

## Frank Knight and Original Sin\*

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### *Abstract*

Frank Knight was the key person in founding the Chicago school of economics. In this respect he was a seminal figure in the history of twentieth century economics. Yet, few current economists know much about Knight. After his early success in 1921 with Risk, Uncertainty and Profit – Knight's work best known to current economists -- he wrote more in the manner of a moral philosopher than an economic scientist. This paper examines the thinking of the later Knight, the approach to social analysis that he adopted for most of career and including all of his years in the Chicago economics department. Knight was known for his antagonism to traditional Christian religion. Yet, penetrating only slightly below the surface, his thinking is revealed to follow closely in a Christian mode. Indeed, Knight's moral philosophy was a secular form of Calvinism. Rather than the pursuit of pleasure, human actions are driven by the fallen character of human nature since the expulsion from the Garden of Eden. Rather than maximization of utility, Knight's writings depict a world in which a more fundamental force in human behavior and events is a secular equivalent of original sin. As Knight developed the implications of this world view, he increasingly rejected the scientific management approaches of the mainstream of the economics profession and instead worked out his own brand of libertarian philosophy – anticipating and influencing later libertarian directions of thought that would emerge at Chicago

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Many people would say that John Maynard Keynes had more impact on the history of the twentieth century than any other economist. Yet, it would not be farfetched to suggest that Frank Knight could be ranked with Keynes in this regard. The manner of their influence, to be sure, was altogether different. Besides writing The General Theory, Keynes circulated his policy advice at the highest levels of the British government and had a great ability to influence public opinion through his popular writings. Knight entirely lacked these qualities. His great impact on the world was, remarkably enough, as a teacher. Indeed, the history of the Chicago school of economics begins with Frank Knight. It is quite possible that the Chicago school would never have existed, if Frank Knight had never taught in the economics department there. Given the subsequent extraordinary impact of Chicago economics on the world, it is fair to say that the source for this Chicago impact can in some real sense be traced back to Frank Knight.\*

Knight's greatness as a teacher was not as an inspirational lecturer or in instilling any specific body of knowledge in the students and younger faculty who passed through the Chicago department. Indeed, beyond the common antagonism of most leading members of the Chicago school to plans for the scientific management of society through government, much of what Knight believed would later be rejected by his followers in the Chicago school. Knight's greatest

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\* According to Melvin Reder, "the personal affection and mutual esteem in which Knight and his proteges held one another facilitated the collaborative efforts of the latter. The informal but very effective promotional aspect of the Chicago School sprang from the affinity group of Knight's students and proteges that formed in the middle 1930s. The principal members of this group were Milton and Rose Director Friedman, George Stigler, Allen Wallis, and Henry Simons." As a result, "the 'baton passer' of the initial Chicago group ... was Knight." See Melvin W. Reder, "Chicago Economics: Permanence and Change," Journal of Economic Literature (March 1982), pp. 6-7.

source of influence was in a spirit of radical questioning that he inculcated. Almost in the manner of Socrates, Knight was a doubter of every orthodoxy, often extending this attitude to his own arguments.<sup>1</sup> As George Stigler has commented, Knight was the original source of the Chicago tradition that "great reputation and high office deserve little respect." At Chicago students were taught a "studied irreverence toward authority" which had a "special slant: contemporary ideas were to be treated even more skeptically than those of earlier periods."<sup>2</sup> Following after Knight, Chicago economists like Milton Friedman, George Stigler, Ronald Coase, Gary Becker, and others would all show a great independence of mind. Chicago economists have consistently exhibited a courage to advance ideas that at least initially might be offensive if not outrageous to much of conventional opinion -- including in many cases the economic mainstream of American society.

Yet, much that was initially rejected is now the conventional wisdom. All in all, the impact of the Chicago school not only on American economics but all American social science and government is nothing short of astonishing. Since 1975, there have been 13 winners of the Nobel Prize in economics who have had some close connection, either as faculty members or recipients of Ph.D. degrees, with the University of Chicago. In the 1990s, 7 out of the 17 Nobel prizes awarded in economics (some years there were multiple awards) -- and including Ronald Coase (1991), Gary Becker (1992), and Robert Lucas (1995) -- have been past or present (mostly) faculty members at Chicago.\*

### Frank Knight and Chicago

Knight came to the Chicago economics department in 1927 and remained an active

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\* Other present or past Chicago economists who won Nobel prizes in the 1990s were

member well past his retirement from full time teaching duties in 1951 and until his death in 1972. Stigler wrote his Ph.D. thesis under Knight, and Friedman was a Knight student in the 1930s, later describing him as "our great and revered teacher."<sup>3</sup> As the old saying went at Chicago, "there is no God, but Frank Knight is his prophet."<sup>4</sup>

Coase once related that he could conceive of himself matching the achievements of many of the leading members of the economics profession but that "I simply cannot imagine myself to be like Frank Knight. I guess that amounts to saying that Knight is a genius." In a reminiscence on his years as a graduate student taking courses with Knight in the 1940s, Don Patinkin commented that Knight frequently spoke in a "rambling and often obscure manner." Yet, the demands he made of his students and the range of his thought meant that he was still "a great teacher," whose lessons would continue to guide his students in their "thinking many years later."<sup>5</sup> James Buchanan, who studied under Knight in the 1940s, would later observe that "I find myself confronted time and again with Knight's much earlier and more sophisticated statement of the same thing [as I have later said]. It is as if on rereading Knight I am retracing the sources of my own thoughts, which themselves have somehow emerged without conscious recognition that they are derived from him."<sup>6</sup>

