

## PART II

### Moving to Macroeconomics

*One point is clear: the larger the GNP, the higher the real estate values. A corollary appears to be that the faster real growth is, the faster real estate prices will rise. But in the modern financial system, real estate, like most sources of income, has been "securitized." Real estate values translate into security prices. This is a crucial change since the time of Henry George, and it means that the destabilizing pressures created by rents will show themselves in the financial system as well as (and perhaps more markedly than) in the real economy. In other words, the system of securitized rents delivers a boost to asset markets every period, in proportion to real growth. Fixed and often largely unproductive assets rise in value every period, as a consequence of the fact that the productive economy is growing. Growth of the productive economy raises the value of equity, of course, but this is because growth increases productive capacity. The increase in equity reflects an increase in the productive base. However, rents are in no way indicative of any rise in productive capacity; they are deductions from the surplus that is the basis of wages and profits. "Rental assets" rise in value regularly, but such assets are often no more than barriers or obstacles to trade or production (or sometimes special features that can only help a select few). Rents are a transfer from those engaged in active economic operations to those who*

*are passive recipients of largely accidental benefits, deriving from the effect of the overall growth of the economy on certain fixed features of the world. But this transfer provides a regular stimulus every period to asset price speculation—as we shall see in later sections.*

*To examine this in more detail, we have to show how the real economy grows and develops, starting with the craft economy of the 19th century—the economy as it was in the time of Henry George. George’s notion of “progress” is certainly an idea of growth, and indeed very modern in many ways, since he considers innovation and social change to be essential parts of growth. But as we have seen, both his theory of wages and his theory of interest/profits are deficient—and he does not discuss saving and investment at all.*

*We will first lay out a basic picture of the working of a craft economy, based on a simple price mechanism, then look at some of the pressures that helped transform this into a heavy industrial economy—an economy of mass production, with large, powerful oligopolies—adjusting by way of a multiplier-accelerator. (The model and equations presented here are examined more and adapted to other purposes in the following: Nell, 2007, Ch. 11; Nell, 2012, Ch. 14; Nell, 2017, Ch. 2; and Nell and Errouaki, 2013, Ch. 11).*

*This will lead us to a study of growth and rents in a modern economy, first showing the wage-profit trade-off and determining the real wage, setting the stage without*

*rents—prices, wages, and profits are determined on no-rent land—and then including them.*

*Unfortunately, George provides very limited guidance here, since he does not address the saving-investment nexus that virtually all economists agree to be the foundation of sustained growth. We will set that out and then modify it, to bring in the elements that George, rightly, regarded as essential. These elements are strikingly “up-to-date.” They are the features of the economy that were highlighted in the so-called “new growth theories” at the end of the 20th century: innovation, new technologies, economies of scale, network economies, cooperation, and externalities.*