**The philosophy of economics**

*Economics is the only social science recognised by the Nobel committee of Sweden‘s Central Bank. Each year one or more economists receive the Nobel Prize for economics. Yet, economics is quite different from the natural sciences, such as physics and chemistry; both based upon the laws of nature. This raises the question on what basis economics rests?*

When I studied economics, little attention was paid to the philosophy of the subject matter. We were instructed to understand the dynamics of supply and demand, and their respective influence on the formation of prices. We learned what measurements there were on the distribution of income and wealth. And, regarding business economics, we learned how to distinguish between cost- and sales price, and by which methods machines and other capital goods could be depreciated.

But we learned nothing about what was *behind* all these models and notions. In other words: on which philosophy is economics based? Why, for example, pay attention to economic growth? After all, growth is a means to an end; the end being better welfare, more stability and happiness of a society; *that* - in the end- is what economics should be about.

Now that I have studied economics a bit deeper, I discovered a few things which I did not learn in college. For example, Adam Smith, the father of economics, was not an economist; he was a philosopher. Apart from his *Wealth of Nations* (1776), Smith is also famous for having written *The Theory of Moral Sentiments,* which he published way back in 1759. This book provided the moral basis for the *Wealth of Nations*. Its message was that people, through serving their own economic interest, also serve society at large.

It struck me that especially after anomalies or economic downturns, economists published books that were critical of the prevailing economic system. Karl Marx comes to mind. He criticised the exploitative nature of ruthless capitalists during the Industrial Revolution’s heyday. He predicted that capitalism would collapse. After the Great Depression of the 1930s, Joseph Schumpeter published *Capitalism, Socialism and Democracy* (1942). Although certainly not a Marxist, Schumpeter argued that it would be quite possible that capitalism would collapse and be replaced by socialism. After all, capitalism had failed miserably during the Great Depression, as millions of people lost their jobs, poverty was rife, and there seemed no end to the misery.

I find John Maynard Keynes more interesting than Marx and Schumpeter. He was not after the collapse of the capitalist system. Keynes intended to save capitalism from its downfall. However, he was very critical of capitalism’s perverse aspects. For example, he writes in *The* *General Theory of Employment, Interest and Money* (1936), that lowering of interest rates would mean the ‘euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity value of capital’. True, even Marx could have observed this. But Keynes – unlike Marx - was not in favour of killing capitalism. His aim was to rid capitalism of its faults in order to ensure full employment, and a more equitable distribution of wealth and incomes.

Keynes proposed fiscal and monetary instruments applied by governments to effectively counter the Great Depression. So, he developed the economic *means* to achieve the *ends* which he clearly had in mind: full employment and, indeed, a more equitable distribution of income and wealth. Once these were secured, Keynes added, communism and fascism would lose their appeal.

All economists I just mentioned analysed the economy based on their particular political philosophy. Hence it depends of the philosophy of the economist concerned how economic problems are perceived and what solutions are offered. While Keynes accorded a prominent role for government to counter a recession, Milton Friedman, by contrast, argued in *Capitalism and Freedom* (1962) that governments are doing more harm than good to the economy. He strongly felt that the market should be counted on to, for example, counter depressions. Friedman believed that only the market system was able to restore equilibrium in the economy. More recently, Thomas Piketty criticised in *Capital in the Twenty-fist Century* (2014) modern capitalism for widening the gap between the haves and havenots, triggering social and political instability.

By and large, mainstream economists can be divided in neo-Keynesians and supporters of Friedman’s neoclassical economic philosophy. They used to have one thing in common: a disdain for their opponents’ views. Keynes once characterised his opponents as ‘incompetent bunglers’. But nowadays economists are gradually acknowledging useful elements in each other’s theories. So there is progress.

However, economics still differs from the natural sciences. Physics and chemistry base their analyses on the same unchanging laws of nature. By contrast, economies are unpredictable, as more than only purely economic influences are at play, ranging from political and demographic developments to climate change. My advice to the reader is to take this difference into consideration when listening to what economists propose.

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