

Opinion **Unhedged**

The essence of economics

Why write about markets at all?

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Good morning. Americans: hope you had a restful and reflective Thanksgiving break. Readers elsewhere: hope you didn't miss us too badly. Today, something a bit unusual for Unhedged. If it inspires thoughts, please do send them along: unhedged@ft.com.

The 'atomic fact' of economics

A person of even middling intelligence who writes about markets will experience moments of acute self-doubt. I can map and predict the behaviour of markets — and more broadly, economies — in only the most gross and approximate way. I formulate general ideas only to see them trampled by the facts. My best rules of thumb are only that. What is it, exactly, that I do all day?

Ruminating on this unpleasant state of affairs, I started thinking about this [passage](#) from the [lectures](#) of the physicist Richard Feynman:

If, in some cataclysm, all of scientific knowledge were to be destroyed, and only one sentence passed on to the next generations of creatures, what statement would contain the most information in the fewest words? I believe it is the *atomic hypothesis* (or the *atomic fact*, or whatever you wish to call it) that *all things are made of atoms — little particles that move around in perpetual motion, attracting each other when they are a little distance apart, but repelling upon being squeezed into one another*. In that one sentence, you will see, there is an *enormous* amount of information about the world, if just a little imagination and thinking are applied.

Let's restrict Feynman's exercise to economics (of which I take the study of markets to be a subspecies). What sentence would we pass on to the post-cataclysm world that would help them rebuild the structure of economic thought? What is the "atomic fact" of economics?

I hope readers will stop here, look away from their screens, and think a bit about the sentence they would offer; I'm about to tell you my sentence, and the sentences of a bunch of much cleverer people I put this question to. They will all be more interesting to read if you have your own answer in mind first.

Ready?

My sentence is "Don't think zero sum." I hope this captures, in four words, the big [revolution](#) in thought in 17th and 18th century Europe, which gave us the idea that commerce, rightly structured, is mutually beneficial and has lots of good side effects for society. We are not fighting over a fixed amount of wealth, labour is not a lump, and so on.

Several of my correspondents clustered around similar notions of *mutual benefit*, but each gave it a meaningfully different spin. My colleague **Rana Foroohar** thinks that economics ought to be about overcoming the tragedy of the commons, so her sentence is "we are all connected". In the same vein, **Jason Furman** of Harvard goes for simplicity and specificity: "There are gains from trade." **Ed Al-Hussainy** of Columbia Threadneedle went broad: "Growth, progress, and prosperity are possible."

That economics is grounded in attention to *incentives* was another thread in many of the responses. **Tyler Cowen** of George Mason University wins the brevity prize, at two words, for "Incentives matter." My colleague **Martin Wolf** responded with the very same two words, but came back to add five more: "Incentives matter, and there's no free lunch." **Giles Wilkes**, once my colleague on the Lex Column and former special adviser to the UK government, was more droll: "To work out what will happen, start with what everyone wants, and a good first approximation is money." **Eswar Prasad** of Cornell mixed attention to incentives with the need to channel them for good: "Human beings respond to incentives; the challenge is in figuring out what incentives work best and how to structure them in a transparent and comprehensible manner."

Several friends took a step back and made *methodological* rather than positive points: FT economics commentator **Chris Giles** offered: "Remember, economics is the study of how the world works AND how to make it a better place; start with that and you will be on the right track." **Andrew Smithers** proposed a commandment that applies to all sciences: "Pursue truth wherever it leads and ignore the contrary views of authority."

Other respondents focused on the primacy of *markets*. **Olivier Blanchard** of the Peterson Institute was very plain: “Rely on markets to organise transactions.” Princeton’s **Atif Mian** echoed Prasad, emphasising that markets are to be harnessed: “The most fundamental force is price, but harnessing it best requires a tough balance between the individual and the collective.” **Brendan Greeley** of the FT and Princeton was firmly prescriptive: “Free movement: people usually, goods sometimes, capital almost never.”

A final, rather looser school of thought that something about *optimising under scarcity* is essential to economic thought. **Torsten Sløk** of Apollo was declarative: “Resources are finite, wants are infinite and choices have costs.” FT columnist **Martin Sandbu** expanded on the idea: “Individuals attempt to do the best they can given the costs they face; what those costs are is in turn partly shaped by those multitudes of attempts; and we can discover empirical regularities in both directions.” **Freya Beamish** of TS Lombard framed the point about allocation of resources in what stuck me as a quite Keynesian way, and then tied the idea back to mutual benefit: “Convince your rulers to issue IOUs when you all must save, to use them not only for battles but also bridges, to tax when you all are spending, and to accept their own IOUs as payment, and then you may learn that peace is more than the space between wars.”

Almost all the responses, it seems to me, touched on the special status of economics as a science that must both advance knowledge but is also expected to improve the welfare of human beings. This normative aspect gives economics a strong philosophical undercurrent many other sciences, even other social sciences, do not share.

I would be very keen to hear more suggestions from readers (especially, if I may say so, from female readers — for some reason, my response rate among female economists was low, as the results above regrettably show!).

One good read

A [prescient book](#).