Knight did not consider himself a Christian -- indeed, he was famous for his antagonism to traditional religion.<sup>7</sup> Yet, he joined with a theologian to publish a book (each author wrote separate sections) on The Economic Order and Religion.<sup>8</sup> When the time came to deliver his presidential address to the American Economic Association in 1951, Knight self consciously labelled it his "sermon" to the profession.<sup>9</sup> In teaching his economics courses, as Patinkin

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Merton Miller (1990), Robert Fogel (1993), Myron Scholes (1997) and Robert Mundell (1999).

observed, Knight was prone to engage in "long digressions on the nature of man and society -- and God."<sup>10</sup> The core social and economic problem in Knight's view was one of "discovery and definition of values -- a moral, not to say a religious, problem," which stood in great contrast to the progressive aspirations for "value-free" scientific management of society.<sup>11</sup>

Knight is best known to most economists today for his influential 1921 book, Risk, Uncertainty and Profit.<sup>12</sup> He undertook there one of the first systematic explorations of a subject that has since become more central to economic theory, the impact of information uncertainties as a determining factor in the organization of industry.<sup>13</sup> However, Knight would soon move on to become more of a moral philosopher than a micro-economist.<sup>14</sup> Although current economists typically know less about this side of Knight, it was in this role that the key figures in the Chicago school of economics encountered him and in which he exerted his greatest influence on its future development.

If the ethics of self-interest is the core moral/religious problem for economics, Knight's way of thinking about the place of self-interest in society was in great contrast to that of most of his fellow economists. Knight doubted that there could be any possibility of the scientific management of society, through the manipulation of self-interest in the market, or otherwise. Human reason, he believed, was a frail instrument, often corrupted by the baser elements in human nature. He thought, in contrast to the great majority of economists of his time, that the economic problem in society was in the end a religious problem. The defense of freedom -- including the opportunity to express self-interest in the market -- must rest not on a scientific demonstration but upon an adequate moral/philosophical foundation.

For Knight that foundation lay in the central moral importance he ascribed to individual

liberty. Knight had a strong libertarian strain, the beginnings of a powerful libertarian influence that continues at Chicago to the present time. Yet, he did not believe that individuals could exist independent of a grounding in some culture or society -- human beings, he thought, were social by nature. Everyone had to be grounded in some cultural system, historically including religion as a main source of group identity. Nevertheless, given the inevitable wide range of religious views and the potential for strong disagreements, the market provided a place where people from different creeds could come together for voluntary exchange and mutual benefit, an alternative much preferable to the wars and other terrible conflicts of past human history, often the most destructive when fought in the name of religion.

If Knight's views were unusual for an economist of his time, they were less novel than it appeared to many of his professional contemporaries. Indeed, if now taking a secular form, Knight was expressing a classic Christian view of fallen man, beset by original sin. In a longstanding Christian tradition (if not the only such tradition), the existence of private property and the marketplace has been seen as an unfortunate but necessary concession to the pervasive presence of evil in the world. In the past in the Garden of Eden and in the future in heaven there will be no private property (or government as well). In the current world infected by sin, it is simply that private property and the pursuit of profit are the best way to maintain a semblance of order in society. As Richard Schlatter explains, there has been a longstanding view in Christianity that "since the Fall [in the Garden] the natures of men, all of them depraved, make necessary instruments of social domination. The division of property, which gives some men a power over the lives of others, is one such instrument."<sup>15</sup>

For Knight, even a priesthood -- of economists or otherwise -- could not be exempt from

the general human condition; the professional experts will be sinners as well. Knight is the beginning of a fundamental break of the Chicago school with the economic mainstream of the time, a new assumption that self-interest will be expressed not only in the marketplace but in the actions of government and indeed perhaps in every area of society. It is a secular form of an old view, characteristic of Calvin and other Protestant Reformers, that sin has fundamentally invaded every aspect of human existence. While Roman Catholic theologians also recognized the centrality of sin in the world, they tended to show considerably greater faith in human reason and in the possibilities for rational striving towards improvement in the human condition.

### Deluded Progressives

The key economist in the founding of the American Economic Association, Richard Ely, argued early in his career (he later would be more cautious in his rhetoric, although the core values would not change much) that the organizing principle of social behavior should be the biblical commandment that "Thou shalt love thy neighbor as thyself." Thus, it was impossible to both "serve God and mammon; for the ruling motive of the one service -- egotism, selfishness -- is the opposite of the ruling motive of the other -- altruism, devotion to others, consecration of heart, soul and intellect to the service of others." For Ely in the social gospel phase of his life in the 1880s and 1890s the chief motivating force in the world -- even in labor and business -- must be "love" of fellow human beings, rather than the "self-interest" long favored by most economists.<sup>16</sup>

Ely's attitudes in this respect were in fact representative of many leading intellectuals of the American progressive movement (commonly dated from 1890 to 1920), often associated with the social gospel movement.<sup>17</sup> For Knight, this was just one example of how progressive

intellectuals had substituted "romantic" thinking for a realistic approach to the human condition.\*

It is impossible, he says, to conceive of the application of "the 'love' doctrine" as a guiding economic principle "over, say, the population of a modern nation -- and, of course, it must ultimately be over the world since, for a world religion [like Christianity], national boundaries have no moral significance."<sup>18</sup>

Similarly, Knight strongly rejected the economic determinism characteristic of American progressive thought and the resulting hopes for a radical improvement in the condition of the world (perhaps attaining a state of affairs where "love" would in fact rule), if the economic problem could ever be finally solved. As he stated, "there is no reason to believe that if all properly economic problems were solved once for all through a fairy gift to every individual of the power to work physical miracles, the social struggle and strife would either be reduced in amount or intensity, or essentially changed in form, to say nothing of improvement -- in the absence of some moral revolution which could by no means be assumed to follow in consequence of the change itself."<sup>19</sup> Thus, as Knight sees matters, a core assumption of the progressive gospel -- that economic events are the driving forces in history -- is a serious misreading of the human condition. The presence of sin in the world can not be abolished so easily as by the mere achievement of a state of great material abundance. As Knight once put the matter:

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\* This kind of thinking was still widespread in Christian social reform circles even in the late twentieth century. Max Stackhouse and Dennis McCann comment that "all too many religious leaders still cling to the belief that capitalism is greedy, individualistic, exploitative and failing; that socialism is generous, community-affirming, equitable and coming; and that the transition from the one to the other is what God is doing in the world." See Max L. Stackhouse and Dennis P. McCann, "A Postcommunist Manifesto: Public Theology After the Collapse of Socialism," The Christian Century, January 16, 1991, p. 44.



