Brian Hodgkinson, *A NEW MODEL OF THE ECONOMY*, Shepheard-Walwyn, 2008, 348pp, hardback. To order it, click here.

I judge this to be **a very important book** - by Adam Smith's standard in *The Theory of Moral Sentiments (Part I, Section I, Chapter V, 10)*:

> "When a critic examines a work ..., he may sometimes examine it by an idea of perfection, in his own mind, which neither that nor any other human work will ever come up to; and as long as he compares it with this standard, he can see nothing in it but faults and imperfections.
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> "But when he comes to consider the rank which it ought to hold among other works of the same kind, he necessarily compares it with a very different standard, the common degree of excellence which is usually attained in this particular art; and when he judges of it by this new measure, it may often appear to deserve the highest applause, upon account of its approaching much nearer to perfection than the greater part of those works which can be brought into competition with it."
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> "Hodgkinson's new model of the economy is much more **relevant to the present state of real-world economies** than the models offered by most economics textbooks. On that account, **I applaud his book and recommend it unreservedly** to readers with a serious interest in the subject - and I give quite a lengthy account of it here.

As he explains in his preface of November 2007,

> "This book is the outcome of many years study of Economics from two rather different standpoints. On the one hand, my study of modern academic Economics began at Balliol College, Oxford, and continued through a long career of teaching the subject and editing an economics journal. On the other hand, I have studied and taught for almost as long at the School of Economic Science in London and Oxford, where the fundamental principles of the subject, rather than its ever-changing theories and multitudinous empirical facts and statistics, have been the central issue.
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> "An analogy may help to put these two standpoints into perspective. Building a house requires both firm foundations and a well designed, aesthetically pleasing superstructure. Modern academic Economics provides the latter, but not, in my view, the former. It is a fine house, built upon foundations which are askew. Hence it leans dangerously, and might even collapse in a welter of broken theories and dubious 'facts'. One hopes that the real economies which it purports to explain do not similarly come to grief. Cracks are certainly appearing at the time this book is published. Over half a century of research and teaching by the School of Economic Science, however, has yielded a set of principles revealed by reason and by careful examination of economic thinkers in the tradition of natural law. Upon the foundation of these principles this book attempts to construct a new house of Economics from the materials offered by modern analysis.
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> "A growing awareness of the inadequacy of existing economic orthodoxy is evident from a number of books and articles that have appeared in recent years, such as *A Guide to What's Wrong with Economics* (ed. E. Fulbrook, Anthem Press, 2004). It is in response to this need for a new kind of economic model that this book is offered. The model presented is not mathematical; it is rather an amendment of the present

> framework of micro and macro economic analysis by changing the assumptions. In particular, it removes the 'flat-earth' assumption of homogenous land. As Eaton and Lipsey – two economists who have realised the importance of land in economic theory – have written, 'many phenomena that appear inexplicable when inserted into a spaceless model are explicable in a spatial model' (*On the Foundations of Monopolistic Competition and Economic Geography*, Edward Elgar, 1997). *The New Model of the Economy* hopes to restore the spatial model that the founders of Economics, such as Ricardo, had in mind."

There is a fuller introduction on the publisher's web page:

> "This book offers a radical revision of modern economic theory. Its starting point is the existing body of both micro and macroeconomics, as developed in such textbooks as *Economics* by Begg, Fischer and Dombusch and *Positive Economics* by Lipsey and Chrystal. Following a similar framework to these books, it adjusts the whole range of theory by introducing some new concepts and other earlier ones that have been much neglected in the economic thought of the past century. These are related especially to the fundamental part played by land, in its proper sense of all natural resources available on the earth, the significance of credit, especially through the banking system, and the crucial impact of the method of taxation.
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> "The resulting analysis yields a thoroughly revised version of the contemporary model of a capitalist economy, so that a genuine 'third way' is revealed. This is not a mere modification of the present system of absentee ownership confronting a market for labour, with all the attendant evils of unemployment, monopoly and maldistribution of wealth and income. Rather it is a system based upon natural law, exhibiting economic security for all, fair distribution of output and, above all, the opportunity for self-fulfilment through work.
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> "The 'new model' draws upon the masters of economic thought from Smith and Ricardo to Marshall, Schumpeter and Keynes, by highlighting concepts often omitted from current studies of their works; such as Ricardo's analysis of scarcity and differential elements of rent, Schumpeter's view of the role of banking and Keynes's hints at a labour theory of value. Indeed this far-reaching revision makes bold advances upon the Marshallian theory of the firm and the Keynesian theory of national income determination, thus providing new insights into both micro and macro theory. It remains faithful, however to the tradition of these latter thinkers in explaining matters fully in words, and resorting to mathematics mainly through the use of diagrams intelligible to anyone with an elementary grasp of the subject.
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> "Whilst the book strives to avoid value judgements in the interests of social science, it undoubtedly carries strong implications about economic policy. These are bound up with the central notions of free land and free credit, which have been singularly ignored by policy-makers since a few valiant attempts to introduce them in the early twentieth century. Hence the 'new model' is offered to both theorists and practitioners of economics, to politicians and public servants, but particularly to those who, like the author, truly seek a new vision of the subject."

