**A COMPREHENSIVE CRITIQUE OF THE BOOK:**

*Progress and Poverty In Economics: Henry George and How Growth in Real Estate Contributes to Inequality and Financial Instability*, by Edward Nell (published by the Henry George School of Social Science, 2018)

**INTRODUCTION**

As the author explains, the book was written in collaboration with Andrew Mazzone, who was until his death in 2017 President of the Henry George School of Social Science. Their investigation was designed “to see how George’s work stood up in the light of modern economics and to determine what could be brought up to date and applied to the contemporary world.” Edward Nell retired from teaching economics a few years ago after a long career that culminated as Department Chair in the graduate faculty at the New School For Social Research.

Throughout this critique, my focus will be to highlight statements and arguments presented by Professor Nell that deserve further discussion or simply clarification. Although my own academic education included many courses within the economics curriculum, my major as an undergraduate was accounting and my graduate degree is a Master of Liberal Arts. Perhaps more to the point, I began in 1981 teaching political economy utilizing the works of Henry George. I leave to other reviewers the task of commenting on the usefulness of the mathematical equations presented in this work.

Early on in the Introduction, Professor Nell makes a statement regarding the nature of “rents” that I would not make. He writes:

“For George, rents were payment – not for the use of land in the usual sense, but for pure access to specific spaces and locations.” [p.9]

George’s position was rather different. For George, rents were a community or societal claim on the wealth produced by those who labored and who owned and utilized capital goods in the process. The extent of this claim was determined by locational advantages over locations that would yield no more (with the same input of labor and capital goods) than enough for subsistence.

Professor Nell adds his name to a long and growing list of members of the economics discipline who are critical of what has passed for economic theory for all of the twentieth and twenty-first centuries, and even during the last two decades of the nineteenth century while Henry George emerged to challenge the status quo of that time:

“Our mainstream economics is also poverty-stricken. Our analytical models do not explain the persistence of poverty very well, nor do they account for crises and crashes, let alone the recent and stubborn growth of inequality.” [p.10]

The genius of Henry George is expressed by Edward Nell in this one sentence:

“He developed a picture of the way the economy works that balanced individualism and cooperation and expressed both our strengths as a country and a people and an enduring tension in our character and polis.” [p.13]

What Henry George offered the peoples of the world was an equitable third way to the realization of a just society promised but not delivered by the ideological Left or Right.

Professor Nell then offers an interpretation of the social and economic dynamics of the era in which George lived that needs to be put into the right proportional context:

“He [George] saw the implications of free land in the frontier of his day, a place where labor could reap the full proceeds of its work, thus providing a magnet for workers from the cities of the east. As a result of this attraction, wages in the east had to stay high enough to keep labor from migrating to the frontier. High wages also meant that manufacturing would benefit from labor-saving innovations. So American business had a high-wage, high-tech profile from the start.” [pp.13-14]

The historical record in North America is the story of people restless, always looking to the wilderness as a destination leading to access to land (or to better land) and to a better life. An almost endless stream of immigrants provided a low wage supply of labor, even as tens or hundreds of thousands moved inland or (by the mid-nineteenth century) boarded ships bound for the Pacific coast of North America. Thus, while wages for skilled artisans might have remained higher than mere subsistence, for the unskilled the leverage remained with the owners of land and businesses. Manufacturing benefitted by the protectionist system established by Alexander Hamilton that continued in effect as Henry George was writing his own book in defense of free trade. Life for most unskilled and semi-skilled people in the large cities of the United States was difficult, at best. Persons of color first endured centuries of slavery. When freed, they had to compete with one another in the South as sharecroppers or as wage laborers. Moving to the northern states, they had to compete with tightly-knit immigrant groups. George saw with his own eyes that as each year came and went things were getting worse for the large majority of people.

Edward Nell and Andrew Mazzone join many others friendly to Henry George’s overall analysis in a critical review of his explanation of the role interest (i.e., that share of production resulting from the use of capital goods) plays in the stimulation of production. I will have more to say regarding this later.

Another important question is raised by Professor Nell when he writes that even in George’s time the nation had moved “from a largely agrarian economy to an economy based primarily on industry and services.” [p.16] While this is certainly the case with respect to the percentage of the labor force employed in each of these sectors, dramatic increases in the output of goods per unit of input of labor and capital goods has enabled the agricultural sector to produce goods far in excess of domestic demand. The export of agricultural products has always played an important role in the U.S. trade with other countries.

Professor Nell identifies an area of analysis not pursued by George, indicating he and Andrew Mazzone would fill this void:

“George does not examine how saving and investment work or how they interact with the price mechanism.” [p.16]

George certainly argues against the neoclassical assertion that price clears all markets, that the interaction of supply and demand always bring an economy back to equilibrium after any and all shocks to the system occur. What stands in the way, of course, is the fact that land markets do not respond to the price mechanism in same way as do the markets for labor, for capital goods, or even for credit. Professor Nell tells the reader he will explain “how the pressures of supply and demand, governed by ‘marginal conditions’, provide a degree of stabilization.” What will this tell us?

“And then we see this picture gradually dissolve under the pressures of innovation, to be replaced by the destabilizing mechanism of the multiplier-accelerator. Understanding this is necessary to drawing a complete picture of ‘progress’ – economic growth – that works for today, making it possible to examine how progress regenerates poverty now.” [p.16]

As someone who worked in the U.S. financial sector for four decades, I look forward to Professor Nell’s analysis of the role rent plays in the “private-sector financial system.”

**PART I: Progress and Rents**

As with what appears in the Introduction, the reader is given a misleading explanation of how Henry George viewed the rent of land. Professor Nell states:

“His [George’s] answers were clear and straightforward: rents are unjustified and unjustifiable payments for access to the space and fruits and enjoyment of the earth…” [p19]

Actually, George accepted the rise of rent as normal, but argued on moral grounds that the payment of rent belonged to the community or to society, not to any individual or private entity. As George wrote in *Progress and Poverty* (1879, p.344):

“[T]he value of land expresses in exact and tangible form the right of the community in land held by an individual; and rent expresses the exact amount which the individual should pay to the community to satisfy the equal rights of all other members of the community.”

**CHAPTER ONE: Understanding Rents in the Real Economy**

Professor Nell does not see that George foresaw “how the role of rents, real estate, and monopoly in the economy would change greatly with the arrival of mass production.” Did George, in fact, understand that “[r]ents and monopoly earnings” would be “folded into profits”? [p.22]

It is fair to ask what Henry George learned over the quarter century following publication of his first book, *Our Land and Land Policy*. He says little in his final book, *The Science of Political Economy*, about the pace of innovation or how this will affect the production and distribution of wealth. It is reasonable to conclude, perhaps, that George felt these outcomes were self-fulfilling.

A question occurs to me that may be answered as I read through the book. Is Professor Nell’s use of the term “profits” meant to be its use in accounting, as whatever revenue exceeds expenses incurred in whatever activity is undertaken? In which case, some portion of profits may be derived from rents and monopoly earnings.

**Henry George’s Idea of Progress**

Professor Nell describes the principal difference between George’s basis for analysis and that of the economics taught today:

“Contemporary mainstream economics … asks, how do free markets bring about the best possible use of scarce resources? Optimality, not poverty, is what today’s economics textbooks give us.” [p.22]

The problem, of course, is that economists have been taught for several generations that the private appropriation of the rent of land has no material negative impact on the operation of “free markets.”