The idea that the social problem is essentially or primarily economic, in the sense that social action may be concentrated on the economic aspect and other aspects left to take care of themselves, is a fallacy, and to outgrow this fallacy is one of the conditions of progress toward a real solution of the social problem as a whole, including the economic aspect itself. Examination will show that while many conflicts which seem to have a non-economic character are "really" economic, it is just as true that what is called "economic" conflict is "really" rooted in other interests and other forms of rivalry, and that these would remain unabated after any conceivable change in the sphere of economics alone.<sup>20</sup>

In the grand scheme of things, rather than "love," and if one motive had to be emphasized, this motive for Knight would be "power." The "solemn fact is that what people most commonly want for themselves is their 'own way,' as such, or especially power."<sup>21</sup> Knight's sometimes chastised free-market economists including his own Chicago colleagues for putting too much emphasis on standard economic motives. In their thinking "the main argument for laissez-faire was instrumental,... it was intended to increase efficiency" -- not so very different in this respect from the progressive "gospel of efficiency." For Knight, freedom instead means a maximum of power for an individual to control his or her own actions, and this must be "an end or value in itself," not something merely "instrumental to efficiency."<sup>22</sup> It was closer to a libertarian than a mainstream economic way of thinking.

Indeed, separating himself clearly from the economic mainstream of his time, Knight believes that "men actually prefer freedom to efficiency, within limits; and both our highest ideals and our laws and institutions recognize that they ought to do so if they do not." Knight is even prepared to argue that people "may even rightly be forced to be free."<sup>23</sup> To submit to power is for Knight to succumb to the temptations of a modern devil -- to chose sin over salvation. No one can be allowed, any more in modern times than in days of old, to make this choice.

For Knight – somewhat paradoxically, in light of the obvious powerful influence of

Christianity on his own thinking -- one of the main threats to freedom was found in the Christian religion.<sup>24</sup> Indeed, the "history of Christianity" shows that the role of its teachings "has been to sanction established morality, law, and authority, not reform, at least in any constructive or progressive sense." In the middle ages, the Roman Catholic "church became a theocracy" and demonstrated as much concern for preserving its own power as any kings or other secular authorities.<sup>25</sup> Once in power, Christianity forgot all its core messages of love of fellow human beings and became a "violently intolerant" religion, given to episodes of fierce persecution of heresy and oppression of perceived enemies. Knight noted the "familiar fact" that over many centuries "the Church never condemned or officially opposed slavery."<sup>26</sup>

If the progressive views of the mainstream of the economics profession followed in the natural law tradition of emphasizing a rational world, Knight was particularly hostile to the ideas of natural law that have been central to much of the development of Catholic theology over the centuries. Knight never made any secret of his special dislike for the Catholic Church. Natural law concepts, he argued, had been "bandied about since the earliest beginnings of the European intellectual tradition" but they had mainly served "to beg the question in favor of any position which a particular writer or school happened to wish to defend or promote." At one time or another, rigid social castes, rule by absolute authority and various other forms of oppression had been declared by leading theologians of the time to be in conformance with the laws of nature. As Knight thus considered, "natural law has served as a defense for any existing order against any change and as an argument for change in any direction."<sup>27</sup> The whole concept of natural law, in short, was for Knight nothing short of an intellectual scandal -- the perversion of reason rather than its reaching to the greatest heights.

## Scientific Oppression

If the Christian religion had often been false to its own founding principles, in the modern age the Christian churches were no longer the greatest threat to human freedom. As Knight explained, even as Christianity was much weakened in our own time, we now confronted a new "milieu in which science as such is a religion."<sup>28</sup> Knight would write in 1947 that the newer forms of religion promoted a "gospel" that involved a kind of "salvation by science," following in the path of the old natural law theories that promised a path to salvation by following God's laws.<sup>29</sup> The progressive follies of his day thus followed in a long tradition of religious pandering to power and oppression in the name of the human faculty of reason.<sup>30</sup>

The "plea of communism," Knight argues, with its claims to scientific authority, is much "like that of Christianity;" both asserting unique access to final truth and in this way justifying "absolute authority, ignoring freedom."<sup>31</sup> Communism is only one of the species of modern totalitarianisms, each of which offers "a priesthood as the custodian of [scientific] Truth, 'conditioning' each generation in helpless infancy to unquestioning belief." These new modern forms of scientific authoritarianism drew on "an inheritance" from earlier Christian traditions of "conformity to a sacred law and obedience to consecrated authority, Holy Mother Church and Holy Father King."<sup>32</sup>

Knight saw great danger in the tendency of most social scientists to believe that human behavior is rationally explainable in terms of behavioral laws and principles analogous to the laws discovered by the physical sciences.<sup>33</sup> It would serve merely to open the way to the expression of less exalted motives: "Any attempt at use of the unqualified procedures of natural science in solving problems of human relations is just another name for a struggle for power,

ultimately a completely lawless one."<sup>34</sup> If the construction of a dam to control a raging river depended on knowledge of physical science, the advocates of the "scientific management" of society sought to employ social science to bring human actions under similar control.<sup>35</sup> Given the frailties of the political arrangements by which human beings governed themselves, and the unruly character of human nature, the end of human freedom was likely to be among the consequences. The grand schemes of American progressive economists – increasingly dominant in the mainstream of the profession in the years after World War II -- were based on an assumption that the world is a rational place but they were bound to fail in the face of "human nature being as irrational as it is."<sup>36</sup>

