



HOW OUR ECONOMY REALLY WORKS BY BRIAN HODGKINSON

Reviewed by Joseph Milne

Shepherd-Walwyn 2019
ISBN: 978-0-85683-529-2

In this brief book of just one hundred pages Brian Hodgkinson brings a rare clarity to the real working of our British economy. He begins by showing how land has ceased to be properly accounted for in current economic theory through being included in capital, and how this distorts economic analysis from the outset. The economy cannot be correctly understood without seeing how land, labour and capital each play distinct parts in the production of wealth. Land is what nature provides, labour is the 'application of human effort of body and mind' to wealth production, 'excluding claims on it such as money or securities'. Capital is 'wealth used for producing further wealth', such as buildings, tools or raw materials.

Chapter 2 gives a succinct definition of rent: 'every economy produces a surplus of output over and above what is necessary to support its population'. This implies that an economy that did not provide for subsistence would not produce rent at all. This surplus provides for whatever a society collectively agrees upon above the necessities of life. Where rent is taken as the private income of land owners, either by way of occupying or renting out land and gaining its surplus, the proper use of the surplus is lost. Further, where rent is taken as private income the land is not put to optimal use. Either it is held out of use in expectation of higher rent yields, or it is not well used when rented out. For example, rented housing in the UK is often of poor quality. 'Were the values of the economic rent of all sites in the UK publicly available, there might be more questions asked about whether it is being optimally used, and even about who is entitled to receive the rent'. That the private appropriation of rent makes the use of land less productive is an important economic observation.

Chapter 3 examines why wages are so low, requiring the Welfare State to lift people above a bare living. With few exceptions, employees' wages are fixed by the least they are prepared to accept. Employers likewise will pay only the least they can where employees compete for jobs. It is only top sportsmen and celebrities who can earn more. Otherwise higher incomes are gained from unearned income and from what Hodgkinson calls 'absentee shareholders' who contribute nothing to the production of wealth.

Low wages limit the economy, and the employee cannot become self-employed except on a small scale. Hodgkinson gives four main reasons for this: first, inability to buy or rent a suitable workplace. Second, employees can rarely equip themselves with the kind of capital required in modern industries – the buildings and produce used to create wealth. Third, they cannot get credit from banks because of lack security. Fourth, it has become a social convention to train to work for employers. Thus a closed circle is created forcing all but a few to be employees, which in turn forces wages down to a low average. Even differentials between good sites, gender, age or education have only a minor effect on wage levels. The advantageous differences between sites are absorbed in rent. So although wealth production may increase, the difference in income between workers and those able to gain unearned income widens.

In Chapter 4 Hodgkinson challenges prevailing misconceptions about the nature of capital. Capital is 'buildings, machinery, plant, roads, railways, ships, aeroplanes, computers and all the multifarious equipment of modern industry. Whether this is owned privately or publicly has no bearing on this basic fact. The use of capital is one thing, its ownership quite another. Yet the belief is deeply embedded amongst all classes of society that money, shares, bonds and other financial instruments are capital.' Thus various forms of ownership are confused with capital. Further, 'Inward investment is widely encouraged in the form of investors from abroad buying shares in UK firms. No real capital enters the country. The firm becomes foreign owned, whilst its land, labour and capital remain as British as before. Similarly UK financial institutions invest in firms abroad and capital is said to leave the country.'

Likewise, investment in land produces nothing. It is not capital because it is not wealth produced by labour, nor can it be replaced if eroded. 'On the other hand, the purchase of capital stimulates the production of capital goods'. 'Nevertheless, the capital is not the finance used in the purchase. It is the actual physical goods used for production.'

It follows from this, Hodgkinson argues, that where investment goes into land it produces no new wealth. This can distort the economy. For example, an investor will weigh up whether to invest in capital or in land. If the economy is expanding, then a higher return will be on investing in capital for production. But this also raises the land value, and so investment is drawn away from capital investment to land purchase. Low interest rates do not encourage capital investment but land purchase, causing ever rising cost of housing. Buying and selling existing houses adds nothing to the economy, even though sellers and renters gain in income. Hodgkinson shows many further consequences of confusing capital with money, bonds, shares or land, where owning is confused with capital investment.

HGF BRIEFING NOTES

In Chapter 5 Hodgkinson discusses the major distortions to free enterprise caused by land ownership and absentee shareholders. This not only limits real competition and efficiency in free enterprise, it keeps wages low. If the rent taken from land ownership were taken instead as a community tax, replacing all other taxes, and profits taken by absentee shareholders returned to wages, wages would rise to the point where 'employees can afford to own the capital that they employ in production'.