Another great weakness of contemporary economics is, Professor Nells explains, is that:

“In most mainstream growth models expansion takes place in given, fixed proportions: the system swells up, and all the parts stay in the same ratios – a ‘growth equilibrium’. This makes measurement much easier…” [p.23]

Teaching the political economy developed by Henry George offers students a very different view of growth. The use of the “wealth pie” graph provides a clear picture of how that portion of production claimed as rent grows over time, both in absolute quantity and as a percentage of the total. The size of the wealth pie expands when total annual production exceeds wealth that is consumed, depreciates or is lost.

**Growth Models and the Treatment of Rent**

Professor Nell explains how the world is working with respect to rent, but relies on the reader to already understand the context. He writes:

“But rents are a transfer from households to landlords, from largely working-class families to landowners or urban developers or property owners.” [p.24]

It is also the case that owners of land who do not lease the land they hold to others enjoy an imputed land rent income stream that is unearned. This net imputed rent is capitalized by market forces into a selling price for the legal interest to the land.

Professor Nell rightly criticizes the fact that “rents play a minor role in contemporary economic analysis. … rents are widely treated as part of profits. ...[T]his tendency is not accidental: rents and profits are lumped together in theory because business lumps them together in practice.” [p.25] As Professor Nell reminds readers, the potential for “smooth substitution” of locations or of capital goods for locations does not exist outside of neoclassical or other economic models. The real world is characterized by “widespread rigidities and irregularities.”

He mentions that in the minds of post-Keynesians (and others as well) “landlords are just a subcategory of capitalists.” [p.26] Other than those owners of land who lease “their” land to others in return for a rental payment, most owners of land also own capital goods. Economics muddies the water even further by categorizing financial instruments as forms of capital. Henry George, on the other hand, recognized that financial instruments represented legal claims to capital goods and to the full array of natural opportunities.

Professor Nell next offers “a modified version of Sraffa’s equations for rent” as rent fits into a real world growth model. He first explains that Sraffa put forward a model that ignored public goods and assumed a state of affairs that never exists.

**The Classical View**

What economics needs, Professor Nell explains, is a model that incorporates the dynamics explaining how an economy “can continue to exist, operating in a regular fashion, consuming products while producing replacements.” [p.29] He credits Henry George with just such an explanation, “though not mathematically.” In my own writing, I have suggested that a superior measurement of real economic growth would be the year-to-year changes in the depreciated value of capital goods (both public and private). However, just the thought of trying to obtain this information and keep it current suggests why dollars spent (i.e., GDP) is the default measurement utilized. As constant change is the norm, Professor Nell states that the equations for a modern classical model “must be updated regularly, and we must keep an eye on all the basic relationships, as they too will be evolving.” [p.31]

**Factor Markets**

Professor Nell next takes on Alfred Marshall and marginal productivity theory and the assertion that diminishing returns are realized at the margin for all factors of production. He informs readers that Henry George “understood very well that the ‘three factors’ were not equals; they were seriously different, and different rules and market forces governed their earnings.” [p.34]

**Henry George’s Treatment of Distribution**

In this part of the book, what Professor Nell has failed to appreciate is that Henry George’s laws of distribution are laws of tendency. Thus, although the closing of the frontier did not result in a widespread lowering of wages to subsistence, this does not conflict with George’s conclusion that “rents would increase in proportion to other forms of income.” [p.34] As forms of capital goods advanced so did the need for those with the skills to design, install and maintain them, along with all of the public and private infrastructure required to achieve the highest level of productivity. Professor Nell mentions the impact on wages associated with the organization of workers into labor unions. Also of major importance is the extent to which nominal income outpaced the rise in the cost of residential housing, whether for ownership or leased.

When Professor Nell moves on to discuss Henry George’s treatment of capital, he fails to make clear that George was always referring to tangible goods when he discussed capital. George explained the creation of a capital good as the result of delayed consumption, which Professor Nell says “does not cover the many other ways that capital can emerge (e.g., more recently, mergers and enclosures).” [p.36] A merger or the enclosure of land might lead to an increase in the quantity (and quality) of capital goods produced, but not the depreciated value of existing capital goods. This raises the question of whether it is necessary to discard George’s definition of capital as tangible wealth in the quest for knowledge, or challenge modern economics to return to George’s definition in order to more accurately understand the laws of tendency determining the distribution of wealth to each of the three factors of production.

Equally important as a question of fundamental analysis is whether George was right or wrong when he “claimed that interest or profits and wages had to move together – *directly*, not inversely.” [p.37] George was challenging the conventional “law of profits” that interest (i.e., the return to capital goods) “is determined by wages, falling as wages rise and rising as wages fall.” [*Progress and Poverty*, 1879, p.161] George adds: “With profits this inquiry has manifestly nothing to do.” [ibid.] Thus, George made no claim that there was any meaningful connection between the level of profits experienced and the rise or fall of wages. It is important to clarify that by “wages” George was referring to the goods actually produced by the individual, not the remuneration in goods or medium of exchange actually kept by the individual.

Professor Nell next examines the evidence to support the assertion that a rise in wages (by which he means wages received, not wages produced) will result in more hours worked. What motivates a person to work longer hours or what motivates a person to enter the work force is a complicated story. Common sense tells us that a person who is paid low wages will, by necessity, be forced to work long hours or take on multiple jobs in order to meet the cost of basic necessities. A person who has invested years to acquire a formal education or a high level of technical knowledge may commit to work long hours even if the wages paid is independent of the number of hours worked. These decisions may depend on other factors, such as whether a person lives alone, has a spouse and children, is self-employed, etc. etc.

Professor Nell believes George’s theory of interest is flawed because of the fact that higher wages received almost always result in an increasing level of savings on the part of the individual. However, I do not see how this has anything to do with George’s observation the returns to labor and to capital goods move together, inversely to changes in the return to land. When individuals receive income above what they spend on consumption, individuals “invest” based on their tolerance for what the market offers as a return given the level of risk involved. When an individual purchases a share of stock or a bond, the funds transferred to a third party may or may not be utilized in the production of new capital goods, that is, to an increase in wealth used to create more wealth. What was already the case in George’s time is multiplied many times over today; many (perhaps most) business enterprises derive significant revenue (either actual or imputed) by the ownership of land or land-like assets that have an inelastic supply. Moreover, there is a long list of externalities that influence (determine, even) the net financial remuneration to individuals for work performed and to owners of capital goods used in production. The tax codes of most every country tend to reward owners of businesses over individuals whose income is not rent-derived. And, yes, “[r]ents and wage may both go up,” but the reasons are independent of the laws of tendency George postulated.

**Rents and Real Estate**

Professor Nell joins George in his identification of shortcomings in David Ricardo’s analysis of why rents increase with population growth. George identified three causes:

“(1) increase in population; (2) improvements in the arts of production and exchange; and (3) improvements in knowledge, education, government, police, manners, and morals, so far as they increase the power of producing wealth.” [*Progress and Poverty* (1879), p.228]

At the same time, I wonder whether the situation has changed quite as much as Professor Nell suggests:

“In the past, rents were normally paid by active economic agents to largely passive landlords, and the economic effects were not very large.” [p.39]

A report by The National Agricultural Law Center indicates that “absentee ownership of farmland [is] growing in the United States,” so much so that “farmers and ranchers lease many of the acres they farm and graze today.” [Source: “Agricultural Leases: An Overview.” NALC website] The Farmland Information Center describes the trend:

“Thirty-eight percent of land being farmed in the U.S. is leased. Young farmers – those who are 34 and younger – lease 64 percent of the land they farm.”

