

## A new model of the economy

In a pioneering initiative that seeks centre stage in every classroom in the land, **Brian Hodgkinson** rewrites the textbook on economics.

ECONOMICS AS a subject in schools, universities and most of the media is a 'flat-earth' science. Why? – because it ignores the profile of rent of land that thinkers like David Ricardo and Henry George so clearly explained. Indeed the subject may be compared to pre-Copernican astronomy, which employed a geocentric model to which were added successively more epicycles to account for new observations of heavenly bodies. Current economic models introduce more and more variables to explain the apparent complexity of developed economies. Yet their efforts are of little avail. Witness the failures of economic policy in relation to housing, banking, inequalities of wealth and income, and regional disparities.

What is needed is a model that reduces the complexity by introducing the one key feature at present omitted, namely rent. Two economists who have realised this – Richard G Lipsey and B Curtis Eaton – have written "phenomena that appear inexplicable when inserted into a spaceless model are explicable in a spatial model". My new book, *A New Model of the Economy*, does this by adapting both micro- and macro-economy theory to take account of rent in such areas as the theory of the firm – perfect and imperfect competition, oligopoly and monopoly – and the theory of income determination. The book includes a thoroughgoing analysis of the concept of rent, showing that it comprises both economic (differential) rent, derived from variations of location, natural resources, public services and population, and scarcity rent arising from the total enclosure of land. Topics such as wage rates, unemployment, housing and externalities are seen afresh in the light of this analysis.

In addition, fundamental questions are raised about the present system of money, banking and credit. The implications of the fact that banks create money by means of advancing bankers' promises, rather than merely collecting and lending existing deposits, are explored. Interest rates, for example, are found to be the result of restrictions on the money supply, since a free banking system would supply money to producers at its supply price ie bank costs of providing it. Bank advances for the purchase of land are seen as a major cause of inflation. The theory of income determination is adapted to show what would happen if banks were

to acknowledge their proper function of financing productive enterprises.

The impact on the economy of the current system of taxation is the third main issue raised in the book. How this depresses both the intensive and extensive margins of production (to use Ricardo's distinction) is explained, with the conclusion that tax assessed on the rent of land would restore their productivity and allow wages to rise to their natural level. Problems that critics foresee in the collection of rent as public revenue in place of taxes on labour and capital, such as the old question of improvements to land and the new one of negative equity, are also dealt with.

*A New Model of the Economy* looks at these three aspects of an economy – the role of land, the function of banks, and taxation – as interrelated and all desperately in need of radical reform. Thus it concludes with clear recommendations on each score. However, the underlying theme of the book is economic freedom, in the sense of a system that allows for the fulfilment of human aspirations in the sphere of work and enterprise. Existing models of the economy take for granted monopolies of land and credit. They assume that the present inequitable distributions of wealth, income and opportunity are set in stone, and that politicians have to redress the balance by remedies like progressive income tax and state hand-outs.

This new model puts the onus squarely on economists. They need to scrap their 'flat-earth' models, and accept a radical revision that removes the implicit limitations of private property in rent, excessive charges for credit, and taxation levied on labour, capital and entrepreneurs. They may need to continue to use well-tried concepts like supply and demand, elasticity, consumption functions and so on, but the natural laws of economics, especially that of the rent of land, demand the central place in any model that

truly represents how a modern economy operates.

In the hope that this book will be read both by professional economists and students and by interested laymen, it largely avoids the use of mathematical formulae. Instead it relies on relatively non-technical language and diagrams that are closely integrated with the text. Its aim is to awake all those who take economics seriously to the practical implications of the subject. **L&L**

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