Philosophy of Economics and Politics

Lecture I, 12 October 2015

Julian Reiss
Agenda for today

- What this module aims to achieve
- What is ‘philosophy of economics and politics’ and why should we care?
- Overview of module topics, deadlines etc.
Module objectives

This module seeks to understand and critically discuss the linkages between philosophy, politics and economics by

- examining some theoretical foundations of economics and political science;
- examining the methodological challenges posed by studying society; and
- examining certain ethical issues that confront socio-economic policy makers today
Module objectives

Important: I am not trying to convey any specific view on economics or politics here.

Rather, I aim to provide philosophical tools with which you should be able to make up your own mind about these matters in a more reflective and well-reasoned manner.

As regards me, you may end up as a left-wing economics basher or libertarian free marketeer to bone; but you should know to what extent your views are and can be evidenced and how well-reasoned your normative points of view are.
What is philosophy of economics and politics?

- A three-partite distinction of the Stoics is still relevant for us today; this module studies:
  
  - **Logic**: How to reason about the social world – how to *explain* social phenomena, how to *measure* facts about them, how to *learn* about their causes;
  
  - **Physics**: Obviously, social science doesn’t study *nature* but the *social world*. But social scientists do want to learn what social phenomena there are, why they are there and what they are composed of. The concepts of *reason*, of *social causation* and of *causal mechanism* are important in this context.
  
  - **Ethics**: About half of the content of this module is about how things ought to be; how *values* enter scientific discourse; what the *good* for individuals is; which distributions are *just*; whether there are *moral limits to the market*; how to do socio-economic *policy*. 
Let’s focus on the relation between economics and philosophy for a moment...

- Aren’t economics and philosophy two completely different kinds of thing?
- Specifically, aren’t economists cold-blooded money grubbers, and philosophers somewhat naive and idealistic heads-in-the-clouds?
Beyond the stereotypes: Hume’s Fork

- There is more to the divide between economics and philosophy than those stereotypes.
- There is a long tradition that goes back to at least David Hume according to which certain kinds of knowledge are privileged, more certain or reliable than others.
- The so-called Hume’s fork is an expression of this thought: according to Hume, all our genuine knowledge is either a ‘matter of fact’ and as such verifiable by observation or a logical or mathematical truth and as such verifiable by thinking.
- Everything that is not true as a matter of logic or verifiable by observation was at best second-class knowledge or at worst meaningless mumbo jumbo.
Ethics and metaphysics

- The problem with Hume’s view is that if we followed him to the letter, much of what we believe turns out to be dogma – as opposed to knowledge.

- Importantly for us, especially ethical statements, and statements about unobservable states of affairs seem to be ruled out.

- But can’t we have knowledge about:
  - Whether unjustified killing is \textit{wrong}?  
  - Whether we \textit{ought} to provide development aid for the poor?  
  - Whether the financial crisis \textit{would have happened} had China not entered the world market?  
  - Or whether increases in the money stock \textit{cause} inflation?
Scientists (influenced by Hume/empiricism), economists included, have traditionally tried to stay on the safe side of this divide, leaving the more speculative side to the philosophers (Hume thought of himself as the ‘Newton of the mind’)

<table>
<thead>
<tr>
<th>Is</th>
<th>Observable</th>
<th>Speculative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Economists deal in facts that</td>
<td>Philosophers speculate about the ultimate constituents of being: cause,</td>
</tr>
<tr>
<td></td>
<td>are established by evidence</td>
<td>counterfactual, law of nature</td>
</tr>
<tr>
<td>Ought</td>
<td>(To the extent that economists</td>
<td>Philosophers (ethicists) speculate about what’s right and wrong</td>
</tr>
<tr>
<td></td>
<td>deal with values, these are</td>
<td></td>
</tr>
<tr>
<td></td>
<td>consumers’ evaluations manifest in choice)</td>
<td></td>
</tr>
</tbody>
</table>
Economics and philosophy getting closer...

- But in recent years, developments in both economics and philosophy have helped to tear these dichotomies down.
- Economists have realised that they cannot do economics properly without making value judgements qua economists (Amartya Sen’s work has been instrumental in this respect).
- They are also now actively contributing to debates traditionally deemed ‘metaphysical’ such as the notion of cause and how to evaluate counterfactuals (because they realised they need them for policy: James Heckman).
Philosophers, in turn, have begun to take science more seriously and to regard their own work as being continuous with science.

In recent years many philosophers (who aren’t interested in economics as such) have used formal tools that originated in economics – especially in ethics, political philosophy, action theory and social ontology.