“Nationwide, farmers own more than 625 million acres of farm and ranch land. Ninety percent of this land is farmed by the owners themselves, while the rest is leased to other farmers.”

The major difference between today and the late 19th century is the number of people engaged in farming land they owned. The number of farms in the United States peaked at around 7 million on the eve of the Great Depression, gradually falling to the current number of around 2 million in the mid-1970s.

However, most of us live in one of the metropolitan statistical areas of the nation. Many buildings sit on land owned by someone else. For example, approximately 100 buildings in Manhattan are situated on leased land. Most are either co-ops or condominiums. About 6 percent of the 115.6 million households in the U.S. live in mobile homes and other moveable vehicles on leased land. It would be revealing to see the full statistics for the United States.

In many U.S. metropolitan markets, property appraisals performed as a condition for obtaining mortgage financing reveal that one-half or more of the property value is in the underlying land parcel. Does this mean, as Professor Nell writes, that “rents are securitized”? [p.40] What is certainly true is that millions of property purchasers are obtaining large mortgage loans in order to pay for the capitalized value of the land. However, unless the mortgagor agrees to shared appreciation terms in the mortgage loan, future increases in the rental value of the location will be capitalized and collected by the owner at time of resale. The mortgagee charges the market rate of interest existing at the time of the transaction, and the loan is repaid according to an amortization schedule based on the agreed upon terms. As an investor, the mortgagee takes on a number of risks, not the least of which is that the mortgagor is repaying the loan with dollars that have a lower purchasing power than when the loan was made. The investor anticipates being able to reinvest the principal and interest payments received at the current rate of interest which, hopefully, reflects the market recognition of whatever is happening to the purchasing power of the dollar.

There may be special circumstances where ground leases are pooled together as collateral for lease-backed securities. In such cases, the investor is purchasing the securities at a price based on capitalization of the ground rent income streams generated.

**CHAPTER TWO: Growth and Rents in the Real Economy**

Not only economists but certainly our policymakers ought to pay attention to the fact that “aggregate real estate values in an area or a nation – that is, capitalized rents – tend to equal the GNP … for that area or nation.” [p.41] At any rate, policymakers should find this of sufficient interest to try to learn what it means when trying to come up with best practices in policymaking.

Professor Nell expands on Henry George’s analysis of how the growth in population affects the demand for (and rental value of) locations, as well as the demand for public goods and services. He explains what occurs in the tax environment as it exists and what would occur if rent was publicly captured:

“Of course, the Georgist point … is that taxes should fall wholly on rents, and that if they did so, growth would be stronger and employment higher.” [p.46]

To assist the economist in an understanding of the dynamics, Professor Nell offers and explains several equations. He also makes the important point that the private recipients of rent tend to spend this income on “luxury consumption” rather than on the creation of additional productive capital goods. And, when their desire for consumption goods is reasonably well satisfied, their spending shifts to “speculation on asset values – stocks, bond, real estate itself, foreign exchange, and so on.” [p.47]

At the end of this section, Professor Nell makes a statement that he indicates will be more thoroughly examined later in the book:

“[T]oday capitalized land is, for all practical purposes in the market, a form of financial capital. It is a claim to a real asset, and it has regular earnings: rents. It can be bought and sold; it can be securitized, so that the actual asset need not be involved – land-backed securities can be bought and sold like any other securities.” [p.49]

This is certainly the case for land offered by the owner under a lease, yielding a ground rent payment. Part of the fee paid by tenants in office buildings or retail shopping centers or malls is a payment of ground rent, and part is a payment for the use of a capital good – space in a building. For the two-thirds of households that live in owner-occupied properties, rent is an imputed income stream; its capitalized value (along with the depreciated value of the residential dwelling) is accepted as collateral for borrowing from financial institutions. The lender/investor records a mortgage lien against the property in order to foreclose in the event the mortgagor defaults.

**CHAPTER THREE: A New Look at the “Henry George Theorem”**

The potential sufficiency of the public collection of rent to pay for government is, Professor Nell believes, “central to George’s major policy proposal.” [p.51] From what I have learned regarding the long struggle to gain support for the public collection of rent, this claim has allowed opponents to denigrate proponents as utopian dreamers. The real point is, regardless of whether there is enough rent to pay for all public goods and services, the rent must be collected on moral grounds.

**The Traditional Case**

Professor Nell describes the challenge put to proponents of taxing rents and nothing else. Is there sufficient proof that rents would pay for government? Is there a one-to-one ratio between public spending and changes in the rent of land? Moreover, for a wide range of reasons, land values do decline.

**Rents, Demand Pressure, and Taxes**

The message of this brief section is, I surmise, that it matters importantly whether government raises needed revenue by taxation (and whether the taxes are imposed on rent, on commerce, on physical assets, on income earned by producing goods or providing services, or on financial transactions), by entering the credit markets and issuing bonds, or by a decision on the part of the Board of Governors of the Federal Reserve Banks to purchase government bonds by quantitative easing rather than selling the bonds to private investors for cash already part of the money supply.

**Analyzing Growth**

Professor Nell briefly summarizes how economic growth is stimulated by the cooperation occurring as population increases, sparking the division of labor and innovation.

**Growth and Rents**

Professor Nell introduces an equation to show that the “size of rents at any time – the amount of purchasing power drawn away from wages and profits – will be proportional to the rate of growth.” [p.57]

As expressed earlier, the use of the term “profits” by economists causes confusion because profit is what remains in revenue after expenses are accounted for. Profits can be derived from returns to all three factors of production.

**Growth or Development and Costs of Government**

The equations offered here are meant to support the contention that “rents and the costs of government must tend to rise together” [p.60] but only in a largely agrarian society. However, as machinery and other technologies are introduced in agriculture, displaced workers will migrate to the cities. The result is that “[r]ural rent payments will tend to fall, urban to rise.” [p.60] As Professor Nell states, “as the rural percentage of the population has declined and the urban increased, the agenda of government has changed, and the costs of government have risen dramatically.” [p.61] Adjusted for inflation, I wonder how much of an increase has occurred per capita.

Professor Nell concludes that “rents alone may not cover the cost of government. But a more comprehensive notion of ‘rents’, applying to an extended concept of ‘land’ and more contemporary forms of monopoly, might.” [p.61]

**Discussion of Revised 2016 GDP Accounts, by Andrew Mazzone**

Andrew Mazzone comes up with an expanded rent fund equal to 22 percent of GDP. Collecting this fund would require significant changes in the tax policies of government at all levels.

A more in-depth analysis of this issue is found in a number of papers by Mason Gaffney, including: “The Hidden Taxable Capacity of Land: Enough and to Spare,” published in the International Journal of Social Economics, Summer 2008.

**PART II: Moving to Macroeconomics**

Here, Professor Nell explores how the securitization of land collateralized mortgage loans should be incorporated into macroeconomic theory. He seeks to address the problem he sees with Henry George’s analysis, that George “does not discuss saving and investment at all.” [p70]

**CHAPTER FOUR: Savings and Investment, from the Price Mechanism to the Multiplier**

In this section Professor Nell explains the role of savings and investment In the modern, urban, industrial and corporation-dominated economy. A difference between the late nineteenth-century and today that he does not comment on is the reappearance of large sections of abandoned land within large cities. In the City of Detroit, for example, a huge amount of land is now reverting to agriculture as a highest, best interim use as the population of the city has fallen to less than half of its previous high.

**The Price Mechanism and Marshallian Technology**

Professor Nell treats Henry George’s analysis of growth as applicable to “the craft economy” and therefore descriptive of “the short-run employment-output relationship.” [p.74] The modern economy is qualitatively different in how land, labor, capital goods and credit are utilized.

