

## Henry George Forum: Distinguished Economist William J. Baumol Presents Paradigm for Social Well-Being

[Dr. William J. Baumol]

"It is the rent phenomenon which lies at the heart of what I consider the most striking economic issue that faces the world today," argued Dr. William J. Baumol, professor of Economics at NYU and professor emeritus and senior research economist at Princeton University, during his lecture "Free Market Growth and Rent Beyond Land" to a fascinated audience of Lubin faculty and students at the downtown New York City campus on October 29, 2003. This was the 4th Annual Henry George Symposium, organized by Lubin's Henry George Professor of International Management, Robert Isaak, and sponsored by the Robert Shalkenbach Foundation.

Baumol referred to Henry George (the unknown printer from San Francisco who, without formal training in political economy, wrote a seminal text in the late 19th century called *Progress and Poverty*) and discussed his idea that the price of land increases more rapidly than the wages of workers, thus leading to increasing impoverishment; that the supply of land is more or less fixed; and that a tax on land is different from all other taxes because landlords do nothing in return for the money they earn, making rent the ultimate payment for which society gets nothing in return. He indicated one way in which these concepts retain and even expand in importance for today: "For reasons that have evolved since Henry George's time... the analysis goes beyond just the soil itself.... Modern economists use the term 'rent' not only to apply to the payment for acreage, but call rent any form of payment that is not a reward for contribution to production. [The rent] issue is what explains the fact that the free market economies have been able to achieve rates of economic growth, levels of output, outpourings of innovation, such as the world has never even remotely paralleled before," he opined.

### **Innovation as a Productive Way to Free Market Growth**

Citing the Roman Empire, where 'rents' such as aggressive warfare, blackmail, or forgery were considered respectable ways to pursue wealth, and ancient China, where numerous inventions occurred and within a century were totally forgotten, Baumol underlined the importance of innovation as the process of bringing an

invention into its full utilization, for the development of the society: "[Despite the fact that] there is poverty, misery, recessions, and unemployment under capitalism, in the free market, the capitalist system is incredibly good at ...producing an outpouring of output and innovation," he said. Baumol pointed to one's ability to contribute to the well being of society by means of innovation as a productive way to accumulate wealth, as opposed to rent seeking.

### **David/Goliath Partnership**

"The rate of innovation that we experience today is something so rapid, so unprecedented, so extreme that we cannot comprehend it," said Baumol in commenting on the flood of innovations in the 20th century. "We take innovations for granted.... It is the century in which astonishing inventions have become a banality and that is really quite an accomplishment."

Suggesting that in today's business environment having a better and newer product than your rival's is one of the best weapons of competition, he said that about 70 percent of U.S. R&D spending is done by large corporations in seeking inventions and innovations (rather than advertising and price) that can top the competition. Baumol said this represents an increase of 700 percent over the last 45 years. He commented: "The small entrepreneur is being overrun by these giant enterprises...[but] if you think the entrepreneur is dead as a contributor to growth, you are wrong...The giant oligopolies play a critical role [in the innovation process] ...but the small innovative entrepreneurs are equally indispensable and together they have formed a David/Goliath partnership in which each plays a crucial but different role."

### **Rent Seeking Is Still a Problem**

"The warning that Henry George gave us pertains today as it did a century ago because there are still plenty of opportunities for rent seeking in our economy. We have read plenty of scandals in the newspapers... The CEO of Enron got a rather substantial payment and did nothing for society in exchange.... If rents become where the money is, as it was in ancient Rome, then you will find people turning to rent seeking rather than production. So the moral of this story is that rent seeking opportunities still represent a problem," concluded the sagacious Dr. Baumol.

In the political dialogue taking place worldwide today, the scandals being uncovered concerning people's abuse of the "rents" concept is one of the most relevant economic issues under examination; and one that may topple governments and corporations alike in its wake.

The author of numerous books and publications, and a recipient of numerous honors and awards, including ten honorary degrees, Baumol was born in New York City and received his B.B.S. at the College of the City of New York and a Ph.D. at the University of London. The President of the American Economic Association, and a member of the National Academy of Sciences, Baumol is also a distinguished painter (whose artwork can be seen at [www.econ.nyu.edu/user/baumolw/](http://www.econ.nyu.edu/user/baumolw/)).