

PART III

Rents, Real Estate Values, and Financialization

In the time of Henry George the stock market was relatively new and only a limited proportion of businesses were listed. Financial markets were small and grievously incomplete; the total of financial assets traded on all asset markets fell far short of the total value of real assets, most of which were owned directly by single proprietors or partnerships. By contrast, today, most real assets have their counterpart in equivalent financial assets; that is, financial assets are claims to real assets, or to the earnings of real assets. Their value finally depends on how the real assets are performing—ultimately, but certainly not immediately. For, as the economy has developed, a large divergence has emerged between real assets and their financial counterparts; they can move independently of each other, although in a crisis the real side of the economy will have to back up the financial side. Unfortunately, the expansion and development of the financial side may have eroded the real side—we will explore this. In any case, the ties are no longer so close. But this is very similar to what George noticed in regard to land speculation: land values tended to lose touch with rents, and rents lost touch with earning power. Speculation drove up land values and land values dragged up rents, until rents were out of range of real earning power and the house

of cards collapsed. The scale of speculation is vastly greater today, and the complexities can seem mind-bending, but the basic principles are largely the same.

In this part of the book we will develop an analysis of the growth of wealth today, in financial terms, with emphasis on access to liquid capital, eventually showing how this affects the setting of the wage—that is, the role of relative wealth in setting relative wages and salaries. We will see how rents, once they have been securitized, provide a source of chronic instability in financial markets. The real story is transformational rather than replicative growth, and to fully appreciate this we need to pay special attention to the changing character and role of rents and real estate values.