He provides a detailed analysis of how participants in the craft economy respond to changes in demand and to innovation:

“As the intensity of utilization rises, output rises, but at a diminishing rate.” [p.77]

Importantly, he sees investment spending as “exogenous in the short run.” [p.79] My comment is that every business must reinvest revenue into the maintenance or replacement of depreciating capital goods. Even in the late 19th century new and more efficient capital goods were becoming available on a continuous basis. Businesses could also borrow in order to raise needed funds. Corporations could issue more shares of stock (or sell shares already issued and held) or issue bonds. I leave it to the trained economists to agree or disagree with the dynamic relationships he describes in this model.

**Growth and the Price Mechanism: Flexible Prices and the Golden Rule**

Analyzing the craft economy further, Professor Nell says:

“Profits will be distributed as interest and dividends to banks and owners, respectively.” [p.81]

This may be consistent with mainstream economics but is not how a firm’s accountant treats the revenue. Interest paid to a bank or any lender is an expense recorded against revenue before profit is determined. Dividends to owners are distributed from profits beyond retained earnings (i.e., earnings retained to be re-invested in the business).

**The Growth Rate in Diagrams**

The analysis presented in this section is difficult for the non-economist to follow. Certainly, his observation that “[r]ents and superprofits will tend to rise together with growth” [p.89] rings true. However, again, speaking from the standpoint of an accountant, an issue that exists today is under what circumstances increases in asset value must be recorded as income even though no transaction has occurred. Given the boom-to-bust nature of property markets (absent the full public collection of rents), unrealized gains in the value of land that occur during the upward portion of the cycle can be quickly lost (at least temporarily) when the peak of the cycle occurs and imposes its stress on individuals and businesses that can no longer absorb the increasing costs of acquiring or leasing land. So, a technical issue exists of how frequently individuals and businesses should be required to have assets appraised and then marked to market value.

It is worth examining Professor Nell’s understanding of Henry George’s observations and conclusions regarding the relationship of wages to the availability of free land. Professor Nell writes:

“In his argument, when there is no longer free land, and especially if there is widespread monopolization of special factors, wages will tend to be driven down to subsistence, as in Europe. But in fact, in America real wages did not fall when the frontier closed; they did not fall, in fact, until the last part of the last century (some fell, some rose, most stagnated). And as industrialization took place, as factories were built, a new margin opened, the ‘margin of production’, which was discussed earlier.” [p.89]

A combination of limited or nonexistent opportunity to rise above one’s economic situation at birth and political, ethnic and religious persecution drove many Eurasian people to migrate to other parts of the globe. This migration had been ongoing ever since adventurers circumnavigated the earth and came across lands they and their successors claimed, settled and fought over against indigenous peoples. One would have thought that this loss of population would have improved the wages of those who remained. It may be that the rate of population growth throughout Eurasia was high enough to offset migration.

At the same time, immigrants arriving in North America did not automatically gain ownership of land. Many came as indentured servants or worked as sharecroppers on land owned by individuals whose families traced their ownership of land to grants from the monarchy. The historian Jackson Turner Main in *The Social Structure of Revolutionary America* (1965) showed that by the mid-18th century in the thirteen colonies under British rule a very high percentage of the wealth was inherited and concentrated in what amounted to an American aristocracy, if one largely without inherited titles. The interests of these families were complex, of course. Because it was very difficult to prevent people of European heritage from heading into the wilderness to claim land for themselves, the major landed families depended on an enslaved labor force or to continuously attract new migrants to work as indentured labor for some period of time. For this labor force, a good portion of what they produced (i.e., their wages) were diverted to the owners of land and capital goods. For those who ventured into the wilderness, cleared land, started to farm the land and lived for the most part self-sufficient lives, supplemented with a degree of trade, what they produced remained theirs to consume, save for later consumption or use to expand their inventory of capital goods. Most enjoyed some degree of imputed rent, which tended to increase over time as more settlers came into their area and formal government was established.

Throughout the 18th century and continuing thereafter was the presence of companies such as The Ohio Company organized by George Washington and other leading figures to claim huge areas of land in the wilderness purely for speculation. Throughout these centuries there were frequent periods of economic contraction and widespread unemployment, rural as well as urban poverty, and the creation of relatively fixed economic classes – even before the closing of the frontier. The interior of North America was still sparsely settled when Henry George observed great wealth and experienced poverty in the not very old City of San Francisco.

**CHAPTER FIVE: From Craft to Mass Production**

The key question for economists to consider is whether in the real world “fluctuations in investment … set off destabilizing movements.” [p.94] Or, put in different terms, does the price mechanism actually work to bring the economy back to a state of general equilibrium?

**Changes in the “Production Function”: The Multiplier Replaces the Price Mechanism**

What Professor Nell shows graphically is that the “price mechanism is stabilizing for the system as a whole, but the effect is that profits fluctuate sharply for individual businesses. Firms will be motivated to redesign their production systems to allow greater flexibility in adapting to demand fluctuations. This means being able to add on or lay off workers without greatly disturbing unit costs.” [p.97]

This raises in my thinking the calculation by businesses of “all in cost” as decisions are contemplated to make adjustments in their business model. For example, while high money wages paid to employees in the United States are an important consideration for moving production or even services to another country, there are other cost factors to consider, such as the cost of shipping raw materials and then shipping the finished goods back to the domestic market. Shipping costs are subject to significant cost fluctuations associated with fossil fuels. Given the large number of firms moving from the United States, for their businesses the cost savings – and the expanded opportunity to sell in China or India or any country with an expanding consumer base – offsets whatever risks are recognized.

Another consideration for economists is how to model the huge consumer to consumer market for used goods. Everything from automobiles and pleasure boats to personal computers to items of clothing are bought and sold every day on ebay, in consignment shops, at flea markets, at thrift stores and garage sales by individuals. In my community, people put out on the curb perfectly good “stuff” they no longer want or have use for. These items are almost always taken away before the trash collectors arrive the next day.

**Adjustment to Demand Fluctuations in the Mass Production Economy**

I had some trouble following Professor Nell in this section, for the very reason he states:

“In spite of ignoring rents, our analysis does provide us with a number of powerful insights, mostly from a post-Keynesian perspective. Admittedly, they are derived on the basis of very great abstraction, so they cannot be expected to prove literally true; but they may nevertheless give us genuine insight into what will happen to the level of employment and output.” [p.103]

In today’s corporate environment, a considerable expense is the compensation to executives, leaving a good deal less in profits to be invested back into the company. Perhaps this is one of the reasons why the model presented indicates that “investment and profits are equal.”

As I read this section, I am left with many questions about the assumptions made by economists about how people – and people who make decisions on behalf of businesses – behave. Those who have a huge disposable income certainly consume more but also save, invest and speculate at levels the “average” person or even an owner of small business cannot do. Today, in the United States millions of households rely on credit and debt even for basic living expenses. One of four senior citizens lives on Social Security benefits alone; they have no pension and no savings. What is the aggregate effect of the existing concentration of income and invested assets? Is it really the case in the real world that “[t]he Central Bank’s Interest Rate Determines Employment”? [p.107] The cost of borrowing funds certainly has an impact, but we have had periods of continued investment by businesses and borrowing by consumers when the prime rate of interest was nearly 20 percent and the cost of funds for banks was in double digits.