Knight directed his barbs, for example, at a leading work of sociology published in 1947, one year before Paul Samuelson's introductory textbook Economics first appeared, and reflecting a value system similar to Samuelson's outlook expressed there. Much as Samuelson throughout his career would seek to convert economics to the methods of physics, the author of this best selling work of popular sociology, George Lundberg, believed that "the problems of personal life, social relations, and political and economic organization are of the same kind as the prediction and control of events in (non-human) nature and so will similarly yield gradually to the same mode of attack." In order to solve social problems, as Knight characterized Lundberg's views, all that is needed "is that intellectual leaders ... be converted to the scientific point of view," in order that "the social problem will be solved by the application of scientific method."<sup>37</sup>

Such thinking, however, as Knight labels it, is mere rationalist and "scientific propaganda."<sup>38</sup> Indeed, the "fetish of 'scientific method' in the study of society is one of the two most pernicious forms of romantic folly that are current among the educated" -- as bad as the

natural law follies of earlier Christian eras. The plain fact is that a fully rational "science of human behavior, in the literal sense, is impossible." Or again, as Knight writes, a "natural or positive science of human conduct" is "an absurdity."<sup>39</sup> A key reason a science of society is impossible is that the scientific analysis is not independent of the object under scrutiny. The very ideas of social scientists can themselves change the conception of society and thus alter the very character of the object being studied.

Moreover, even if a true science of society were possible, it not be desirable.<sup>40</sup> An individual whose behavior is perfectly and scientifically predictable is not a real human being. It is the element of self consciousness and the ability to choose -- the existence of "free will" in the classic Christian formulation -- that distinguishes us from the animal world. If all is as determinate as in biology, what is to separate a man or woman in moral terms from a dog or an insect.\* It may well be, Knight comments, "the idiot" who has the greatest amount of "happiness" among human beings, but the pursuit of this kind of pleasurable sensation "is not what makes human life worth while."<sup>41</sup> Many centuries earlier Martin Luther had similarly complained that the Roman Catholic Church had diminished its followers and endangered human freedom by encouraging the faithful to believe that life -- even in such fundamental matters as the attainment

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\* Among contemporary economists one finds the clearest echo of Knight's thinking in the writings of his former student, James Buchanan. Indeed, on many subjects Buchanan sounds remarkably similar. For example, Buchanan considers that a person who behaves strictly according to scientific laws "could not be concerned with choice at all." Indeed, it is "internally contradictory" to speak of individual "choice making under [scientific] certainty." If human dignity and freedom require the power to chose, if the ability to do either good or evil must be within the scope of individual decision making, then Buchanan believes that human behavior cannot be strictly determined by scientific rules. The scientific view of a human being as mechanical instrument denies a person his or her basic humanity. See James M. Buchanan, What Should Economists Do? (Indianapolis, Ind.: Liberty Press, 1979), p. 281.

of salvation in the hereafter -- could follow mechanical rules as set by the church hierarchy.

Rather, even if there is considerable truth to the idea that a human being is a biological entity governed by laws of physical nature, "we must [finally] understand ourselves and each other and act intelligently in relation to both, in other terms altogether." Hence, the rational methods of science -- yielding the legalistic decrees of any church, Roman, scientific or otherwise -- can hold "no clue to the answer to the essential problems of free society," and the living of lives of genuine "spiritual freedom."<sup>42</sup> In opposition to Roman Catholic theology, the Protestant Reformation made its watchword that salvation is "by faith alone," and faith is ultimately a mystery fathomable only to God. Even in the modern age a "free society" must act to "find norms somewhere outside the factual space-time world" with which the rational scientific method is concerned.

In these regards Knight thus was following in the tradition of old fashioned Protestant theology -- so contrary to the rationalism of contemporary economics -- that original sin would inevitably undermine any human efforts to achieve a systematic rationality in the world. One of Luther's favorite sayings was the message of St. Paul that "the flesh lusteth against the spirit and the spirit contrary to the flesh," and therefore "so that ye cannot do the things that ye would do."<sup>43</sup>

Knight's thinking thus adapts a characteristic Protestant skepticism of a world of beneficial human "works." He is opposed to the core ideas of American progressive thought -- found in such influential works as Samuelson's textbook Economics -- and the optimistic faith that the scientific management of society (a particular form of "works") is the path to a future perfection of human existence. Contrary to the rationalist theology of natural law, and now the mechanical prescriptions of science, no given set of rules will ever show the way to heaven, on

earth or otherwise. As seen by Ross Emmett, a leading contemporary interpreter of Knight's moral philosophy, his thinking reflects an underlying theological view of the basic economic choices facing any society:

In a society which has no recourse to the providential nature of a God who is present in human history, the provision of a justification for the way society works is a "theological" undertaking. Despite the fact that modern economists often forget it, their investigations of the universal problem of scarcity and its consequences for human behavior and social organization is a form of theological inquiry: in a world where there is no God, scarcity replaces moral evil as the central problem of theodicy, and the process of assigning value becomes the central problem of morality. Knight's (implicit) recognition of the theological nature of economic inquiry in this regard is one of the reasons for his rejection of positivism in economics and his insistence on the fundamentally normative and apologetic character of economics. In some sense, therefore, it is appropriate to say that Knight understood that his role in a society which did not or could not recognize the presence of God was similar to the role of a theologian in a society which explicitly acknowledged God's presence. As a student of society, he was obliged to contribute to society's discussion of the appropriate mechanisms for the coordination of individuals' actions, and to remind the members of society that their discussion could never be divorced from consideration of the type of society they wanted to create and the kind of people they wanted to become.<sup>44</sup>