And philosophers of science have moved away from treating science in a highly idealised, stylised way and have become specialists in one or the other domain:

- Philosophy of physics, philosophy of chemistry
- Philosophy of the biomedical sciences
- Philosophy of the economic and social sciences

Some representatives of this ‘new’ way of doing philosophy contribute to both fields (in P&E: Kevin Hoover, Dan Hausman, Robert Sugden, Nancy Cartwright, Sen, myself...).
In fact, these ‘new philosopher-economists’ just continue a tradition that goes back to the origins of the discipline:

- Aristotle: arguably most important philosopher of all time, was also the ‘inventor’ of economics
- David Hume: contributions to monetary theory, theory of interest rates and trade, especially the quantity theory of money
- Adam Smith: first modern economist; other, equally important work: *Theory of Moral Sentiments*
- John Stuart Mill: great 19th century British philosopher; most important textbook for 40 years: *Principles of Political Economy* (economies of scale, opportunity costs, comparative advantage)
- William Stanley Jevons: one of the 3 ‘marginalists’; contributions to logic and philosophy of science
- (John Maynard Keynes): ‘inventor’ of macroeconomics; famous theory of probability
Enter Politics

- This module is political through and through, and has been designed to be so.
- As a philosopher of economics I have always been interested in those aspects of (applied) economics that have policy relevance: FCC auctions, CPI controversy, how to learn causal relations that can be exploited for policy etc. etc.
- Early on, I also discovered that economics cannot be done without value judgements; a good economist has to be a good political philosopher and ethicist!
- It is therefore that about half of the lectures and tutorials are on political philosophy and ethics topics.
Further: political scientists face very similar philosophical/methodological issues as economists:

- Rational-choice and game theory are important tools in political science
- Political researchers explain causally, using knowledge about causal mechanisms
- All methods I discuss here have counterparts in policy research: measurement; regression/natural experiments; randomised and non-randomised experiments
- All readings for the tutorials in the ‘theory’ and ‘methodology’ parts of the module focus on political science
In sum...

- This module aims to provide some philosophical tools to:
  
  - better explain socio-economic events such as the financial crisis
  
  - improve the methodology of describing, predicting and preventing such events
  
  - reflect on their profession ethically

- Questions concerning scientific explanation, methodology and ethics are all questions that fall into the intersection of philosophy, policy and economics
Module Guide and Readings

✧ Please read the Module Guide (on DUO)

✧ The course text is my book *Philosophy of Economics* (New York: Routledge 2013); available from Waterstones

✧ Additional readings:
  
  ✧ For lectures/tutorials on DUO
  
  ✧ For in-depth study on [http://jreiss.org/jreiss.org/Resources.html](http://jreiss.org/jreiss.org/Resources.html)
  
  ✧ A good starting point for research on many topics is the relevant Stanford Encyclopedia entry
Module Organisation

- … essentially follows the book, so there are 3 parts
  - Part I: ‘Theory’ (Explanation, Rationality, Causality)
    - Lecture 2: Scientific Explanation
    - Lecture 3: Rational Choice Theory
    - Lecture 4: Game Theory
    - Lecture 5: Causation
    - Lecture 6: Causal Mechanisms
  - Interlude: Models in Economics and Political Science (Lecture 7)
Module Organisation

- Part II: ‘Methodology’
  - Lecture 8: Measurement and Socio-Economic Indicators
  - Lecture 9: Regression and Natural Experiments
  - Lecture 10: Laboratory Experiments
  - Lecture 11: Evidence-Based Policy and Randomised Experiments
- Interlude: The Entanglement of Fact and Value (Lecture 12)
Module Organisation

- Part III: ‘Ethics’
  - Lecture 14: Welfare and Wellbeing
  - Lecture 15: Markets and Morals I (The Moral Limits of the Market)
  - Lecture 16: Markets and Morals II (The Ethics of Incentives)
  - Lecture 17: Markets and Morals III (The Ethical Foundations of Capitalism)
  - Lecture 18: Justice I (Principles of Distributive Justice)
  - Lecture 19: Justice II (Bleeding Heart Libertarianism/Republicanism)
  - Lecture 20: Justice III (Virtue-Theoretic Approaches to Justice)
  - Lecture 21: Libertarian Paternalism
Module Organisation

Assessment:
- 1 Summative Essay (40%) in Easter
- Exam in June (60%)

The exam is somewhat non-standard in Durham Philosophy:
- 40 questions that cover all lectures and tutorials; anything from the compulsory readings can be addressed
- Normally short answers
- Answers are true or false rather than good/clear/relevant etc.
- We’ll discuss one or a couple of exam questions in each lecture

Today, for instance, I might have asked: ‘Give two examples of historical (pre-World War II) economists who are mainly known as philosophers.’
Important Dates

❖ Formative essay due: January 18, 2016
❖ Revision and Feedback Lecture: February 1, 2016
❖ Feedback Tutorial: February 2 / February 9
❖ Summative essay due: April 25, 2016
❖ Revision and Feedback Lecture: May 7, 2016
Contact

✧ My office hours are Mondays just before class (3-4PM)
✧ Location: 51 Old Elvet, Room 206
✧ Or catch me after class
Outlook

- For next week, get the book and read Chs 1 and 2
- Topic next week: ‘Scientific Explanation’
- I shall presuppose that the required readings have been done
- Monday classes are aimed to be interactive, based on group work, discussion of case studies etc.