There follow chapters on taxation, public expenditure, banking and interest, transport, housing, public utilities, retailing and agriculture, all which clarify how these really operate and expose general misconceptions about them, and how they could be transformed in a more just economy. The main thesis of the book, however, is that the basic factors of wealth production – land, labour, and capital – are incorrectly accounted for in prevailing economic theory, and because of this the distortions caused by land ownership and drawing rent from it remain unrecognised in modern economic policies. The failure to recognise how the economy really works renders most interventions onto poverty and social deprivation ultimately ineffective. 📖

BOOKS WORTH READING

There seems to be a plethora of interesting books touching on the land question recently. Josh Ryan-Collins new book, *Why can't you afford a home?*, illustrates in great detail how the rising price of housing is effecting all English-speaking economies. With copious graphs and statistics he shows how the percentage of home-owners has fallen sharply over the last decades. In the UK 'in 1996 two-thirds of 25-35-year-olds on middle incomes owned a home; by 2016, this had fallen to just a quarter'. Similar figures are given for the USA, Canada, Australia and New Zealand.

He offers a rich chapter on The Problem of Economic Rent, tracing how capitalist economies have moved from the Keynesian settlement to speculative land uses. Such land speculation has been encouraged by deregulation of the banks now giving unlimited credit, raising what a home purchaser can borrow from the traditional three times their annual income to seven times. The effect is to produce inequality and debt, slowing down the real economy. The following chapters examine how the cycle can be broken. Although a technical analysis of the housing crisis, the book it is written in a direct style suitable for the general reader.

Another good book just published is *Who Owns England?* by Guy Shrubsole, subtitled, *How We Lost Our Green and Pleasant Land & How to Take It Back*. The book seeks to uncover who really owns England, tracing the hidden history of ownership back to 1086. He observes that it is extremely hard to find out who owns vast areas of England. It is hidden under various clever little guises which cannot be penetrated. Shrubsole shows how the Land Registry, although a publicly funded body, conceals who really owns most of England. In a final chapter Shrubsole offers 'an agenda for land reform' comprising ten points, the first three being: 1) End ownership secrecy; 2) Stop landowners hoarding land and leaving empty homes; 3) Stop subsidising wealthy farmland owners. 📖



FRIDAY MEETINGS AT MANDEVILLE PLACE

As presented in our *Message From The Honorary President* the Friday meetings in the coming term will be taking on Henry George's comprehensive work *The Science of Political Economy* as well as other equally relevant writings under the umbrella *The Science and Art of Political Economy*. The course is presented by David Triggs.

As a teaser for the deeper philosophical underpinnings of this course David Triggs points out how Henry George suggests that whilst the world as it is presented to our perception may at bottom be one we are compelled in thought to distinguish, in their actions and reactions, three independent and separable elements:

1. That which feels, perceives, thinks, wills; which to distinguish we call mind or soul or spirit.
2. That which has mass or weight or extension or form; which to distinguish we call matter.
3. That which acting on matter produces movement; which to distinguish, we call motion or force.

Friday Meetings will take place at Mandeville Place and remain free for all attendees as per our custom; though voluntary donations are, as always, welcome. For details on how you as a regular reader of *Land&Liberty* can donate to the Henry George Foundation of Great Britain please see the back page of the magazine.

ONLINE DONATIONS

On a general note, donations to The Henry George Foundation can also be made online - via PayPal or simply by credit card.

Go to:

www.henrygeorgefoundation.org/about-the-foundation/support-our-work.html

HGF OPEN DAY 21ST OF SEPTEMBER 2019

Building on the positive feedback and encouragement from last year's HGF Open Day event the organizers will again seek to use central tenets of George's thinking to illuminate a contemporary political issue. This year's HGF Open Day will take place on September 21st and is titled *The Environment & Economic Justice*.

The Henry George Foundation presents four guest speakers who will explore the connections between economic justice and the environment in Henry George's political and economic thought.

Continuing the Foundation's dialogue with the most pressing contemporary issues, the speakers will reflect on the need to create sustainable and fair ways of life in modern societies. The Open Day will be an opportunity to address questions such as:

- How should we reconcile George's insight into economic justice, with the new threat of environmental catastrophe?
- Should Georgists support policies such as a Green New Deal?
- Would George adapt his message to answer our environmental and economic crises? 📖