**Moving Ahead: Land**

Professor Nell now begins to focus in on the role land plays in an economy. This is the first instance (I believe) that he refers to “imputed rents,” although he does so in the context of “owner-occupied housing.” [p.107] Every owner of land enjoys a net imputed rental income stream based on the level of annual tax paid on the assessed value of land held. And, of course, many property owners are paying far more in property taxes than their full land rent obligation. Henry George had a clear understanding of the consequences of these arrangements. As Professor Nell states:

“The simple saving-investment-growth models here overlook all of this.” [p.107]

He restates the problem he and Andrew Mazzone identify in George’s fundamental growth model:

“He thought the system was self-righting until upset by excess rents. His analysis of the frontier is outstanding; likewise his account of rents – up to the point where he argues that rents will often/always tend to rise relative to wages and to interest, which he in fact states may sometimes decline absolutely. Those arguments, we think, are unacceptable. Our perspective suggests that as industrialization proceeds, with steady improvements in technology, wages should tend to rise, and all businesses, except the most marginal, should earn superprofits.” [p.108]

Professor Nell may get into this in more detail in the next chapter. There is a long list of “externalities” to consider in this analysis, I believe. There is the question of nominal incomes versus the declining purchasing power of a currency over time. There is the calculation to be made to account for government-mandated programs that redistribute income from producers to non-producing “rentier” interests, offset by programs that rechannel income to individuals as social welfare entitlements. There is the non-transaction part of the economy characterized by volunteer work, philanthropy and charity. Readers will surely think of other externalities to add to this list of analysis-complicating issues.

**CHAPTER SIX: Growth and Rents in Today’s Economy**

Professor Nell concludes that one of the shortcomings of Henry George’s analysis is that “the economy he studied is one of agriculture and small business.” [p.109] Interestingly, neither in the index of *Progress and Poverty* nor *The Science of Political Economy* is the term “corporation” found. George was writing at the height of the age of the so-called “robber barons,” so how is it that he did not focus on the existence and growth of industrial cartels and monopolies in league with the financial system of the time? Actually, he did, but his treatment of these issues appears in *Social Problems*, in a chapter titled “The March of Concentration.”

“It is everywhere obvious that the independent mechanic is becoming an operative, the little storekeeper a salesman in a big store, the small merchant a clerk or a bookkeeper, and that men, under the old system independent, are being massed in the employ of great firms and corporations.” [p.42]

“So, too, does concentration operate in all businesses. The big mill crushes out the little mill. The big store undersells the little store till it gets rid of its competition.” [p.45]

“The forces of the new era have not yet had time to make status hereditary, but we may clearly see that when the industrial organization compels a thousand workmen to take service under one master, the proportion of masters to men will be but as one to a thousand, though the one may come from the ranks of the thousand.” [p.48]

Perhaps George’s analysis would have received more serious attention from the professors he encountered during his active years if he had taken a page from the Physiocrats and updated Francois Quesnay’s *Tableau Economique* to quantitatively demonstrate the actual flow of funds in a modern economy. George was sufficiently familiar with the mathematical work of Stanley Jevons and others to conclude that their efforts, rather than advancing the study of political economy as an exact science, “made of political economy an occult science, in which nothing was fixed, and the professors of which, claiming superior knowledge, could support whatever they chose to.” [*Progress and Poverty*, p. 197]

Given George’s rather brief formal education, it is fair to conclude that he was out of his element when it came to higher mathematics. Had he possessed the skills of a mathematician, he might have been able to demonstrate that the math employed by Jevons, et al. failed to explain what actually occurred in the real world. Professor Nell, in this work, is trying to fill the void. Others with a better grasp of the mathematics used by economists will have to judge the effectiveness of his work.

Professor Nell is arguing for changes in the mainstream growth model to one that accounts for “transformational growth.” The key issue, in my view, is whether it is possible to total the large number of individual decisions by owners and managers of businesses, of consumers, of labor unions, of government agencies, of educational institutions, etc. etc. etc. to forge a macroeconomic growth model. He writes:

“According to the growth of supply function, higher prices will provide the funds that will finance investment, for a higher rate of growth.” [p.111]

This is true only if costs are fixed. Unfortunately, during periods of expanded demand many businesses experience rising costs of doing business (e.g., every time they have to renegotiate the terms of leasing space in buildings they do not own). What is the reaction of many businesses? It is to relocate to a location where the costs of doing business are lower and profit margins can be maintained even as prices may remain stable or even fall due to competitive pressures. Investment in such instances is not for expansion so much as to create new facilities to replace those abandoned and to hire and train new employees to replace those left behind.

**Growth Today: A First Look**

Reading this section I kept thinking about what I remember that Mason Gaffney wrote about the difference between long-lasting and rapidly-turning over capital goods. Think of two consumer products: toilet paper and toothpaste. The per capita use of these products is pretty similar despite the level of income of the individual. There is certainly competition between producers, so that there is a degree of ongoing innovation, even as the basic product remains the same. One brand of toilet paper promoted its product by announcing the elimination of the interior cardboard roll, saving thousands of trees from having to be cut down each year. An important competitive advantage for these producers is whether they own the land and production facilities (thereby enjoying imputed rental income) or are leasing the land and having to absorb ground rent charges as part of their cost of production.

Here, Professor Nell presents mathematics to show “that the effect of innovation on wages depends principally on the wage-growth trade-off – a relationship that George overlooked.” [p.117] What is the “wage-growth trade-off”? What motivates individuals to engage in self-improvement activities? Certainly, the circumstances of an individual’s and household’s financial situation plays a major role, as do programs and policies attached to the degree of social democracy in society. I recently completed a series of lectures on the lives and educational philosophies of John Dewey and Robert Maynard Hutchins. Hutchins admitted that attending college at Yale University did more for his future professional life than what he learned in classes. It was the connections he made with other Yale students who were destined to become prominent in some aspect of the American System. Tocqueville aside, ours is and has been a hierarchical class system from the very beginning, although moving upward or downward on the class ladder is possible. Generally speaking, what Professor Nell states rings true:

“As household investment takes place and wages go up, lifestyles will develop and the basic wage and expected standard of living will rise.” [p.117]

The key word here is “expected.” Achieving the ownership of a residential property, eventually free of mortgage debt, was a very important lifestyle objective of individuals becoming adults and starting families after the end of the Second World War. The U.S. government fueled this expectation by making federally-guaranteed mortgage loans available, with minimum savings required to make a cash down payment. And, of course, a combination of many variables triggered escalating land prices. Thus, government had to intervene even more in order to increase the supply of affordable housing units.

**Bringing in Rents**

Professor Nell offers an arguable point that factors considerably into the equations he puts forward to factor the role of rents:

“Higher rents lead to lower growth because the real estate sector does not generally invest in productivity enhancing projects, preferring to put its profits into financial instruments.” [p.120]

This statement requires context. There is a long list of participants in the real estate sector. Architects, engineers, builders and buildings systems providers are always introducing productivity enhancing projects. Modular construction techniques is just one example. New and better materials, reduction in construction waste, lower labor costs, are all part of the construction industry’s efforts to provide a better product (and, of course, to counter the ongoing increases in land acquisition costs).

Even the financial sector’s involvement in real estate has experienced significant investment in technologies to lower costs of loan origination and servicing. There are many individuals and entities that invest in the financial instruments associated with real estate. Managing income-producing property requires a knowledge set distinct from building a portfolio of loans collateralized by mortgages on either residential or commercial property. Investors make these decisions based on many factors, including tolerance for risk against nominal yields, and whether such loans or pools of loans packaged into mortgage-backed securities are subject to representations and warranties enforceable under contacts with Fannie Mae, Freddie Mac or other insurance provider.