### Rediscovering Original Sin

In the modern era there have been three main competing visions in the western world of the origins of human nature. First, there is the traditional Judeo-Christian view of human nature corrupted by original sin since the fall of man in the Garden of Eden, leading most men and women to lead lives of falsity, hatred, theft, lying and other forms of corruption of their truer and better natures. Second, there is the Darwinian view in which human nature is determined by a genetic inheritance that is the product of many thousands (or millions) of years of biological evolution -- and in which human nature is a form of behavior that has developed to promote the long run survival of the human species (any concepts of good and evil having no ultimate moral content but representing instruments of the workings of the evolutionary process). In the third

main view human nature is shaped by the current surrounding environment, predominantly the economic environment – and thus creating the possibility of human beings acting on their own to abolish poverty and other causes of bad behavior, and in this fashion eventually to perfect the conditions of existence on this earth.

A great iconoclast (might we say modern "protester" in the spirit of Luther and Calvin), Knight seemingly rejects all of these explanations for the existence of evil, grounded in a particular view of human nature. Yet, he also does not offer any explicit alternative of his own. One must read behind the lines to find Knight's real views of the human condition. Indeed, despite all his outward hostility to Christianity, Knight's own theology -- mainly expressed in an implicit fashion -- follows surprisingly closely in the Calvinist understanding of Christian faith.\* While any notion of an actual fall in the Garden of Eden might be a myth, human beings in Knight's view are in fact corrupt creatures whose actual behavior in the world corresponds closely to the biblical understanding of the consequences of original sin.\*\*

Knights system of thought is so far outside the assumptions of the economics mainstream

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\*. John Calvin was born in 1509 and followed soon after Martin Luther as a leading figure of the Protestant Reformation. Calvinists adopted a yet more radical version of Luther's complaints against the Roman Catholic Church. The Puritans in England were among the leading branches of Calvinism in Europe. Calvin died in 1564, a pivotal figure in the history of western religion. See William Bouwsma, John Calvin: A Sixteenth-Century Portrait (New York: Oxford University Press, 1988).

\*\* The Protestantism of the Reformation saw human behavior as especially corrupted by original sin -- thus precluding any prospect of rationally directed action to achieve salvation. A typical Protestant expression was found in the writings of Richard Hooker (1553-1600) who wrote of "the shame of our defiled natures," which would surely "shut us out from the kingdom of heaven," if not simply for the great mercy of God. See John Kent, "Christianity: Protestantism," in R.C. Zaehner, ed., Encyclopedia of the World's Religions (New York: Barnes and Noble, 1997), p. 102.



that most economists have simply chosen to ignore his moral philosophy, concentrating on the technical arguments at which he was also skilled. His preaching is for many economists virtually incomprehensible, at times a seeming muddle of confused if not contradictory ideas, made all the more puzzling by the obvious fact of Knight's central role in the development of the Chicago school of economics. This failure of so many economists to understand better the direction of Knight's thought is powerful evidence -- if any should be needed -- of the secularization of American society and the lack of knowledge of old fashioned Protestant theology. Once it is recognized that Knight's supposed antagonism to Christianity exists only on the surface, Knight's thinking is easily seen as a secular version of Protestant Christianity, grounded in a conception of the ever present and powerful workings of sin in the world.

His student and disciple, James Buchanan, comments that: "Why was Knight so different from his peers? My hypothesis is that he can be explained, phenomenologically, only through recalling his roots in evangelical Christianity." Knight was "a product of middle America, of the agricultural economy of Illinois, of the late nineteenth century, of evangelical Christianity." Buchanan attributes Knight's "intense critical spirit" to his having been forced to wrestle with conflicts and doubts about Christianity in his youth.<sup>45</sup> Here I think Buchanan goes wrong. A better explanation is that this critical spirit was a direct manifestation -- if now taking a secular form -- of a characteristic Protestant outlook on the world. The Calvinist and Puritan mentality in particular has been characterized by deep introspection and a harshly critical attitude towards all claims to authority, worldly or otherwise. It is an outgrowth of the Calvinist conviction that all human beings are deeply infected by original sin and that our best efforts are not likely to be worth much -- and especially among those who make the grandest claims.<sup>46</sup>

Thus, one might say that Knight's real religion was a secular Calvinism -- his own distinctive brand of "Calvinism minus God." Like so many other leading intellectuals of the modern age, brilliant insights in many areas have been accompanied by a blindness with respect to the Judeo-Christian roots of the underlying value system being expressed. For example, like Calvin -- and the English and American Puritans who later followed in the tradition of Calvinist theology -- Knight saw a "positive moral value of pain and suffering.... The need for this emphasis is indubitable; human nature proverbially appears finer in adversity than in prosperity."<sup>47</sup> Much as Puritan theology had preached that excessive wealth was a temptation to sin and thus a danger to one's eternal soul, Knight would remark on another occasion that "it is human nature to be more dissatisfied the better off one is." The motive for providing one's labor was often as much a pride of "workmanship" as any desire for more income to obtain greater consumption. Knight found that mankind was in general a "contrary critter" who was prone to present a "false exterior."<sup>48</sup>

