracted from the ground.

- Cars needed paved roads; funding them came out of the public purse. Plus, courts permitted the destruction of the trolley system, which reduced competition early-on in the second industrial revolution.

Today, tech giants come from creativity and government-granted patents and subsidies (last chapter). None but geonomists show how rent and privilege played a huge role in amassing monumental fortunes.

Critics of Finance Overlook Funds

In keeping with their penchant for changing names and definitions, economists no longer use "capital" to refer to heads of cattle (the term's original meaning) or to tools, factories, and supplies (in contrast with consumable goods). Rather, they just mean big piles of money, stuff of investments and huge savings accounts. An enormous portion of this capital is curdled rent, invisible to critics and reformers – steroids for bankers.

Gerald Epstein and Juan Antonio Montecino, in their *Overcharged: The High Cost of High Finance* (2016), measured how much bankers pad their profits. Bankers' higher charges cost borrowers more money, which in turn harms the economy.

They use "cost" in the sense of "harm" or "damage," not in the sense of an input's expense. The two senses differ greatly; economics would benefit by keeping them straight. (So, when did consistency become a virtue in economic thought?)

Epstein and Montecino find that:

- Starting in 1980, investment and commercial banking's share of intermediation (middlemen shuffling money) began rising sharply, from about 20% to almost 70% during the first half of the previous decade.

- The IRA 401K pension system is bloated and non-competitive. It creates hundreds of billions of dollars in annual costs (asset management and advisory fees). Yet it does not create better allocation of resources.

- The share of financial sector "earnings" relative to total corporate profits rose from about 10% around 1980 to about 40% at the turn of the 21 Century.
- Despite their best efforts, the net returns of actively managed portfolios are more than 2% points lower than net returns relative to index funds – 4.73% vs. 6.94%.
- In general, the asset management sector generates significant amounts of income for themselves, less so for their customers and society.
- Beginning in the 1990s, the gap between wages in financial services and other sectors started increasing, and that gap was especially high within investment banks and securities brokers and dealers.

Building on Philippon and Reshef's research, Epstein and Montecino estimate wage rent (excess wages with excess profits) to be $1.4 trillion between 1990 and 2005. Adding losses from slower growth and recession brings it up to $3.7 trillion. They project that from 1990 to 2023, this number would add up to $22.7 trillion.

Should we add wage rent to the growing total of natural rent? What would be the annual amount of all sectors in 2017? I could not find statistics, so whether it belongs with natural rents or not is moot.

Leading up to the recent recession, the American financial system (by which Epstein and Montecino mean Wall Street, not credit unions and community currencies), increasingly failed at providing basic banking services and became more involved in speculation. Their solution? Rules and regulators, no matter how much the bureaucracy would cost.

Regulation or an Ounce of Prevention?

People love to hate the government – it's bloated, it's wasteful, it's all about favoritism, etc., etc. – yet we want more of it. Like Woody Allen's joke about the two Jewish ladies complaining about the terrible food at the resort they went to in the Catskills. Not only bad – there was never enough of it!

Most claim that not enough government – de-regulation – caused the recent recession, and more government – re-regulation – will prevent the next one. But they miss that:

- Government loosens the reins on financiers every turn of the business cycle.
- More critically, the life's blood of bankers is debt for land.

For a thorough history of finance, see Phil Anderson's *Secret Life of Real Estate and Banking* (2008). All that attention paid to what bankers do, and none paid to what they do it with. Overlooking rent legitimizes surface issues and marginalizes a deeper analysis.

Engineers say that if a problem can be defined, it can be solved; a good prognosis depends on a good diagnosis. Conversely, operating on the basis of a misunderstood problem, one can never conjure an effective solution (except by luck).

The role of the state as the main cause (or cure) of collapse pales beside the role of rents, our payments for the essentials of life. Only after we've acquired food (from land) and housing (on land) do we then purchase furniture, appliances, cars, etc. When we must pay more for the former, we can only purchase less of the latter (a recession).

The world's foremost organic gardener offered advice. Author of *The One Straw Revolution,* Masanobu Fukuoka said, "When something goes wrong in my garden, I think first not what to do but what to undo." Applied to financial collapses, regulations and the rest of the apparatus would be what not to do. But what would be what to do? Find another use for rent, besides a reward speculation?

Howl Until Heard

What could show others the error of their ways? The harder you try to intrigue the likeliest receptors, the more stubborn they get. Your facts not only fall on deaf ears but also raise pointy hackles. Psychological research shows that people set in their ways merely entrench themselves even deeper into what they "know to be true." Staying loyal to ideology suits human nature.

Do the gatekeepers – mainstream economists and tasked bureaucrats – see this investigative gadfly as an amateur, an agitator trying to rock the boat? Does merely asking a question seem like prying? Imply criticism? Appear to be taking sides?

Once you know the role of rent and the magnitude of rent, the only thing left to do is be a lone wolf howling in the wilderness where the trees are silent, to howl with each rising moon and each Earth rise, until the howl is heard. Totals for the surplus output of the economy must get out – as must the story of why the effort is so lonely and difficult.

Could the number for the size of rent be found stashed somewhere? Could the total of the value of land, resources, and privilege be greater than already calculated? Could a smoking gun – a policy calling for the proper ensconcing of rent – be found anywhere? If so, where? Where is a sump for all the significant statistics? And who towers over the myriad of number crunchers?

As they say, follow the money. Who makes the most money off the Earth? What institutions do those aristocrats control? Let us soldier on into the belly of the beast, the Federal Reserve. To whom else can we turn? Can we get some ten-year-old kid to hack the Fed? (Joke). Will finding out the size of our spending for nature and privilege – our social surplus – wake up Leviathan?