The **immediate importance** of this book is that, with professional economists' conceptual outlook and language, it **corrects serious failings in conventional economic analysis**. It should therefore help to correct some of its worst practical outcomes. **In the longer-term**, "A

New Model of the Economy" could **help to clear the way for an even more radical reappraisal** of the economics discipline.

It does however have, in Adam Smith's words, **some "faults and imperfections"**.

First, there are some points of detail. For instance, the references to cheques in the chapter on "Money, Credit and Interest" appear to ignore that electronics has now replaced paper as the main vehicle for creating, storing and transmitting money. But that **does not affect Hodgkinson's basic understanding** that "banks are not just relending deposits when they give advances; they are creating money. ... Schumpeter puts it pithily when he says that banks create purchasing power out of nothing. The overlooking of this crucial point cripples economists' ability to see the real potential of a banking system".

Second, an apparent **failure to see the connection between taxing the site-value of land and taxing other environmental resources is more serious**. Although Hodgkinson accepts (p13) that economic analysis should define "land" to include our whole natural environment, he then suggests (p18) that, since air, water and sunshine "are free goods, effectively in infinite supply, a more useful definition would limit land to the surface of the earth and finite natural resources above and below it, like minerals and, perhaps, air space."

The fact is that air and water are no longer in infinite supply, because of rising local, national and global demand for fresh water, and for the productive resources of the seas and oceans, and their use - and the atmosphere's use - as sinks for wastes and pollution (eg carbon). **The money value of using them has risen well above zero** and can be taxed (or traded). The **case for capturing it as public revenue** - global, national or local - is the same as for capturing land site-value: people and organisations, who have not themselves created those values but benefit monetarily from them or deprive others from benefiting, should pay for them - and enable existing inefficient and unjust taxes to be reduced.

Third is a **vital question about language and definition**. Like most supporters of land value tax, Hodgkinson relies on Adam Smith's and Ricardo's esoteric classical concept of "economic rent". That differs from the normal **meaning of "rent"** as payment to a landlord, and is not easily applied to environmental taxation. So it obscures the rationale for these taxes in the public mind. It is more convincingly explained as making people pay for the value they take from common resources.

Fourth, the term **"free land"** could mislead people into thinking that land with a capital value of zero - because its annual value is paid over to the state - will become freely accessible to all. Similarly **"free credit"** might seem to mean that credit will become another free good, effectively in infinite supply and available to all at no cost. Although monetary reform will benefit most people in other important ways, that would not be one of its outcomes. These key questions of definition and terminology need further practical clarification, along with the concepts of "capital", "profit", "wealth", "risk", etc, which are dealt with in the book.

Finally, Hodgkinson says he has striven **"to avoid value judgements in the interests of social science"**. But his emphasis on recognising natural law as essential to a well-founded science of economics that understands work, land, co-operation, capital, credit, and surplus as a basis for freedom and justice, **surely reflects a value judgement**.

Since economics declared its independence from moral philosophy as an academic discipline about a hundred years ago, it has claimed to be an objective science. **That was always a spurious claim.** Economics is a body of understanding and analysis based on a calculus of values (money);

and that has been developed over the centuries to serve the interests of powerful and wealthy men. How could it possibly be an objective science? It needs to be recognised for what it is for: to investigate what should be done. And that requires value judgements.

"Don't confuse economics with ethics", as economics students are instructed, reflects **"the lie in the soul" of today's economics discipline**. "A New Model of the Economy" is an important step toward a **more radical reappraisal**.