Knight was developing in a secular fashion a set of attitudes that were in fact common in American life in his formative years.<sup>49</sup> A study of rural life in upstate New York near the end of the nineteenth century finds a common belief that "virtue inhered in hard work." Work was not a burden but a source of "contentment," as Paula Baker writes. In this perspective there were large "moral and economic benefits" to the very act of labor itself. Indeed, it was no overstatement that hard labor "provided the basis for virtue in the producer's republic."<sup>50</sup> These attitudes were far removed from -- virtually incompatible with -- the narrow utilitarianism of mainstream economic thought but manifested themselves in the thinking of Knight. As Knight had argued as early as 1923, it was necessary to reject "the assumption that human wants are objective and

measurable magnitudes and that the satisfaction of such wants is the essence and criterion of value, and ... on the basis of this assumption to reduce ethics to a sort of glorified economics."<sup>51</sup>

An American student of the Puritan influence on American history, Paul Conkin, finds that the Puritan view of the human condition as derived from Calvinist theology has had a great staying power in American life. As he explains:

Briefly characterized, the typical Puritan, in 1630 or 1930, reflected ideological assurance but was, at least in most areas and when at his best, open to new ideas. He was very much a moralist, a political activist.... He venerated the rule of objective laws or principles, but he just as insistently believed in congregation and local democracy. He usually reflected a sense of mission, even of a peculiar destiny, and an atmosphere of seriousness and self-importance. Yet he was, or wanted to be, pious, ever mindful of his dependence upon an overarching but never quite fathomable reality, which he loved even without full understanding. Although he sought redemption above all else, he had a wholesome respect for the instrumentality of both material goods and scientific knowledge, trying always to keep either from becoming usurping ends. He demanded a conscientious stewardship<sup>52</sup> of all men and wanted all to have a useful and fulfilling calling or vocation.

While Knight does not fit every aspect of this description, on the whole it is close. In their own lives, he thinks, few people are likely to achieve a goal of happiness. The utilitarian philosophy of life is empirically in error and shallow metaphysically. The modern Calvinist must as always recognize the inevitability of pain and suffering, an outcome that perversely is likely to be aggravated by an excessive emphasis on the pursuit of happiness as the central goal in life. Indeed, an excess of utilitarianism is one of the many snares of the devil. Since the fall in the Garden of Eden, the rational faculties of human beings have been undermined by their unruly emotions and their easy susceptibility to various hatreds, jealousies, biases and other psychological maladies.\*

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\* George Stigler comments with respect to Knight that:

Hence, as Luther and Calvin both preached, and Knight also believes, projects for self improvement are often likely to achieve consequences that are the very opposite to the intended effect, owing to the frailties of the human condition. Ascetic discipline rather than pursuit of happiness should guide human conduct. Patinkin recalled from his classroom lectures "Knight's commenting that from the long-run viewpoint, ... denial of wants was the only way that a definitive adjustment of wants to resources could be achieved; for history had shown that Western society created new wants just as fast (if not faster than!) it expanded the means of satisfying them."<sup>53</sup>

In a recent commentary on Knight's economic philosophy, Richard Boyd notes that Knight's thinking has "much more in common with Augustine Christianity than it does with the [rationalism and utilitarianism of the] Enlightenment."<sup>54</sup> Martin Luther had originally been an Augustinian monk who despised the rational and mechanical (as Luther saw it) medieval theology of natural law of Thomas Aquinas, instead looking -- and followed in this respect by many other Protestant Reformers -- to the earlier and more pessimistic (with respect to sinful life in this fallen world) theology of Augustine.<sup>55</sup> As Boyd adds, Knight thus exhibits a fundamentally different world view than Adam Smith, Friedrich Hayek and Milton Friedman, all

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Economic theory prescribes the efficient ways of achieving given ends: this to Knight was a pathetically small part of human activity. The effects of acts often diverge grotesquely from the desires which led to them. Wants themselves are highly unstable, and it is their essential nature to change and grow. "The Chief thing which the common-sense individual wants is not satisfactions for the wants he had, but more, and *better* wants." So man is an explorer and experimenter, a seeker for unknown and perhaps unknowable truths, a creature better understood through the study of literature than by the scientific method. See George J. Stigler, "Frank Knight," in John Eatwell, Murray Milgate and Peter Newman, The New Palgrave: A Dictionary of Economics (New York: Stockton Press, 1987), p. 58.

of whom believed more optimistically in the "benefits of progress, development and economic efficiency."<sup>56</sup>

The Augustinian and Calvinist view stands in great contrast to the progressive view of the economic mainstream of a rational utilitarian choosing how to maximize his or her own happiness, or the view of a society acting by a rational process of scientific management to perfect the human condition here on earth. In such matters, and in coming down on the Calvinist rather than the progressive and rationalist side, Knight was a modern kind of Protestant fundamentalist, reacting against the thinking of virtually the entire economics profession of his time.

Knight makes his Calvinist proclivities clear in his unique manner of justifying a classical liberal outlook on the world.<sup>57</sup> Knight painted the following picture, so different from other economists' aspirations to the scientific management of society:

While effort is justified by good results, these are not expected ever to be satisfying. The experienced reward is more the joy of pursuit than of possession. It is recognized that the solution of any problem will raise more questions than it answers, so that man is committed -- "doomed" ... -- to strive toward goals which recede more rapidly than he as an individual, or even society, advances towards them. Thus life is finally,<sup>58</sup> if one chooses, or if one's temperament so dictates, a sort of labor of Sisyphus.

In the broadest view, one might say that, intellectually and theologically speaking, much of American history has reflected a struggle between the pessimistic Puritan view of fallen, sinful man and the optimistic Enlightenment view of rational, utilitarian man. If the great majority of American economists have fallen on the Enlightenment and progressive side of this divide, Knight was one of the rare exceptions.

If economics were truly a value neutral undertaking, one would expect that members of

the economics profession would have developed a full body of economic thought -- and with a significant investment of resources and depth of technical analysis -- based on Calvinist and Puritan assumptions. If economists had wanted to avoid taking any sides on fundamental value questions, they should have explored thoroughly the workings of Calvinist economic models of the world. An economics that conformed to Calvinist assumptions would have to be very different from mainstream economic models of individual behavior.

