

Conclusions

It is not enough to construct an abstract model and provide an explanation of how it operates; it is just as important to demonstrate the explanatory effectiveness of such a model as applied to historical realities.

— Celso Furtado, quoted by Baran and Sweezy

Progress, in Henry George's view, led to greater productivity and wealth, to improved education, technological development, and scientific advance; but it also led to greater inequality, poverty, and degradation. Progress brought poverty in its wake because progress drove up rents, until rents absorbed all the increased wealth. But this claim depended on his argument that wages and profits would be prevented from rising during progress—wages because they were set on marginal land, which would become progressively poorer during growth, and profits because they depended on capital, which would also have to work on poorer land. Yet this argument directly contradicts his account—his brilliant and ingenious account—of how rents arise in the first place, on the “unbounded savannah.” Remember: there, all land was equally fertile, so there was no reason to choose one plot over another. Hence, as progress took place, there was no movement to poorer land, because there was no poorer land. Rents depend on differentials, but differentials do not have to arise because of diminishing returns; in George's account, the differentials emerged because division of labor and innovation took place

and productivity rose in settled areas, which then became desirable and productive locations. In this story there is no reason to expect wages or profitability to diminish. Average and marginal productivity might very well rise rather than fall as development takes place. But rents will still tend to rise with progress, because new differentials will be created or old ones widened.

This tendency of rents to rise creates a special kind of pressure in the economy. George saw this and suggested that it could explain the value of land in a region or nation. Growth would increase output—GNP—but at the same time it would drive up rents. The value of land would be the capitalized value of the rents, and GNP the accumulated value of the increments of growth. These two would obviously move together, and if the capitalization factor were an interest rate equal or nearly equal to the rate of growth, the values would obviously be close. But many other factors and forces can intrude. This set of relationships has a close parallel in the modern world, in Q , the ratio of financial claims to real productive assets—two variables dependent on different forces and factors that nevertheless also have a tendency to move together and equal each other in appropriate circumstances.

But perhaps even more importantly, George saw that there would be a close connection between the total amount of rent in a region or nation and the costs of government in such an area. This would be due partly to the fact that improving government would advance progress, and so drive up rents; it would be due partly to the fact that progress, in driving up rents, creates conditions that require regulation and government attention, calling

for spending on government. In any case, total rents and the costs of government tend to move together. If rents were heavily taxed, that might well pay for government. But it should not be rents alone; all of finance and monopoly should be subject to tax, to be set against the costs of today's larger, and tomorrow's much larger, government..

There is yet another aspect to the rise of rents. It readily leads to concentration, and George saw the process as driving the growth of inequality, also setting in motion land speculation, which further increased inequality. He was convinced that progress would eventually lead to increased inequality, bringing poverty in its wake. Some of his analysis and argument may have flaws, but the overall insight is surely on target. The effects of progress on rents need to be recast in terms of the macroeconomics of a modern economy, a financialized economy. In this context, we can see the pressures that will indeed lead to growing inequality—pressures, for example, of wealth on earning power, and of rising rents leading to concentration of land ownership.

But concentration doesn't happen only in land and land ownership. In a financialized economy, the availability of money and credit is controlled by the system, and the system is controlled by a smaller and smaller group of larger and larger banks and financial firms, as mergers and acquisitions increase concentration. The power to determine the allocation of credit resides in these institutions and is used for their benefit, not the benefit of the public, just as George pointed out that land and rents impoverished the general public. This is the new form of the danger that he so clearly saw and sought to confront.

Finally, rents and real estate are securitized in the modern world, and this creates a whole new situation. In a financialized economy, some securities will increase in value *even though there is no change in their underlying condition*. The underlying real asset—land or location or social position—increases in value because its “rental” price has risen, in spite of the fact that there has been no investment or other change in it. Securities based on such assets will therefore tend to rise in value, so long as the economy as a whole is growing.

This has a very significant implication: a growing financialized economy *cannot grow in equilibrium*. If some securities are rising in value and others are not, there will be a tendency to shift in favor of the rising securities. The financial system will always have to rearrange its portfolio of securities, and it will have to put pressure on the real economy to support higher security prices. It will have to do this under conditions that will lead to difficult-to-control credit expansion, tending to spill over into a positive feedback spiral. The growth of rents tends to make the system unstable and liable to crisis. This, of course, interacts with the tendency toward increased inequality; progress may indeed bring us inexorably to poverty after all.