Professor Nell later in this section offers speculation on the effect of rising rents on owners of farms:

“Moreover, in this era, many rents, especially in agriculture, will be ‘notional’; that is owners of family farms will find their land values have gone up. This will not directly affect behavior much.” [p.124}

There are many factors that will affect the decisions of farmers. Commodity prices are determined by global market conditions and tariffs imposed on imports, domestically and in countries where crops are destined as exports. Many farm owners lease land from others. Rising rents require them to make decisions about what crops to plant. Access to credit is determined by the lender’s evaluation of the farmer’s ability to service the debt and forecast of future commodity prices and the revenue generated therefrom. Then, there is the issue of whether the revenue generated is sufficient to support more than one generation of adults of a family. Younger adults are often forced to leave farming because they do not have the creditworthiness to purchase land or borrow to stay in the family business.

**PART III: Rents, Real Estate Values, and Financialization**

Forty years in banking and financial services brings me to question the existence of fundamentals of our financial markets. Is it really the case that the value of financial assets “depends on how the real assets are performing – ultimately, but certainly not immediately.” [p.125] The bond market, for example, is susceptible to even a rumor that the Federal Reserve is considering raising or lowering interest rates. What sort of fundamentals are at work when the value of a share of stock can rise or fall by a huge percentage of its nominal value in just a day, or even less than a day. Phil Anderson has tracked the movement of the financial markets over many decades and sees a pattern that repeats. One cannot argue with the statistics when calculated from honest source documents, but I see the financial markets as a giant gambling casino dominated by huge market makers.

**CHAPTER SEVEN: Real-Financial Linkages and Holding Securities**

Professor Nell opens with the warning that what has occurred in the financial sector of the economy is dangerous and destructive, particularly so because “the transformational growth of the financial system has absorbed the real estate sector, and now the control of money and credit has replaced ownership of land as the barrier preventing the spread of benefits of increased productivity.” [pp.. 128-129] However, it seems to me that the control of money (and credit) has been added to the concentrated control over land.

Data issued in 2009 by the U.S. Bureau of Economic Analysis put the total value of land in the contiguous U.S. at $23 trillion, down from a high of $26.2 trillion in 2006. Just 6 percent of the nation’s 2 billion acres is developed, but this 6 percent had a value of $11.7 trillion. The federal government controls 28 percent of the nation’s TOTAL land area. States own another 8.7 percent. I have not been able to find data on how much land is owned by local governments, school districts and other public (tax exempt) agencies and institutions. One in three households in the United States owns no land at all (and, generally speaking, no real estate).

**The Question of Real-Financial Linkages**

In the real world, some investors calculate risk and seek to be compensated for statistically understood risks as well as risks not easily quantified. Other investors put their financial assets in the hands of advisers who either have a track record of successful asset management or are adept at convincing people they can deliver above-average returns on a consistent basis. As Professor Nell notes:

“It could be said that a key feature of the ‘post-George’ financial system is that in day-to-day operations it is strikingly independent of the real economy, and along with this, it is widely given to speculation.” [p.130]

And, of course, there is a direct link between the huge amount of speculation in land, in land development, in the buying and selling of improved properties, the structure of how these activities are financed and the investment vehicles created to distribute generated revenue or appreciation. Economists, Professor Nell admits, have relied on theoretical assertions “not well grounded in theory, nor were they clearly evident in statistics.” [p.132] The real experts in this realm are the tax accountants who guide their employers or clients through the complexities of IRS rulings to come up with financial structures that maximize after-tax returns. An international business takes great pains to record revenue wherever taxes are lowest, recording expenses where taxes are highest.

Professor Nell is hopeful that a deeper understanding of the role of rents will assist economists in their understanding of the cause of bubbles. Those economists who have a deep familiarity with Henry George’s analysis have already and repeatedly provided these insights. The difficulty seems to be to get others to pay attention. It is worth noting that the list of references provided at the end of this book does not include anything written by Mason Gaffney, Fred Harrison, or any of the early 20th century economics professors who echoed Henry George (e.g., Harry Gunnison Brown).

**The Financial Sector: Portfolio Holdings of Securities**

Here, Professor Nell offers an interpretation of portfolio management strategies that optimize long-term yields. Should a business take on debt or risk diluting its equity by issuance of additional shares of stock? For the investor, the decision is whether to diversify or concentrate exposure (e.g., invest in mutual funds versus the shares of stocks in individual businesses). What he seems to be trying to establish is the same sort of algorithm that dictates computer-triggered trading of securities. The history of hedge funds suggests the difficulty of developing an investment algorithm that anticipates the trigger points of all of the competing algorithms employed. Professor Nell is putting his faith in coming up with the right debt to earnings ratio calculation.

**The Securitization of Rents**

Now, for reasons not clear to me, Professor Nell describes the payments made to owners of income-producing property by tenants as payments of rent. This is fine for the accountant, but clouds any discussion of the distribution of wealth to the factors of production.

***Portfolios***

Professor Nell offers an answer to why investors (or businesses) continue to hold shares of stock under conditions that indicate the right decision is to divest. Every individual or entity or institution wisely works to account for and diversify risk. He describes the factors that direct different players in their efforts to maximize yields.

***Indifference Curves Showing the Degree of Optimism in the Market***

Reading this section brings to mind the market for mortgage-backed securities, and the structuring of securities with senior and subordinate positions in those securities, each with different yields based on anticipated risks. For a bank or other regulated financial institution, one of the costs associated with holding mortgage-backed securities is the need to reserve for loan losses. The amount that must be reserved is, however, much lower than if the underlying whole loans were held in portfolio. It seems to me that accurately representing “the trade-off between returns and risk” by indifference curves involves the incorporation of a long list of variables. For example, the originator of a conventional mortgage loan makes representations and warranties to the investor that the loan meets very specific contractual underwriting standards. If the borrower defaults within the first few years, the original loan file will be reviewed, the borrowers’ credit at the time verified, the property appraisal reviewed for accuracy, and other terms of the contract examined to make sure the loan was eligible. During my years at Fannie Mae, these reviews resulted in a fairly high incidence requiring the originating lender to repurchase the loan. How are these variables factored into the calculation of indifference curves?

That these markets are inherently speculation driven is indicated by his closing remark:

“Generalized optimism or pessimism can lead to a shift up or down in the indifference curves … and this can affect the whole complex of security yields.” [p.141]

***Markowitz Portfolios***

I simply repeat what Professor Nell indicates is useful to know here:

“[T]he importance of market portfolio analysis is that we can show that all the securities issued will be held. That is, an examination of the overall holdings of all four categories of securities – short-term private and government, and long-term private and government – shows that all securities, existing and newly issued, will be absorbed by portfolios. Therefore, unlike in George’s era, land values and their associated rents are now incorporated into portfolios – that is, they are securitized.”

***A Cautionary Note***

He adds that one type of asset is free of default risk: “short-term government securities.” [p.144]

A thought that comes to mind may have no relevance to the above discussion of modeling the optimum structure of an investment portfolio. Every CFO of a corporation or other entity seeks to balance long term growth with the need to meet ongoing expenses, including replacement of physical plant and equipment, computers, and all sorts of depreciating assets. Individuals and entities that conduct business or engage in activities on an international level also have the issue of currency exchange rates to consider. As with mutual funds, holding multiple currencies mitigates the potential for huge short-term loses (or gains) due to all of the government and market-stimulated changes in currency values.