Efficiency could not be the highest value because wealth would have to be treated not as a benefit but a temptation to sin -- and thus to depravity on this earth and a danger to one's eternal soul. The benefits of work would not lie in the goods and services obtained for consumptive purposes; rather, in a true Calvinist economics a person would labor not for the benefit of the consumption obtained but for the disciplining by hard work of unruly minds and souls that are always in danger of succumbing to the temptations of the devil. Technically speaking, "utility" would be derived from the labor and the other inputs. A potential excess of consumption resulting from such labor would be a constraint (a threat to one's eternal soul, potentially with disastrous consequences, if constant vigilance were not maintained), rather than a desired outcome in itself. The real economic problem would be to serve a calling, to work long and hard, without producing so much wealth in the process as to fall inevitably into temptation and sin. Furthermore, pain and suffering in Calvinist theology (and a valid accompanying Calvinist economics), as Knight commented of his own thinking, can often be a benefit rather than a cost.

All this would amount to almost a complete inversion of the foundational assumptions of mainstream economics. That is to say, progressive benefits would systematically be Calvinist costs, and vice versa. To be sure, economics is not a value-neutral subject and few

microeconomists have ever shown any interest in developing the technical details of a "counter micro-economics" grounded in Calvinist and Puritan assumptions. With respect specifically to American society, where the value grounds have always been fiercely contested, economists have never sought to conduct an empirical examination of the predictive capacities (or other usefulness) of economic models grounded in Calvinist and Knightian assumptions about the basic character of human motivation, as compared with the predictive powers of conventional economic models that are grounded in the individualistic, rational, and utilitarian assumptions about human nature.

Scientifically, all this is indefensible; instead of being value neutral, the economics profession has actually been defending a strong value position. In building from only one view of human nature, mainstream economists have in effect been asserting that this is the one correct view.

### Communities of Believers

For most mainstream economists the issue of preference formation has been considered to lie outside the bounds of economic analysis. The structure of preferences -- the utility function -- is simply assumed to exist, wherever it may have come from (and it could have come directly from God, it matters little). Knight, however, argues that it is a "fundamental error" to regard "the individual as given, and ... the social problem as one of right relations between given individuals."<sup>59</sup> Rather, the problem of ordering society should be conceived in the following terms:

The social problem in the strict sense ... is purely intellectual-moral. All physical activity involved in social-legal process is carried out by individuals who act as the agents of society, in so far as they are true to the trust confided to them. Social action, which is social decision, uses as data both facts and cause-and-effect relations, pertaining both to

nature and to man. But the social problem is not one of fact -- except as values are also facts -- nor is it one of means and end. It is a problem of values.<sup>60</sup>

Such views led Knight to embrace a democratic politics of widespread "discussion," a theme that is found over and over again in his writings. Calvin and other Protestant Reformers had much earlier denounced the attempts of the Roman Catholic priesthood to impose authoritative and binding interpretations of faith on all the members of the church; instead, as the early Protestant Reformers declared, each person must come to his or her own understanding of religious truth, worked out in processes of discussion with fellow parishioners. Calvinism introduced a powerful commitment to local democracy in the church. For Knight as well, the citizenry will simply have to find a way to some common value basis for social actions through internal political processes of deliberation, however lengthy and cumbersome this social process of discussion may turn out to be. New communities of believers – perhaps now often believers in secular religions – are no less needed today.

Whether organized on a market basis or any other, "society depends upon -- we may almost say that it is -- moral like-mindedness."<sup>61</sup> It is essential for Knight that this like-mindedness must not be dictated by any modern equivalent of the Roman bureaucracy of old, in the current era most likely to be acting in the name of the authoritative decrees of science. The truths of modern religion as well must be reached from the bottom up, from the interactions of free citizens in a democratic polity.<sup>62</sup>

A process of democratic discussion requires, to be sure, a whole host of intermediate institutions between the individual and the wider society. The process of discussion must yield "superindividual norms." It is no help in finding agreement on these norms to hear from each



person the "mere expression of individual desires." Indeed, the carrying over of the individualism of the free market into the realm of democratic discussion would "intensify the problem" of bringing the discussion to any fruitful outcome.<sup>63</sup>

With a few rare exceptions, Knight finds, the individual never exists independent of some surrounding institutional and cultural context from which he or she derives basic values and an identity. For Knight the term "individual" as used in economic theory should in fact be regarded as a short hand for "family."<sup>\*</sup> Mainstream economics has misconceived the social problem for American society because it has taken its individualistic and utilitarian models of human behavior too literally. We are all products of our time and place, Knight says. The idea of the lone individual creating (or obtaining in some manner) his or her own tastes and wants as an independent act is truly a heroic fiction. Instead, we all live within a specific "culture" that teaches common "taste and appreciation" that are "more important than means of gratification" in determining our sense of ourselves as a person and of our individual well being.<sup>64</sup>

Hence, for Knight discussion in society is not about bargaining from fixed individual preference positions to divide up the economic pie. Rather, the whole point of political discussion is to change minds; as a result of democratic deliberation, individual preferences should be constantly revised, leading to the necessary convergence ("like-mindedness") of values in the community. If much of the theoretical apparatus of economics is of little use in a world of constantly shifting preference structures, so much for the mainstream economics grounded in the

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<sup>\*</sup> Gary Becker follows closely in the tradition of Knight and the Chicago school in that he directs an attitude of radical questioning towards all the conventional values of society. However, if Knight still held to his many statements in his writings, he would have to be severely critical of Becker's recent economic approach to the study of the workings of family life as an arrangement among autonomous individuals each acting within the family for their own benefit.

values of the American progressive gospel.

