

INTRODUCTION

Reviving the Work of America's Most Original Economist

Andrew Mazzone and I collaborated on a project to review the work of the 19th-century American economist Henry George, especially his landmark book *Progress and Poverty* (1879) 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. We wanted to establish that George's work was relevant and also to criticize American academic economics for having overlooked or rejected George both in his own time—when his work was a worldwide sensation—and afterward, even today. Andrew died suddenly in the middle of the project. This book is a tribute to him and completes what we began.

George began his career as an author and public personality with *Progress and Poverty*, arguing that progress brought poverty in its wake and that poverty might even outpace progress—an important, original point of view that has not lost any of its relevance since George's time. In fact, in our age of burgeoning inequality it may be more relevant today than ever. The grounds for this paradoxical interlinking of progress and poverty lay in the effects of rising rents. For George, rents were payment—not for the use of land in the usual sense, but for pure access to specific spaces and locations. But why should some people have the right to limit others' access to the use of the earth; surely it

belongs to us all? Worse, the limiting of access—by demanding payment—would undermine the benefits of innovation and hard work.

To prevent this linking of progress and poverty, George said a major policy shift in taxation was required. This is well known among economists as the Georgist single tax on rents or the Henry George Theorem.

Since George's time there has been progress, both in the economy itself and in economic analysis: the economy has been growing, and growth models have become highly sophisticated (in many cases focusing on matters that were central to George a century earlier). But that progress has also led to poverty, obvious in the economy itself. 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. The mainstream theory of income distribution—marginal productivity (which assumes diminishing returns for all three factors of production and that markets will “coordinate” their adjustment)—is hopelessly flawed (George rightly rejected an early version of it). And contemporary economic theory has almost completely lost sight of rents and real estate—even though real estate was center stage in the global financial crisis of 2008, a crisis directly resulting from speculation in the housing market. And in 2016 Donald Trump, a real estate developer whose rise to power is intimately linked to rents and real estate speculation, was elected president. With a solid Republican majority in Congress, he began to implement a set of relentlessly regressive

“trickle-down” economic policies that can be expected to lead to more poverty among vast segments of the population. Andrew and I wanted to find insights and tools in George’s thought to counter this trend—to support progress and alleviate poverty.

Before Andrew died, we had settled on five main points in George’s writing that we wanted particularly to explore:

- 1) George emphasized cooperation as well as competition in regard to increasing productivity. He saw that the division of labor and cooperation as settlements developed on new land created value in “location” and generated increases in output, while bringing about innovation. This is what generated the “differentials” on which rent is based (as we will explain).
- 2) George and his followers claimed that the total value of land in a region would tend to equal the value of the aggregate output of that region.
- 3) Further, they claimed that total rents would tend to equal the costs of government, so that taxing rents would pay for government.
- 4) They contended that, unless prevented by an activist government, inequality in wealth and income, roughly between the upper and lower classes but also between other significant groups, would tend to rise inexorably.
- 5) And, finally, George repeatedly attacked land speculation and its tendency to withdraw land from productive use and to promote concentration—a point that seemed to

both Andrew and myself to have a direct bearing on today's world. Only today it's not land alone but finance generally that is subject to speculative excesses.

I wrote up notes on theory, while Andrew worked on rents, costs of government, land values, and gross national product (GNP). I eventually put my notes together into two more-or-less finished articles to present at the annual Conference of the Eastern Economic Association in March 2017, in New York City. Andrew's illness had prevented him from being able to keep up with his research; all he had were notes. He died suddenly, just before the conference. Nevertheless, I presented what we had, including his notes. The talks I gave at that conference formed the basis of this book.¹

Economists have given George short shrift, which is a shameful oversight—he has much to teach us. He was uniquely American, perhaps our greatest economist, certainly our most original. He was justly famous and heralded in the 19th century, and his book *Progress and Poverty*, which is the source for much of our analysis in these pages, was the best-selling book on economics of that century. Today, George is obscure and all but forgotten, although his arguments, shockingly effective in their day, are still pertinent and powerful.

George was a force to be reckoned with in the America in

¹ There will be a second phase in the work that Andrew and I began. This will pull together a range of other papers presented at the conference and contributions by interested parties associated with the Henry George School of Social Science and Andrew, to make a larger volume that will cover a range of issues concerning modernizing the economics of Henry George.

which he lived. He was a kind of archetypal American, a strong individualist but equally passionate about the values of the community. He was a self-made man, an autodidact who withdrew from formal education in favor of home tutoring and never attended university. He left his home in Philadelphia at the age of 14 and went to sea for three years, traveling first to Australia, then eventually settling in San Francisco in 1858. He became a printer, then a newspaperman, an editor, and, finally, a writer. The frontier and the dynamics of westward expansion shaped his economics—and the railroads shaped his views of “monopoly,” or market power. 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. George returned to the East and entered politics, running for mayor of New York in 1886. He died prematurely (having earlier suffered a stroke) in 1897 at the age of 58, at the height of his popularity.