**CHAPTER EIGHT: Growth and Rents in the Financial System**

Although Professor Nell has joined other critics of Henry George’s assertion that “rents would absorb an increasing fraction of the surplus, squeezing out wages and profits,” he sees as more important George’s analysis of the impact of land speculation. What strains the analysis is the long pattern of asset accumulation by individuals, business entities and other institutions. Owners of land use profits to acquire not only more land but capital goods as well, or to acquire controlling interests in other types of businesses. Companies are formed to specialize in land banking in anticipation of the demand for land by goods producing entities or public agencies and institutions. People such as Ted Turner and John Malone use profits derived from capitalization of monopoly rents enjoyed by control of broadcast frequencies to acquire huge areas of land. Timber companies use profits to buy out competitors simply to remove supply and prop up timber prices. My point is that absent sustained full employment, wages paid to many workers will continue to be far less than the wages earned. Profits for some businesses will be above-average or significantly above-average, even though the return to investment in capital goods may be average or lower than average. Why? Because rents and the sale of assets the price of which are the capitalized value of rents generate more and more revenue.

It is common sense (even if ignored in neoclassical economic calculations) that “out of income there will be relatively reliable percentages saved, which are different for different social classes and categories of business.” [p.148] Demographics is also an important consideration. To name just one important component of what is happening, the savings rate for at least one-half of all households headed by individuals age 65 or above is zero. One in four seniors has no other income other than what is received as Social Security benefits.

**The Influence of Liquid Capital on Wages and Salaries, the Role of the Financial Sector, and Why This Phenomenon Was Not Seen Before**

To a significant degree, modern corporations are not managed by owners but by executives who are selected because they have a history of being able to maximize shareholder value. And, as Professor Nell indicates, the relationship between executives and even other highly skilled employees and their employer involves significant tensions over compensation, decision-making, ownership of intellectual property or non-compete clauses in employment contracts. Financial management companies, such as Fidelity Investments or Berkshire Hathaway have a disproportionate influence over corporate decision-making and the value of shares in companies in which they invest. At the top, the community of individuals who control the fate of millions is relatively small. The result has been a stranglehold over law, over regulation and other public policies achieving a level of income and wealth inequality that most economists and many others agree cannot be sustained if we are to avoid systemic collapse. This is my own prognosis. Professor Nell merely points out that “the top pay to executives will come out of the savings on the pay of the bottom 90 percent.” [p.150]

**A Simple Model of Wealth Accumulation and Inequality (with Linear Coefficients)**

The bottom line, as I interpret what Professor Nell has taken pains to explain, is that existing mainstream growth models are inherently flawed; they are based on assumptions that conflict with what occurs in the real world. At the same time, there is no model that is able to factor in the many variables of a dynamic world. Politics (i.e., systems of law, regulation and taxation) dictate economic outcomes, and the distribution of income and wealth in very dramatic fashion. Yet, even Professor Nell accepts the need to assume certain givens “for simplicity” purposes.

One of the components of his wealth model is one I have read about from other economists. This is the argument that every owner of a residential property enjoys imputed income because the property could be leased (i.e., could be utilized as an income-producing asset rather than for mere shelter). If such a calculation is to be made, then this imputed income must be offset by all of the expenses incurred in owning such a property, including property taxes paid, depreciation and the need to establish a reserve for systems replacement. If imputed income is to be accounted for, then it must be net imputed income.

I would recommend to Professor Nell that he not refer to those whose level of income puts them in the top, say, 20 percent of income recipients as the “capitalist class,” although this is the context accepted by those on the Left. We can safely argue that a high percentage of income for these individuals comes from the various forms of “rent-seeking” activities and behaviors. So, let us try to popularize the distinction between the “rentier” class and those who actually earn income by producing goods and providing services under competitive market conditions. In the classroom I put to my students the case that landlordism has always been with us. The initial form of landlordism was agrarian. That stage expanded when peasants were removed from the land and replaced by sheep and cattle, mineral extraction and technology-based monoculture. As landlordism continued to evolve, the so-called “FIRE” sector was added on to facilitate manufacturing and urban growth. By this description we have never experienced true capitalism as described, for example, in the books by Louis Kelso and Mortimer Adler in the early 1960s. We live in a world system best described as “agrarian-commercial-industrial-and-financial-landlordism.”

I suspect Professor Nell would respond (perhaps appropriately) that *the perfect is the enemy of the good*. Today, economists and almost every commentator who talks about economics refers to the skills and abilities of people as “human capital” or “intellectual capital”; to nature as “natural capital” or “environmental capital”; to money and credit as “financial capital”; and, to actual capital goods as “industrial capital.”

**Toward a More Complete Model**

What are the longer-run consequences of rising inequality? Other than economists who have been enlisted to defend the status quo, what Professor Nell tells us rings true:

“Increases in inequality will tend to reduce the propensity to consume, weakening the multiplier and making it harder to sustain aggregate demand. They will also tend to shift investment and innovation toward luxuries and items for the extremely rich…” [p.154]

At least right now, producers seem to have found ways to sustain aggregate demand by shifting investment and innovation from high cost to lower cost locations. Take Walmart, for example, a company that operates worldwide. Its revenue for 2018 was just over $500 billion. Its net income in 2017 was $3.02 billion. The website *statista* reports that “the value of the global personal luxury goods market was … estimated to be worth about 249 billion euros in 2016.” The U.S. share of this market was 78.6 billion euros. At the current conversion rate of $1.23 per 1 Euro, the dollar value of the luxury goods market is, therefore, around $306.3 billion. A concern is that if the social welfare programs and policies associated with social democracy continue to be eroded by rentier interests, those at the lower end of the income scale will be in a position to purchase less and less. The three most important areas of public subsidies would be, I think, housing, education and medical care.

**CHAPTER NINE: Rents and the Securities Markets**

From all that comes before in this book, Professor Nell comes to the main point:

“[G]rowth of the economy leads to growth in rents, … pushing up the value of rent-back securities, which then drags up the value of other securities, creating pressures that have a strong tendency to turn into a self-sustaining bubble. But such bubbles have to burst, though the timing cannot be predicted. As a result, the economy faces increased uncertainty and instability.” [p.157]

Of course, there are credentialed economists and others who predicted the bursting of the last (and previous) bubbles. In the Henry George camp there were several, including Fred Foldvary, whose 2007 book explained the cyclical systemic cause of periodic downturns:

“In the United States there has been a real estate cycle with a typical duration of about 18 years. …This cycle was discovered by real estate economist Homer Hoyt. …Fred Harrison (2005) divides this 18-year length by adding two years from the peak to the trough, two years for the economy to recover from the depression, and 14 years for developers to buy land and construct new young.” [*The Depression of 2008* (Berkeley: The Gutenberg Press, p.2]

The book by Fred Harrison Professor Foldvary is referring to was published in 2005, and was titled *Boom Bust: House Prices, Banking and the Depression of 2010*. Yet, Fred Harrison’s presentation of evidence of the 18-year land market cycle began in his 1983 book *The Power in the Land*.

Professor Nell followed me as a presenter at the grand reopening of the Henry George Birthplace in May of 2015. The paper I read detailed the history of and consequences of the long path of deregulation of the financial services sector of the global economy, and in the United States, particularly. These changes in law and regulation did not trigger the land market cycle. What they did cause was the deepening of the crash when it occurred, triggering actions by government the objective of which was to mitigate the financial harm to institutions deemed too big and too important to be allowed to fail. I wish Professor Nell had asked for a copy of this paper and given some consideration to the details I presented and how these actions by government and other market participants served to further stress the credit-fueled, speculation-driven character of property markets. The video of this talk can be viewed here: https://hgarchives.org/grand-opening-of-the-birthplace/.