As a strong defender of market freedoms, Knight partly blamed the current advocates of the free market, including some of his own Chicago colleagues, for the erosion of market freedoms and the wholesale turn to European socialism and American progressive principles that he saw taking place in his time. For a while in the nineteenth century there had been a "religion of liberalism [which] had a positive social-moral content." But the value foundation for free markets had somewhere been lost. "One of the main factors in the present crisis is that the public has lost faith, such faith as it ever had, in the moral validity of market values."<sup>65</sup> Or as Knight similarly stated in another context, "the real breakdown of bourgeois society is only superficially economic; ... it is rather political, since indisputably it is the business of the political system to make the economic system function; fundamentally, however, the breakdown is not structural at all, but moral." Classical liberalism had made a basic "intellectual mistake" in that it "failed to see that the social problem is not at bottom intellectual, but moral."<sup>66</sup> And no adequate moral defense of the free market had been forthcoming at Chicago, or among any other group of economists in the twentieth century.

Knight argues that the typical economist's description of the market as a "competitive" system has been "calamitous for understanding" of the true merits of a market system.\* In his

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\* According to Stigler, Knight had an explicitly normative vision of the case for the market, in contrast to most of his fellow economists:

For most present-day economists, the primary purpose of their study is to increase our knowledge of the workings of the enterprise and other economic systems. For Knight, the primary role of economic theory is rather different: it is to contribute to the understanding of how by consensus based upon rational discussion we can fashion liberal society in which individual freedom is preserved and a satisfactory economic performance achieved. This vast social undertaking allows only a small role for the economist, and that role requires only a correct

own thinking about the market, it is ultimately desirable not because competition drives costs and prices down to the lowest feasible levels -- thus putting the case for the free market in conventional progressive and instrumental terms of efficiency -- but because the market provides the one practical mechanism for resolving in a more satisfactory way (one that preserves individual freedom) the value tensions that will permeate any large and diverse society. Rather than competition, Knight argues that the advantages of the market should be understood in terms of promoting a "pattern of cooperation" among people who come together on a non-coercive basis for mutual advantage.<sup>67</sup> In this way, even people in a pluralist society who have fundamentally different belief systems are able to work together without first having to reconcile their values to some common set of norms.

Hence, as Knight puts it, the market minimizes the role of power in human interactions because in a market "there are no power relations." The market enables each person "to be the judge of his own values and of the use of his own means to achieve them." In grounding actions on mutual consent, the market leaves out any judgments of "selfishness" or other factors of "moral quality or artistic taste" in determining social interactions. A Christian can as easily trade in a market with a Muslim as with a fellow Christian; if they had first been required to agree on value subjects like religion, no exchanges might ever have taken place.

Here again, Knight's views hark back to Christian origins. In Christian theology, the existence of private property -- and the necessity of markets as well -- is a product of original sin. In an ideal world, neither would exist. In the current fallen world, property and markets give

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understanding of the central core of value theory. See George J. Stigler, "Frank Knight," in John Eatwell, Murray Milgate and Peter Newman, The New Palgrave: A Dictionary of Economics (New York: The Stockton Press, 1987), p. 58.

outlets to human strivings for power and advantage. It may be an imperfect solution but it is better than the alternatives.

If Knight strongly favored the market over central state control, here again he was manifesting a Calvinist quality of his thinking. As compared with the Roman Catholic Church, Protestantism was fundamentally an individualistic religion in making each of the Protestant faithful responsible for his or her relationship with God, where salvation was a matter of individual "faith alone." This strong individualism eventually had profound social consequences outside the realm of theology. The religious beliefs of the English Puritans laid the basis for modern freedoms in the realms of both government (the democratic system) and the economy (the free market). As the distinguished German theologian Ernst Troeltsch would explain with respect to the great impact of the Puritans in shaping the basic values and social institutions of the modern age:

The great ideas of the separation of Church and State, toleration of different Church societies alongside of one another, the principle of Voluntaryism in the formation of these Church-bodies, the (at first, no doubt, only relative) liberty of conviction and opinion in all matters of world-view and religion. Here are the roots of the old liberal theory of the inviolability of the inner personal life by the State, which was subsequently extended to more outward things; here is brought about the end of the medieval idea of civilisation, and coercive Church-and-State civilisation gives place to individual civilisation free of Church direction. The idea is at first religious. Later, it becomes secularized.... But its real foundations are laid in the English Puritan Revolution. The momentum of its religious impulse opened the way for modern freedom.<sup>68</sup>

### Conclusion

Yet, the Boston Puritans were also capable of hanging Quakers on the village square for religious heresy. Even as Protestants were oppressed elsewhere in Europe, Calvin's Geneva put limits on the tolerance for diversity of religious expression. Protestantism encouraged each small

sect to believe fervently that it had found the one true faith and dissenters were not only threats to civic harmony but virtual (or actual) agents of the devil. Persecution of sinners proved easy to justify among the Protestant elect. The Protestant Reformation plunged Europe into many disastrous wars that went on for 150 years and with individual freedom often a casualty. If Knight was ultimately unable to resolve fully the tension between individual rights and freedoms (including the pursuit of self-interest) and the claims to the common good of the community, it must be said that he has had a lot of company in Protestant theology over the centuries.

Gradually, the Calvinist elements in Knight's economic thought would be recast by later members of the Chicago school in a more clearly libertarian direction. As one authority on Puritan thought comments, "the preponderance of modern libertarian theory -- from French Huguenots, the Netherlands, Scotland and England -- came from Calvinists."<sup>69</sup> Libertarianism may not have all the answers -- libertarians also experience a tension in resolving the claims of individualism versus the demands of community -- but in clearly and explicitly rejecting the orthodoxies of the American progressive gospel and its prescription for the scientific management of society, contemporary libertarian thought opens the way to discussion of whole new governing philosophies.

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