"THE ECO-ENERGETIC POINT OF VIEW" BY STEPHEN I. TERNYIK

Discussion by Scott Baker, New York, NY

In his paper, Stephen Ternyik points out it was George who first coined the image of spaceship earth in Progress and Poverty, way back in 1879, when the highest off-Earth vantage point was from a hot-air balloon. It is fitting that Ternyik's future-forward analysis compliments George's own.

The formal formula for converting matter into energy would wait several decades for a genius from a different field – Einstein – and his famous $E=MC^2$. But, nonetheless, Ternyik's observation that natural resources are a form of energy can serve us well, because both are products of nature, and both, unlike money, are finite. Money, Ternyik tells us, has now evolved to be interchangeable with energy, aka natural resources, with the result being great damage to both the human psyche and the economy.

Herein lies the root of the money problem. Not money itself, as is morally, but sloppily, asserted, but the false belief that it is limited in some way by its convertibility into natural resources, or what classical economists used to call Land. In fact, money is unlimited, and these days even more clearly without limits than in George's time, thanks partly to the electron world of the computer, where any monetary amount is possible, but also to the ascendant policy choices of the rentier-favoring political class. As Ternyik says, the <u>no-thing</u>, money, has become the preferred way to gain access to the <u>some-thing</u>: *Land*. It is no longer the conversion of Land into useful things or sites for things like buildings that drives wealth-creation, but seemingly the no-thing itself: money.

We see examples of this all over, to a degree that even George could not have foreseen. For example, in my not-so-humble milieu, New York City, where GDP is a billion dollars per square mile, there exists a building – One57 - where a condominium recently sold for $95 million and another one sold for over $100 million. The brain does not work as well when the mouth is gasping in shock, so the person possessing both usually overlooks why such a state of affairs exists. But George, whose mind was unnumbed by such destructive and gawk-inspiring price records, knew the truth. It was not the building that had such value, if indeed such valuation wasn't mostly speculative excess in the first place, as it *must* at least largely be in this case, it was the *site*. Furthermore, and more importantly, that site value was due to those whose demand for the site created whatever the true value was. That is, it was not for the money-men – e.g. the banks today, who are the modern landlords – to decide what the value was, in some abstracted and inflated reality-distortion bubble leading to a real economic bubble. It is for the larger community to determine and collect the rent to live at that location. It is a sure bet that this amount will be more stable and less costly. In the absence of rent-collection, speculation drives higher prices on Land, and the puncturing of that speculative bubble drives Land prices down again, even too low.

The cure, as both George and Ternyik stipulate, is "the removal of natural resources (Land) as collateral for bank loans" and the collection of Land rent for public revenue. Simultaneously, we must reward actual production by ending taxation on that. No taxes on wages, sales or true capital, like buildings.

Ternyik points to N. Kondratieff, J. Schumpeter and H. Rosenberg and their explanations for the "contractive dynamics of capital formation" but also to these thinkers' ultimate failures to explain the root cause of the contractions and the pain it inflicts on the bulk of humanity. Normally, people shy away from pain, and normally, when destructive cycles are pointed out to people – as these fine thinkers did – one tries to stop doing those things that bring pain. Even a 3-year old child learns very quickly not to put her hand on a hot stove. Yet, we are told by "Serious People" that cycles are inevitable, that there is even a "business cycle" when it is actually something else: a Land Cycle. It is not lack of actual demand that causes contractions at the ebb of the so-called business cycle. There are always and everywhere millions of jobs to be done and millions who want to do them. Rather, it is speculation on Land that creates the cycle, and reliance on the dog's tail: money, which provides the immediate fuel for it.

Those same "Serious People" tell us this is the indispensible fact of capitalism: that without the ability to make gargantuan unearned income from Land, people would lose motivation to become entrepreneurs, or even to work at all. Of course, they ignore the losses, or at least trivialize them, during the crashes. These fits and starts are the "price of progress" they tell us.

But this is false. In fact, it is during the periods of greatest rent-seeking, another economist-historian, Thomas Piketty, tells us when progress and economic growth is slowest. It is when the rentier collects the *most* from land that society gets the *least* from its productive classes. It goes further than that, says Piketty: it is actually in the rentier's interest that there *not* be progress, since progress is a bottom-up phenomena, a creation of a healthy middle class percolating with new ideas and the work ethic to implement them. This percolating boils out the rentier, who is neither innovative nor productive.

We see the results of such injustice at the lower end of Land rent-seeking in New York City too, where it is not uncommon to find vacant lots paying 1/10th the property tax of productive buildings right next door. And vacant land represents 6% of all buildable land in New York City, says the Department of Planning - a significant amount. Much more Land is occupied by minimally productive one to four story buildings, often with no occupants above the commercial tenant on the first floor. This policy, of course, punishes people's productive energy while rewarding their unproductive avarice. As Ternyik points (continued on p. 5)

ECO-ENERGETIC (from page 4)

out, "The Long-term dynamic efficiency of the eco-energetic circuit is disturbed in regular intervals by non-productive rent-seeking (from natural resources), monetary excess and labor taxation."

It may indeed be that people will not work if they can't collect unearned income, but this is true only if policy prevents them from earning *earned* income. Our developed society is not testament to the benefits of the rentier-capitalist system, it is testament to the human capacity to produce in *spite* of such a system. As Ternyik says, the correct formula is Georgist: Production - Rent = Wages + Interest, not, as is commonly assumed under neoclassical economics, Production = Rent + Wages + Interest.

Neoclassical economics, as veteran Georgist professor Mason Gaffney points out in his book, "The Corruption of Economics" is the deliberate perversion of Classical economics, particularly the correct emphasis on Land given by Georgism. The extremes of wealth due to rent-seeking are just as much a result of this false paradigm as are the extremes of poverty. Neither is inevitable or desirable, and not just because of economic injustice, but also because of the modern potential for ecological catastrophe.

Why then, if Land value reclamation is the cure for major economic booms and busts, do we need to deal with the "money system," as Ternyik does, as well?

Well, for one thing, the no-thing of money now exists so much in its own world, divorced from the real world including Land, that it must be dealt with independently, for those times when it is used to acquire Land. It is now perfectly possible-ment-issued United States Note, originally created under President Lincoln in 1862, can be bought for twice face value or more on eBay, since it is under-issued, i.e. not inflated.

I'm not convinced we must adopt "narrow banking" – i.e. 100% reserve banking, as Ternyik advocates. In fact, according to John Rubino, a former financial analyst, we already have 95% banking reserves, thanks to unprecedented Quantitative Easing by the Federal Reserve. (https://blogs.cfainstitute.org/investor/2015/09/07/how-will-negative-interest-rates-change-the-rules-of-the-game/)

It ought to be clear by now that excess reserves might even have the *opposite* effect of choking off credit where it is actually needed, while being used to promote asset bubbles instead.

I do agree with George, writing in The Standard, that money creation is too important to be left entirely to the private banks. This has been proven again and again, and was apparent even to Henry George in his day. There existed in George's day a Greenback Party, and the 1884 8 to 1 Jullilard v. Greenman decision which allowed the federal government to create paper money as it had already done in the Civil War, was still fresh on the Supreme Court's docket. Certainly, few would argue today against divorcing the government from the influence of the private Money Power.

So, Land and Money. The radical restructuring of how both are handled is the heart of today's discussion. I look forward to your comments and questions.

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