**Real-Financial Instability**

Professor Nell summarizes the approach he has taken to try to integrate Henry George’s primary insights into modern growth theory and its wealth and income distribution outcomes:

“At the outset of this process, we assume the real economy is experiencing balanced growth with steady wages, prices, and profits (but inequality is growing over time). Productivity is growing, so the rise in rents need not lower profits or wages, unless rents rise more than proportionally.” [p.165]

These and other assumptions are required in order to use the mathematics economists embrace as key to the treatment of their discipline as an exact science. Has Professor Nell in this book significantly improved the equations and what goes into the equations so that the solutions obtained are more consistent with real world outcomes? And, if so, will this lead to more objectivity in the development of public policy recommendations by economics professors and economists employed by think tanks, corporations and activist organizations? Professor Nell offers this to readers:

“This picture could be made more precise with specific mathematical assumptions, allowing for the derivation of a specific cyclical pattern, and that might be useful at a later stage. But for now the important point is that every one of these steps is plausible, and the whole picture is realistic, although abstract. There do not seem to be any stabilizing features to offset this plausible drift towards a spiraling vortex. The financial system is fragile, and the fragility increases over time, until it breaks apart.” [p.168]

**Policy Implications**

We learn that monetary policy cannot solve the inherent instability in our financial systems or the boom-to-bust character of our economies. “Fiscal policy and regulation are also needed.” His recommendation until we get systemic reforms is for government to take on the role of employer of last resort, or provide subsidies to induce companies to hire people. Importantly, these and other measures must be accompanied by moving to the rent of land to pay for public goods and services, the positive side-effect being “to eliminate speculation on land values.” [p.171]

Professor Nell also supports the so-called “Tobin tax” imposed on the buying and selling of financial securities, “made more effective by reducing or voiding the tax if the securities have been held for a long enough period of time.” I add only that tax-exempt institutions, such as universities, who have huge asset portfolios, should be subject to this tax as well to create a level playing field among investors. The tax could be graduated based on the length of time the security is held.

He briefly suggests that steps be taken to eliminate the scarcity of credit and access to money. On this issue there is much debate and disagreement even among those of us who agree the current system is, at best, inefficient, and, at worst, a major cause of economic instability and periodic financial crises. While our monetary system is described as being based on fractional reserves, it is really a no reserve system. A Federal Reserve Note is best described as “a promise to pay nothing in particular.” As a starting point for discussion of systemic reform in this area, I recommend pulling down from one’s book shelf a copy of Adam Smith’s *The Wealth of Nations* and reading his description and analysis of the operation of receipt money issued by the Bank of Amsterdam in the early 17th century.

***International Implications***

Professor Nell concludes that despite the extent to which the global economy is integrated, “we can expect to see different patterns of boom and bust among them.” [p.172] He raises a number of good points that deserve a more detailed discussion should a roundtable with other economists take place in the future.

***Provisional Conclusions***

The real game changer, he restates, is “once rents and real estate became securitized.” [p.173]

**Conclusions**

When Professor Nell paraphrases Henry George, he misinterprets what George actually wrote and argued about the laws of the production and distribution of wealth. George saw these laws as laws of tendency. He recognized that over and over again the inventiveness of people resulted in significant advances in productivity (i.e., greater units of output for each unit of input). While it is certain that progress drove up rents and worsened poverty for some, the potential for rents to absorb all of the increase in wealth being produced depended, for one thing, on the concentration of land ownership in a society and between societies. George anticipated that over time the ownership of land even in the United States would become more concentrated. George spends a few insightful pages in Chapter XX (“The American Farmer”) in *Social Problems*, describing how this also changes the pattern of property ownership in cities as well.

I need to add something here in reaction to what Henry George writes in this chapter of *Social Problems* because it is such an important part to the puzzle of why Michael Hudson has so strongly argued that the interest income collected by institutional lenders/investors is actually rent. George writes:

“As land rises in value the working farmer finds it more and more difficult for his boys to get farms of their own, while the price for which he can sell will give him a considerably larger tract of land where land is cheaper; or he is tempted or forced to mortgage, and the mortgage eats and eats until it eats him out, or until he concludes that the wisest thing he can do is to realize the difference between the mortgage and the selling value of his farm and emigrate west. And in many instances he commences again under the load of a mortgage; …One man buys upon mortgage, fails in his payments, or gets disgusted, and moves on, and the farm he has improved is sold to another man upon mortgage. Generally speaking, the ultimate result is that the mortgagee, not the mortgagor, becomes the full owner. Cultivation under mortgage is, in truth, the transitional form between cultivation by the small owner and cultivation by the large owner or by tenant.” [*Social Problems*, p.232]

In George’s era, banks did not make long-term, amortizing loans. This left mortgagors exposed to all sorts of risks. Thus, individual farmers might experience some disaster, loss of revenue and end up defaulting on their loans or loans. Depending on the degree of equity the farmer had in his personal property and real estate, a post-foreclosure sale by the bank might bring in a price sufficient to cover outstanding principal and some portion of accrued interest. It would be interesting to see any data indicating the instances where banks were actually made whole after the auctioning off of a farm and farm equipment.

The situation for mortgagees during a period of widespread economic instability, recession or depression is quite different. As the historian Frederick Lewis Allen detailed in Chapter XI (“Home, Sweet Florida”) of his 1931 classic, *Only Yesterday: An Informal History of the 1920s*, wrote:

“At the very outset of the decade there had been a sensational market in farm lands, caused by the phenomenal prices brought by wheat and other crops during and immediately after the war. Prices of farm property leaped, thousands of mortgages and loans were based upon these exaggerated values, and when the bottom dropped out of the agricultural markets in 1920-21, the distress of the farmers was intensified by the fact that in innumerable cases they could not get money enough from their crops to cover the interest due at the bank or to pay the taxes which were now levied on the increased valuation. Thousands of country banks, saddled with mortgages and loans in default, ultimately went to the wall. In one of the great agricultural states, the average earnings of all the national and state banks during the years 1924-29, a time of great prosperity for the country at large, were less than 1-1/2 per cent; and in seven states of the country, between 40 and 50 per cent of the banks which had been in business prior to 1920 had failed before 1929. Just how many of these failures were directly attributable to the undisciplined rise and subsequent fall in real-estate prices it is, of course, impossible to say; but undoubtedly many of the little country banks which suffered so acutely would never have gone down to ruin if there had been no boom in farm lands.”

Farmers have experienced these cycles of booming land prices when commodity prices are high. Those who expanded land under cultivation by incurring mortgage debt often paid a steep price once other producers came back (e.g., as after the First and Second World Wars) to close the gap between supply and demand.

Professor Nell completes his task with a note that is certainly directed to his fellow economists:

“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. …This has a very significant implication: a growing financialized economy cannot grow in equilibrium.”

My final question to Professor Nell is whether there is in the real world a condition that can honestly be considered equilibrium absent the public collection of (at least a high proportion of) rent from all its diverse sources. Picture the supply curve for land and any asset with an inelastic supply. Because of hoarding and speculation the supply curve can be leftward leaning. Rather than clearing the market for land, changes in the price of land can bring in investors – such as land banking companies -- to purchase land directly or pay the owner an option fee to acquire a right of first refusal, not for the purpose of development but to reduce the supply of developable land in order to drive up prices of offered land. Additionally, as we know, there are some individuals with such a huge amount of personal wealth that they acquire large amounts of land simply as one of the means by which to establish a degree of separation from those of lesser personal wealth.

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