Moral insight is the bedrock of George’s economics. He favored initial equality: everyone has an equal right to share in what the earth has to offer. He was enchanted by the West’s great prairies, its vast expanses of meadow and forest, the land that stretched on and on, America’s wide-open spaces with deep rich soil. He 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.

George saw the significance not only of cooperation but also of trust, that each part of a process created by the division of labor has to trust that the other parts will work responsibly. George understood the importance of honesty and keeping promises. Who will extend credit to someone who cannot be trusted? Who will accept bills from them? Will they deliver the goods in good shape? We have to believe that the other party or parties will do their share on time and in the right way. One of the most important moral issues for George was land ownership: who had the right to own land, and so to exclude others from any part of the earth or from the use of its fruits? His answer was that no one had such a right; no such right could exist.

For George, the American economy of the 19th century was a dynamic system. Technology and productivity were continually improving. But the greater the progress the system made, the more poverty it created. Why? This was the fundamental question he asked and sought to answer—and it is still, arguably, the most important question for economists and one of the most enduring and troubling paradoxes in our world today.

“Ownership,” George argued, results from making things: if you grow vegetables, they are yours; if you make a hoe to cultivate your garden, it is yours—because you made it. If you make it with a friend, it belongs to both of you. If a company makes it, it belongs to the company. That is the foundation of ownership rights, and, of course, there are complications. Land, however, is not made by anyone; it is there for everyone. And it should not

be polluted or despoiled by anyone. In this, George anticipated both the conservation movement of the 1890s and today's environmental movement.²

No one should be able to exclude others without good and specific reasons that rest on the public good. These questions are not simple, and neither are George's arguments. But they are very much worthwhile, and they call for a critical examination of the tendency so evident today toward greater and greater concentration of ownership.

I have expanded the points Andrew and I investigated to give the book the kind of technical detail that we both wanted when we first began our conversation. It was our hope that the book would be read by economists and others interested in policy and the fraught, often improperly understood, relationship between politics and economics. Although the book is largely technical, we have tried to make this introduction and some of the basic arguments in the text clear enough to be understood by everyone.

The book is divided into three parts. The first lays out the basic concept of rent, so central to George, and how it is driven by growth. It presents the idea of rent as an unjust payment, in George's view, and it critically reviews some of his basic doctrines, accepting and praising his account of rents arising on the "unbounded savannah," and accepting (partially and for special

²George supported fair treatment and the rights of indigenous peoples, but he wrote very little about it. The issues of ownership, rights to use, and access are extremely complex, and they are only touched on here. However, what seems more readily defensible is that everyone has an equal claim at birth. One can't reasonably be punished for choosing the wrong parents.

circumstances) his theory of wages. The book rejects his theory of capital and interest but then explores and partially accepts two important claims: that the total land values of an area will tend to be equal to or near the total GNP of that area, and that the total cost of government in an area will be equal to or near the total aggregate of rents in that area.

The book's second part takes George's idea of "progress" and turns it into macroeconomics. We move the center of our analysis from a largely agrarian economy to an economy based primarily on industry and services, a trend that was already happening while George lived and would continue and accelerate during the 20th century as economic activity moved from the countryside to the cities. As we study this we find a new "margin of production" at the point where new plant and equipment outstrips the old and adds what economists call "superprofits" to rents. George does not examine how saving and investment work or how they interact with the price mechanism. But we do it for him, and the result is a picture of how the pressures of supply and demand, governed by "marginal conditions," provide a degree of stabilization. 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.

The third part of the book extends George's ideas about growth driving rents, now affecting the value of securities in real estate companies, and brings this into the globalized world of

modern finance. We clarify the mix of independence and interdependence between the real economy and the financial system. We can then explore George's claim that the economy tends to move toward greater and greater inequality. We find that claim justified. Rents are now a part of a larger private-sector financial system that excludes (or excessively burdens) a majority of the population, just as private property in land excluded or burdened them in George's time. Rents, themselves, however, do reappear in a new guise in the financial system, and we will see that they now play a dangerous and damaging role, pushing the economy into instability.

As we discuss in the book's conclusion, Andrew and I came to agree with George's suggestion that growth that drives rents creates instability and has a tendency toward greater inequality, a tendency that, in today's economy, is manifested through the financial system, which has largely absorbed real estate but is still responsive to the pressures it creates. We appreciated George's excellent analytical economics, and we came to see that he was also a philosopher and a visionary. He asked for the justification of our institutions and the grounding of our beliefs, and he challenged the status quo—asking, in particular, how great wealth could coexist with deep poverty in a civil society. We both felt strongly that there is a great need for such vision and such questioning among economists today, in an era marked by the ascendance of the reactionary economic ideas of Paul Ryan and Donald Trump. We hope this book will be a beginning, providing the tools for economists and others to start evaluating and utilizing George's uniquely American ideas. It is designed to

provide a sound foundation on which committed researchers in the field can help to build a more just and stable economy. This is what Andrew wanted.